Constellation Brands Inc, Status Update
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Presentation

Patty Yahn-Urlaub

Hi, everybody. It's nice that you stayed awake. You too much wine last night. I want to make sure they write really good sell-side notes.

Good morning, everybody. I think I've said hello to most of you yesterday, but for those people who I didn't have an opportunity to see, I'm Patty Yahn-Urlaub. I'm from the Investor Relations at Constellation. Welcome to beautiful, sunny California. We're going to spend the next few hours this morning, talking about the wine and spirits business. So I'm going to bring up Robert in just a second.

But with me today from Constellation is Robert Hanson, who's President of wine and spirits; Jim Sabia, who's the Chief Marketing Officer for Constellation; Sam Glaetzer, who heads operations for Constellation for the wine and spirits business; and Lisa Schnorr, who's the CFO for the wine and spirits business. I also have with us Sandy Dominach and Mike Reitz from our Treasury team. And Laura, Adam and Tom from the IR team.

And I get the pleasure of making sure that you all forward your attention to the forward-looking statements here so that our lawyers who are watching know that we did this.

And now I'll turn it back over to Rob right now. Here we go.

Robert Hanson

You're going to read the whole thing, Patty. Come on.

Patty Yahn-Urlaub

No.

Robert Hanson

Good morning, everybody. Thanks for being with us. I know it's been some time since the wine and spirits division has held an Investor Day, and we're really happy to be here with you.

For those of you who are able to join us in Utah at High West, obviously, you get a second round of an incredible place to work. I saw the operations team this morning, and I'm like, "You get to wake up to this every single day, do you?" So we're thrilled to have you in Napa. And I will tell you, those of you who I told last night that I would be doing this since we drank whiskey at lunch on a Monday, I had whiskey again last night and some red wine from Mount Veeder. I did take my apple cider vinegar tablets, and I have a little Golden Oak this morning. So it's my way of prepping for you, and I saw a few of you in the gym in this morning. So hopefully, we'll be okay.

Just a bit of a reminder that I – and I'm really sincere when I say this, I tend to be one who doesn't like to get out ahead of my ski tips and usually want to only be in front of shareholders and investors when there's some proof of concepts, but it's been a long time since wine and spirits has talked to our buy and sell side partners as well as our banks and investors about our go-forward strategy. We understand that you view this business to a certain degree as not having been investment-grade for the past several years. And hopefully, as we present the strategy to you, because it's going to be me, Sam, Lisa and Jim talking through what we're planning to do strategically but also cross operations, finance and then what we're doing with our brands to deliver against the strategy that I'd walk you through, that you'll have sense of where we're taking this business, which is very different from where it has been in the past. And hopefully, you'll get a sense of me and us, I think we are quite transparent. We're a public company. So as Patty said, we can only talk about certain things, but for as much as we can be super transparent in answering your questions about our strategy, we certainly will be.

I'll tell you, I was on the Board for 6 years. I could not be more enthusiastic about being in an operating role in the wine and spirits business. Many of you asked me last evening, sort of in a blunt way why I took the job. There's a number of reasons for that. But I will tell you, I think this is an incredible company that has a really interesting total corporate strategy across beer and cannabis. I'm on the Board of CGC as well. And now I think in the way that we're looking at the wine and spirits business, we believe, combined with our peer divisions, that we have an opportunity to add tremendous value to the company over time as we execute this strategy.

So sort of getting into it. I just wanted to give you a quick summary of the way that we're looking at the business, and then we're going to dig into details. I'm going to do a bit of it, but Sam and Lisa and Jim are going to do the majority of the heavy lifting this morning. But it all starts with just aligning around where we want to take the business. And to get one of the comments and questions that I heard from all of you yesterday and a few of you last night out of the way, obviously, the divestiture to Gallo has been a lingering issue throughout this year. Many of you have asked about it. Obviously, it has been an unexpected lengthy divestiture that has required management intention, but it has not taken any of our focus off of what we believe is possible with the remaining brands in our portfolio over time. And this really is the summary of that.

If you think about how the brand – the division was positioned in the past. It was a very broad portfolio of both wine and spirits brands that competed across a tremendously broad price tier, and price segmentation across a tremendously broad set of consumer segments and, frankly, a tremendously broad set of brands that didn't have a connective tissue to the extent that we think the new portfolio, as we take the company forward, will. We really are focused on this vision of creating a bold and innovative, high-end wine and spirits company that is very focused on creating exceptional brands with amazing products that people want to drink and wrapping them in tremendously compelling and highly differentiated consumer experiences. So that is the singular focus of everyone that's working in wine and spirits moving forward, and I'll – we'll talk about how this also applies to some of the more opening price point brands in our portfolio moving forward.

We do have an aspiration, and it will take some time to get there because we understand the wine and spirits business has not been growing at a consistent or investment-grade rate for some time. But we believe, in the end, that as we fully execute and get into a rhythm on this strategy, we feel that we'll be in a position to outpace the high end, which we would define as above $11 wine and above $15 spirits.

Outgrow the market. Our intent is to grow a point or 2 above the direct weighted average competitive set of the brands that remain in the company and those that will be added to our portfolio over time. And especially to do some in the highly profitable way. There's one thing about growing your share and another thing about growing your revenue. But if you're doing it in a low-quality manner, meaning just simply leveraging price to get to those outcomes, it doesn't deliver sustainable returns because it's not profitable. So we want to be in the position to out-execute our competitors and are very much focused on growing our operating margin to around that 30% benchmark. That's a significant lift. It'll be a mid-single-digit lift from where we are today. But on the other hand, I think you'll hear from us that it's not just a goal. We've really started to attack brand by brand what it's going to take across cost of goods sold to hit the gross profit, including mix and pricing in that and then where there is SG&A leverage across the company to deliver this outcome and feel confident we can get there over time.

Strategy is important in the sense that the winning companies typically have a clear vision, a rallying cry, which we've just shared with you, and a consistent set of strategic pillars. These are not going to change. We're sharing them with you because they are the pillars that we intend to grow the company with over the next – for the foreseeable future.

We're very much focused on the high end. And again, I'll – we'll address how that applies to some of the popular price point brands in our portfolio. But high end is our focus, and it's possible even in a popular price point brand to create a high-end consumer experience, incredible quality wine presented in a narrative that really respects the consumer who's buying at that price segment.

Power Brands. We have a much more focused portfolio post the divestiture. But even within that portfolio, there are about 10 brands that are going to matter tremendously to the ability for us to deliver the goals that I've just articulated to you. So we'll be focusing more on those, and Jim will take you through the progress we've made on a number of them already today.

Consumer pull. This has been a sales-led push industry that has relied on price as the primary growth driver for quite some time. Many of us talked about that last night over drinks. But the reality is, is consumers are in charge now. They have full control, and they're very demanding. And increasingly, they want to put their dollars against brands that match their aspirations and lifestyle. And so we're really focusing on building brands that have that level of distinctive brand narrative and consumer pull. And then to get to the 30% operating margins, we'd be delivering industry-leading margins. So we're very much focused there.

The thing that did surprise me a bit honestly from stepping from the Board into the operating company is the work that the executive team in wine and spirits and I have to do to put some basic processes in place that will enable us to scale this business consistently and successfully over time. I was talking to a number of you – I think you, [Vivian] – about this. It's not the thing that you want to spend a lot of time on. It's not stuff that you should have to care about, but it is important that you know we are doing all of this work. Because it's one thing to say this is where we want to get to. The question I would ask if I were you is, what are you putting in place that's different? And how are you going to get there in a consistent way to deliver the outcome? And as I worked with the executive team to really listen and learn about what was going on, what was working, what needed to be improved, what became clear to me for a CPG company of our size and profitability, some very basic things were not in place at the level that they need to be in place for us to scale successfully. And those are the 5 things that are listed here. I'm jumping past values for a second. I'll come back to that. But in terms of differentiated capabilities, integrated planning. And when I say integrated planning, it's not just within the company but all the way through to our distributors, so that we have a bottoms-up/top-down agreed plan going into each fiscal year that's aligned with the strategy and that we have anticipated all of the issues that could and confront the division in advance of it happening and have created contingency plans to ensure that we can deal with those things and execute to our goals.

Sam, you'll hear from him in a moment, is driving a pretty significant end-to-end supply chain transformation. Many of you know this division. It has been essentially put together through a series of mergers and acquisitions over time. But what we needed to do is step back and say, what kind of supply chain is required moving forward to support the high-end aspiration that we have and the portfolio that we're going to be carrying forward? And so there's some exciting transformation goals that Sam and the team are driving and have made tremendous progress on already.

Revenue growth management. A number of you had questions about our depletions performance in the first half of the year. What I will tell you is the depletions performance in the second quarter was driven, as Bill said on the conference call, in large part, by our choice not to repeat some value-destroying price and promotional activities that occurred last year. They drove volume that drove depletions. But ultimately, they did not deliver a good economic return. It doesn't mean that there won't be competitors in the marketplace that will continue to compete on price. We are thoughtful about this, and it's not a straight line to the outcome that we think we can deliver over time, but it makes no sense for us to continue to be putting in place pricing strategies that are economically dilutive. So we have taken that choice, and we're executing a lot of the revenue growth management that our beer division has actually executed quite successfully in that category.

Jim is going to be talking quite a lot about the evidence we have, success with our power brands already. What we want to move toward, though, is an integration between Jim's team and marketing, our sales team and our operations team so that we have, going into each year, a brand plan product portfolio, pricing strategy, distribution strategy and marketing mix that will enable us to drive consumer velocity. And we have work to do to get that in place at the level that we believe can be category-leading. And then importantly, and I'll just give you one example here that was, again, a surprise to me, but we're getting on top of it quite quickly, is to get a short-, medium- and long-term growth pipeline in place where we've identified consumer-driven NPD that is going to be relevant and highly distinctive for the brand. So what was interesting for me when I observed what was going on in the division is there's a natural go-to-market by which most CPG companies take their new products to market, and that's built against the longest lead time customer who's buying, and it's typically our large national accounts. We did not have that process in place at a robust level, and so we were chasing into NPD oftentimes off-cycle and selling it into our customers not on the cycle of when they make their big buying decisions. So we were always a little bit on our heels. So we've caught up for fiscal '20. We have a lot of exciting NPD coming back out in the back half of this fiscal year, and we're going to be developing our fiscal '21 and '22 NPD concurrently against this strategy, so that we can be on the buying cycles of our large customers and get the benefit, full benefit, of the new product development that we're implementing.

But all of that has to be underpinned by a winning culture, a culture that's rooted with employees who have a huge ambition and want to win and are working in a highly collaborative manner. And for those of you who I spoke to yesterday, we've revealed this strategy over the last month. I had a private equity background before I joined the wines and spirits division, and so I gave myself essentially 90 days to get the investment thesis in place and then we started syndicating it with the division, shared it with the Board to get their approval for the plan and the investments we intend to make in the business. And then we had a very blunt discussion within the division. This is what we're going to do, and you have a choice, you're either on with it, all in, or you're not. There's an a job out there for everybody, no hard feelings, but this is where we're headed, and what you can't do is sit on the sidelines with your arms crossed. And that level of transparency has really energized the employee base and the company to help take this strategy forward and execute because, ultimately, winning execution is what's going to drive the result that we need to deliver.

So on a single page with a lot of words, one of my greatest challenges in life will be saying more with fewer words, but I may give you all I have this morning to help you understand where we're headed. This is what we plan to do for the foreseeable future, and believe in our ability to execute this in a way that is going to drive shareholder return from this division. It does require a bit of a mandate, which is a shift for the organization. And obviously, high-growth, high-margin opportunities is the underpinning of all of this. When we dissected the business, what we've seen, and Jim will probably give you a really interesting example on revenue growth management a bit later, there's a level of complexity that we've been driving, where people have just been pursuing volume but not profitable volume. And so we're really dissecting brand by brand, product by product, state by state, distributor by distributor what we've been doing and what we need to do differently to drive growth but also have a focus on margin.

We have a bias towards 2 types of growth. We have in these 10 power brands that we'll walk you through what we think are large shoulder brands that can carry more varietals or categories in the case of spirits, and so our bias is to leverage those brands more. It's obviously much easier to get growth out of an existing brand where there is already consumer pull, than it is to introduce something completely new to the world. However, we also do believe there are new-to-world opportunities. We have really innovative teams outside of the U.S. and Italy and South Asia and Australia and New Zealand that are driving some really interesting market innovation, and we're using them a bit as a pilot for some new-to-world brands that we're going to bring into the mix as well. And then as you know, we have a great ventures division that's making minority investments in high-growth categories of business. If I take just 2 examples, we made an investment – well, 3, actually. We made an investment in Nelson's Green Brier, which we've now brought into the portfolio. We just recently made an investment in Durham Distillery, which is creating a really interesting craft gin portfolio but also has taken a lead in high-end ready-to-drink cocktails. And an investment in something like El Silencio, which is taking a strong position in the Mezcal category. So we believe we can leverage our ventures division at the right time to bring new brands into our portfolio once their scale has been proven. But the primary focus is on these large shoulder, what we call, power brands, and there's 10 of them, and we'll walk through them.

We also need to be in the position to rapidly address consumer trends. There are 5 trends I'll talk you through in a moment that we're paying super close attention to, 3 of which are an immediate focus for us and then 2 are longer-term transformations where we need to build some capability and then of course, as I mentioned, end-to-end supply chain transformation and really building our NPD and innovation flow against the go-to-market. So revenue growth management, net sales value over net sales volume. You'll hear us talk about this more and more. The industry is depletions-obsessed, and we understand that. However, the reality is, is when you look at pricing and mix on our higher-end brands, the value of the brands is going to probably drive more net sales value growth and then volume growth, and we're going to have to carefully put together a scorecard to help you explain why we see the strategy working and how it's going to deliver value over time. We want to reduce some complexity that we've had in the business. There has just been a lot of complexity that has prevented us from focusing on driving profitable growth. Sam will talk you through a lot of what we're doing in the supply chain around that. And then the operating efficiencies and some of the processes that I mentioned earlier will be what we think will put in place to deliver against it.

We actually have evidence that this strategy is already working. I know they're again, from a lot of the writing that you've done as well as some of the questions that we've gotten, over the past couple of days, there is – essentially, I think people are looking for a silver bullet, which is the business was here and now you want it to be perfect, and the reality is that's not how things work. You know there's never a straight line to the outcome. It's always a bit of a process to get there. But we believe that we're on track to exceed market growth in our IRI channels with the power brands that we mentioned. I'll give you an example of that in a moment, and Jim will further validate it in his presentation. If you isolate the RemainCo portfolio, we're actually not too far away from our gross profit target at the moment, with the mix of brands that are going to remain with the company, well above the total margin performance of the existing portfolio, including portfolio of divested brands. EBIT will take some work. But in the end, between what Sam shares with you to get our gross margins to the target that we have established, the profit and mix opportunities that we have beyond that and then the SG&A leverage that Lisa's going to walk you through, we feel confident that we have a glide path to get to that 30% operating margin. And we'll continue to be dogmatic to achieving it. So this is a long-winded way of saying, I think there's evidence, and we're going to try to provide some examples of that to you throughout the morning, and then we'll take your questions about it as we move on.

And the first and most important one of which is the IRI performance of not all but a good majority of the power brands in the portfolio through the middle of August. So if we look at how in aggregate those brands performed, their consumer velocity and IRI channels was up 6%. It varied from a high of up, what, 33% with a high-growth brand where we were yesterday, High West. We had about 13% growth in Kim Crawford; 6% in Robert Mondavi Private Selection; 11%, Meiomi; 6% SVEDKA; 2% in Woodbridge, which is a really critical brand of ours, very large volume where we're working on improving the margin, but it's outperforming a declining category by about 400 basis points right now, so we feel confident in that; obviously, our Ruffino Prosecco business at 11%; and I mentioned High West at 33%. So we're really focusing our efforts and all of our marketing investment behind driving the velocity of these brands and creating consumer pull.

Again, most consumer goods categories are about brand, highly distinctive products. We think we make incredible products that are worth reaching for and that people want to drink, but their awareness levels are generally pretty low. And Jim is going to share an example, I think, with one of our brands in particular against another competitor that's been around a lot longer and has a higher awareness level, but where our brand actually has a higher Net Promoter Score. And so we believe we just have so much potential as we start to build the velocity behind these brands. So obviously, focus around media but also getting the facings that we deserve, given the pull on the brands that our research would show and then having consumer-driven innovation in play.

So we plan to accelerate the growth by focusing on 10 power brands, 7 of which are in the core of our business and 3 of which are in our fine and luxury wine portfolio, which we call TRU Estates & Vineyards. So the top 7: Kim Crawford; Meiomi; Woodbridge; SVEDKA Vodka; Ruffino; Robert Mondavi Private Selection; and Simi, which is the one brand in our portfolio that is dragging a bit, because it hasn't been focused on for many years now and needs to be, are the core brands that would compete at the premium price point and a bit above that, call it, super premium price point.

The Prisoner Wine Company, Robert Mondavi Winery, where we'll be a bit later today in High West Whiskey, would be the brands that we're going to focus on in our luxury and fine portfolio who – these are brands that have significant potential. Somebody was asking me a question about the Prisoner Wine Company yesterday and saying it's got a large volume already for a wine that sells an average around $45 to $50 net sales price. True. But this is a brand that's been created as a new-to-world wine brand that competes in a very different way than a lot of heritage brands. It's got a very unique market position. It's already gotten to a couple of 100,000 cases. We think that, that, combined with the new brand development we'll do within the Prisoner portfolio, we have the potential to significantly grow the total Prisoner Wine Company family. And that's just but one example. So you'll see that we're very focused on making sure that we're competing by tier but creating high-end, highly-distinctive experiences for each one of the brands regardless of the tier in which they compete. I'll mention a comment about Woodbridge in a moment as an example, a proof point of how disciplined we're being across every aspect of evaluating its performance potential to give you an example of why we believe this will work.

The other thing that we've done, and again, all companies should do this or do do this, but if we believe that we want to compete and win in the high end, we then went and dissected what the growth drivers are in the category in the high end in wine and spirits and then how much market share did those growth drivers currently represent their price segments. And ultimately, what you see is where we plan to play with our broad-shouldered power brands in the wine category, where we're, frankly, underdeveloped relative to where the category share is and where the growth is coming from. And it's broadly a Chardonnay and Cabernet story. As you know, Chardonnay is making a pretty significant comeback across all price points now. We have not been focused on that varietal much as we should be, and we have some brands that can really carry some really exciting new product introductions as well as to upgrade the taste profile and market position of some of the existing products that we have in the portfolio. So across the super premium, ultra-premium luxury and super luxury, we're going to be focusing on Chardonnay and Cabernet. We believe there's a big opportunity with our Ruffino brand in the luxury pinot grigio space. And then obviously sparkling, particularly brands like Prosecco and we think California sparkling are big opportunities for us as well in the portfolio. So you'll see most of the new product development that we're doing in our core power brands and our TRU Estates & Vineyards are going to be focused on these varietals. However, and I'm going to go back to mentioning how we leveraged some of our international portfolio, there's been a new brand that we launched in Australia and New Zealand that was targeted to an underserved consumer segment in the wine business that has immediately jumped up to a high level of performance and consumer velocity. We're bringing that brand into the U.S. in our next fiscal year because we believe so strongly that it's a brand that's being built in a new economy environment, targeting an underserved consumer segment and has the potential to be added into the portfolio without creating any complexity because we've already proven the concept in Australia and New Zealand. And that would play across these price segments as well as a couple – these varietals and price segments as well as a couple of additional varietals. So we'll continue to pursue new-to-world opportunities but be very careful about proving the concept before we start to scale them.

And in spirits, look, the story here is really about vodka, whiskey and tequila, but we're paying very much attention to some new categories of business, such as gin, for example. So we've analyzed all of the price segments and opportunities. Obviously, popular vodka is incredibly critical to us because of the SVEDKA brand, and that's where the brand competes from a price segment. But looking at premium, super premium and ultra premium, we think we have incremental opportunities. Many of you asked why do we believe so much in High West and why did we build capacity, why did we put the capital investment in, and I think the numbers here to tell the story of the potential for significantly further growth in whiskey, particularly American whiskey and High West has a very distinctive market position there. So we're really going to be focusing on tequila and mezcal vodka across price points and whiskey, particularly American whiskey, across price points, leveraging our broad-shouldered brands but looking for incremental opportunities to extend the brands we have.

So that is essentially the focus that we have against the profit pools in both the wine and spirits businesses in the high end. So as we've summarized them, what we have done is look at things we're going to act immediately against, things that we're going to explore and areas we're going to monitor. And I'm going to focus really what's on the right side of the grid for the sake of focus and time this morning. So we did the analytics around what's driving growth in the high end in both wine and spirits and made decisions to focus on super and ultra premium Chardonnay and Cabernet, as I mentioned, super and ultra premium California bubbles, we're focusing on luxury pinot grigio from Italy; and then really looking at our portfolio on how we could leverage our existing portfolio, potentially extending some of our existing spirits brands but also looking at some of our ventures plays in premium vodka, tequila, premium plus whiskey, particularly in American whiskey. And I'll talk about ready-to-drink in a moment, but high quality, single-serve ready-to-drink is another area that we want to focus on in addition to cans and tetra and convenience formats in wine. Exploring opportunities already, and these would be for further out, meaning fiscal '22, if not sooner, certainly fiscal '22 in super and luxury Chardonnay, super and ultra premium. Rosé, we want to look at French Rosé as an opportunity to complement our existing portfolio. Premium California Rosé were underdeveloped in that category. And then of course, I mentioned gin and mezcal as well as aperitifs in the ready-to-drink category, in particular. So that's important, but we have to be able to essentially walk and chew gum at the same time. So that's the core of the innovation strategy with our large shouldered power brands.

But we then looked at what are the changes in consumer behavior that are going to impact the wine and spirits business dramatically, and of course, you probably continue to see and hear from others about this and read about it on an ongoing basis, but we would – we believe that we have to pay attention to convenience formats, cans, tetra on the wine side and single-serve ready-to-drink cocktails on the spirit side and potentially the aperitif side because we believe these are highly disruptive. As we've looked at the plug and pulls with our large customers and we look at how consumers are choosing to shop from 375s to smaller single-serve formats, there is a material shift coming with certain consumer cohorts, obviously, younger consumers in particular, but not limited to younger consumers who are looking for convenience and ready-to-drink. And it's being disruptive because it's not about cheap and cheerful product. It's about ready-to-drink with really high-quality liquid. And we think being able to do incredibly high-quality, high-end brands and spirits in single-serve formats is going to be important to our success moving forward. And that's part of the betterment trends. There are – there's content that's driving the betterment trend that consumers are focused on. But there's also a part of this, which is about consuming a bit less and higher quality products. And so we're putting a focus on that.

Longer term – and I'm going to spend just a moment here because it's important. Longer term, the reality is the consumers in charge, technology is giving them all of the power in terms of knowledge. I was surprised, coming from an industry where 15% of sales is done through direct-to-consumer, whether boutiques, e-commerce or omni-channel, that in this business, it's only about 2%, 3% right now, and that's split across both direct-to-consumer and 3-Tier e-commerce. I was also surprised to find, as I've gotten to know, and I have a huge amount of respect for our distributor partners, how they view e-commerce as both an opportunity and, frankly, a threat to the traditional route to market that has existed. And I've been through this before in a number of different industries, and I'll just tell you, you can only look at it as an opportunity. Because if you look at it as a threat, what you're going to do is be on your heels when the consumer has made the choice, and the category dramatically accelerates. So numbers. 3-Tier e-commerce is growing at 40% year-over-year. Our 3-Tier e-commerce business is growing at 52% year-over-year. So we're well outperforming the category growth, albeit off of a very small base, but it shows that the consumer is choosing a different way of buying. We also know that the direct-to-consumer business, which is very small, is growing about 15% year-over-year. We're growing at 16%. So slightly outperforming the category growth.

So over time, and we're going to do a proof-of-concept with some of our high end brands, we are going to prove that it's possible to integrate the tasting room experience and direct-to-consumer/e-commerce experience, create that experience for those of us not fortunate enough to make it to High West Distillery or to Robert Mondavi Winery and have the tastings you'll have a bit later today, and be in the position to grow our power brands in the way that the consumer is choosing to buy. And we're engaging with our distributors. Because I don't use examples from my prior experience, but every time I have confronted a wholesale distributor that is concerned about a brand, engaging a direct-to-consumer, what we've done is a proof of concept. And in one case, it took a really critical trading radius from $8 million to $20 million, and that was in just a few blocks radius of a single store. And when my – one of my former employers opened up a boutique adjacent to one of our core specialty retailers, the trading radius grew to $20 million, of which the wholesaler got $12 million. So it grew their business by 50%, and my company got the balance. And ultimately, it was the tide that rose all boats, and it created a significantly stronger brand position within that marketplace. So our belief system is that this will happen, and we intend to prove it carefully with some of our TRU Estates & Vineyards portfolio and then double down on the balance of the portfolio over time.

And then there's no question, you read all about this that, especially younger consumers are going to be more demanding of the companies that they do business with to create sustainability as a core aspect of how they go to market. I think Sam and the team, particularly on the operations side, do a lot of great work already in sustainability, and we haven't told that story. So we want to do that first, and then we want to really focus on becoming an industry leader in brands that have a sustainability underpinning how they compete. It matters a lot because the brand narrative is going to matter more and more and more as people are looking for consumer experiences. So that's really where we're going to be focusing, and this isn't a 1-year plan. This is a multiyear effort, and we have to have a destination in mind. So this is where we're focusing.

I mentioned these 5 areas, so I'm not going to go into them in detail. Again, I know from having spoken to public analysts – public company analysts throughout my career, that this stuff can sound like a lot like wah, wah, wah. It's stuff you just need to get in place as basic capabilities to run a company. But I would also tell you that it's great to have a strategic vision, but if you don't have the foundation of how much to scale, it's not sustainable. And I think part of what has led to the underperformance of the division is there just hasn't been a robust capability to execute, and I'm really proud of the team because they've embraced these areas, and we have made incredible progress in a very short period of time of getting all of this in place. We're planning in an integrated way. We have syndication sessions with all of our distributors planned in early January. They've started now but robustly in early January and February before we enter our next fiscal year. Sam will show the progress we've made on the supply chain. We've made really strong progress on a number of our critical brands, particularly the popular and premium pricement brands and revenue growth management. Jim will share you – share with you the great progress we've made on brand management. And then importantly, the hardest thing was to get caught up on our innovation pipeline. So we have already completed the NPD for '20 and '21 broadly, and we're focused now on '22 as we're executing '21, so we can get caught up to the buying cycles.

Some of you have asked what do we expect in terms of the revenue profile, and we expect essentially about a 75%-25% split between organic growth and innovation and NPD. This isn't an absolute number. It won't be exactly applied across every brand in the portfolio the same way. There could be a higher innovation NPD number in certain brands because of where they are in the state of their developments. But broadly speaking, organic, meaning just naturally organic growth through improving the quality of our products and execution of them, combined with our revenue growth management efforts and then adding the NPD top spin on top of all of those brands, we think the mix will generally work out this way. And if we look at the revenue growth profile, we're taking a slightly more conservative view of fiscal '21 because we have a lot to get in place, and then believe that we can hit a rhythm of being in that sort of mid-single-digit bracket of revenue performance growth for the foreseeable future. So that's how we're seeing our revenue profile.

And as I wrap up, I just want to give you 2 examples, and then I'm going to ask Jim and – when he talks brand and Sam when he talks the supply chain transformation to give you a lot of specifics on this. But look, we get it. Woodbridge, Private Selection and SVEDKA make up a large amount of our revenue, over 50% of our revenue, under 50% of our value. So we have to win with those brands. We believe it's possible to put out a high-end brand experience, which I think Jim is going to show you on brands that compete at popular price points. Most American families spend less than $10 or $7.50 to put a bottle of wine on their table. We get that. But it is possible to put excellent product out, get some pricing leverage with those brands and also run them more profitably. So Woodbridge, I'm going to give you 2 examples. We introduced spirit barrel-aged 750s in the Woodbridge brand. Woodbridge is typically a 1.5 liter business. That's the majority of the business. We have not done a competitor on core varietals in 750s. We introduced those spirit barrel-aged products, and they quickly become in terms of buying about 40% of the total 750 business, brand-new products at a $2 price increase over the core varietals, which shows that Woodbridge has leveraged when you put really compelling price – product innovation. And importantly, Sam and his team have already laid out a glide path to get about a 300 to 400 basis point improvement in the core margin on our Woodbridge brand, which has been in decline over the past several years. And it's not easy. It's a heavy lift across improving the quality of the wines, while taking away some of the nonconsumer-relevant aspects of how we've been running in the past, SKU rationalization, looking at design-to-value and dry goods. We're going brand by brand by brand and looking at those kinds of opportunities. And it is a business that needs to be looked at that way.

And then importantly, as Jim will start to talk you through, if you take an example of our brands where there is low awareness but a high net Promoter Score versus its direct competitors, it essentially tells a story where we're not getting the leverage out of the brands that we have in our portfolio that we deserve. And those conversations are, therefore, easy to have with our distributors and our customers because we can go out and ask for more support and more facings, okay? And we'll get past the momentary distraction of the divestment that's going to happen to Gallo and the Heaven Hill transaction. We will obviously, as David and Bill have committed to hopefully leverage the cash from those transactions to delever the company, and we'll be in the position to really take this strategy forward. But it's about trading up with powerful brands, having a really strong innovation pipeline and then being in the position to have a steady evolution towards the high end. I hope to be able to also communicate to you in the next several months some investments that we're making – venture-like investments that we're going to be making to add some brands into the TRU Estates & Vineyards portfolio over time. That's certainly a continued focus of ours but more on a ventures-like minority investment model until our leverage profile has improved.

So to wrap up, I know it's a lot to take in quickly, but this is where we're headed. I have been in a position to have worked on incredibly amazing authentic brands that had lost their way a little bit and just needed to be built against a robust plan that wasn't just a promise of a better future, but was built around a very robust set of pillars and the hard work that you have to do on the operating model to make sure that it can be done in a scalable way. And we're excited about the potential. We're excited about the proof points that we have in front of us. We're excited to take what I hear from all of you are extremely tough and very direct questions that are coming our way a little bit later, but that's what this game is about.

And with that, I'll say thanks for listening to me for a bit and turn it over to Sam, who's going to walk you through the supply chain transformation.

Samuel Glaetzer

Good morning, everyone. As we said before, welcome to Napa, a time for some of us. And at least, we've got windows in this room to be able to see and somewhat experience what is going to be a fantastic day.

Some excitement a bit later on as we venture out into vineyard, winery blends and see 2 of our premium houses in what's an exciting time of the year. We're in harvest and no better time to go and see operations when there's grapes coming in on trucks, and we're taking those grapes and make them into fantastic wines for our consumers as we go through.

I'd like to just welcome a couple of my team that are here. We got Colin who's – runs wine operations for us. We got Chris, who's sitting over here, he's our Chief Winemaker. You met Brandon yesterday at High West, some of you. He is a fantastic head distiller for our business and Rachel will make sure that everything goes in the right direction. And importantly, too, we have Pepe up here from Mexico to – he's our General Manager of

Casa Noble. So these guys are going to pull me off the stage when something goes wrong, and we also got Patty with the hook if I say something I shouldn't say.

So with that, 3 things I want to go through this morning with you. First is what we've done in the last couple of years since we had the opportunity to come together as a relatively new team, and they brought me up here from New Zealand, Australia to have a look at this fantastic business and the fantastic assets that we had. Secondly is, what are we dealing with right at the moment? There's a number of things on our plate, something called a Gallo transaction, something called a consumer that continually tells us they want something different and perhaps what we've got in the tank a couple of years ago. And then lastly, reasons to believe. You've heard from Robert. We've got a great vision, a great strategy. We want to make sure that we've got the best financials going around for wine and spirits company. But what do we do as operations and how – what are the reasons to believe you – as of – you of us to make sure we deliver on those aspirations? And I'll give you some examples of where we're headed and some work that we're doing in that way.

So first and foremost, my team here. They're also here to translate Australian through to English for you guys in the U.S. So hands up when I say something that doesn't sort of resonate, and they can fill you in quite quickly because they've had a couple of years to do that.

So moving right along. Where have we been? So it's been 3 years since I arrived, and the teams come together as a group to lead operations through wine and spirits. And as Robert mentioned before, we were a business of buying great things, but we also ran those great things still in the way that they were owned as a separate entity, and it was time to really have a look at those great assets and what we could do about it. So we're working on, what do we want to stand for? Where do we want to be and what's the future look like? So we came up with this quality mantra. And for me, quality mantra really is a core-driving principle of where I've come from in my experience and my growing up. I've been fortunate enough to be part of a wine family back in Australia and still am, but that gave me a real essence to whatever we make and whatever we produce, we can never compromise on quality at the end of the day. It's got to be best by the price point that we're putting out in the shelf and the customers got to choose us over a competitor, and the day that we compromise on quality through anything that we make is the day that we might as well pack our bags and go home. So quality was our mantra, and I'll talk more in a minute around what quality means to us. And then we brought in this concept of highest and best use. We have, as I said before, some magnificent assets, but maybe those assets were being used more from a brand-led approach than what does it mean to Constellation.

So if I talk about quality in terms of the different aspects that remains to us as a team. First and foremost, we do have the best team in the industry, bar none. We've got the best viticulturists. We've got the best winemaking team. We've got the best operations team. We've got the best finance team. We've got the best HR team. We've got a fantastic team that day in, day out want to make this business better each day. So we can't do anything unless we've got the best team, and they can't do anything unless they see a bright future and some great products and great brands that they are representing and actually seeing them out there being consumed on shelf and being pulled off. In the last couple of years, 100-odd medals, through not only more affordable tiers but right up to the luxury end. And as you know, they play a different aspect in terms of how we take it to a consumer in terms of a black box marketing play into the 50-odd gold medals that we've got on that right up to Australia where we're expecting 100 points day in, day out and from those great wines and in between.

We also have some great results in our spirits portfolio. Casa Noble, day in, day out, is getting great accolades, whether it's through the gatekeepers in industry magazines or it's in trade shows, as is High West on a continuing basis. And you'll start to see Green Brier get more and more attention from us as we take that into the fold and use that.

We talk about highest and best use in our vineyards. We have the best vineyard in the world. You will see it this afternoon. It's called To Kalon. There's a lot of industry press around To Kalon. There's a lot of stories around To Kalon. We own 500 acres of To Kalon. There's about another 100 odd – a number of other people have. There's 500 acres of To Kalon that traditionally is being used for Mondavi. It has been growing for Mondavi. And you know that it's a Mondavi range, and it starts at $20, and it goes up to $200, $300. If we grow that vineyard for something like a Schrader or a To Kalon wine company, which is NPD that's one of the great winemakers of Napa's just released and got 97 points for and we look at what we're doing with Prisoner in the uptick – in the up tier, you're starting to direct fruit from that fantastic vineyard into those wine programs, you're getting a much better return as a shareholder for Constellation, and we get a much better asset that we're driving harder. So we talk about 4x the gross profit for [leaders] now coming off of that vineyard and that fruit sourcing than was 3 years ago, where it was dissipating the Mondavi range.

Now that philosophy just doesn't stop at To Kalon. We own something like 10,000 acres here in the U.S. where we've got upwards of 1,000-odd growers. And each time we look at a block of fruit, we are very clear now on where that block of fruit needs to go in terms of its end wineries. And before it was a bit of a mixed puzzle and before we make picking decisions and then change the allocation in the winery, which is very confusing for the taste because you want to have A viticulture team who needs to know who they're growing for and the winemaking team need to take their grape fruit and make it into the wine it was destined for. And if we're not converting in that way and measuring that conversion rate, then again, we're paying a lot for fruit. We'll talk about it in a minute, but 50% of our COGS is coming from fruit right through to the finished product and what we see. So there – for us to start lining that up, highest and best use in making sure we make quality decisions right through out.

Had a good chat last night with a group of you around style. We bought Meiomi. As the style of Meiomi changed, it's Constellation-owned.

We bought Prisoner, has then saw Prisoner change since we owned it. In the last couple of years, we developed our own in-house [century] department. Whilst it's in house, it's very independent. And I'll liken it to, say, our food and beverage type where you have a panel that go into a dark room. They don't know what they're tasting. There's dark glasses. And they are not wine makers, they are not Constellation employees. They are people off the street that we have trained for 3 or 4 months that can replicate sensory and taste nuances or flavors, let's say, in a wine, in a spirit, in food. And they drop day in, day out, it's just a rank, the intensity of what they see against those flavors or – smells. And from there, we can then do like a cluster diagram, Venn diagram and look at each of the different intensities of those and match that back to the original Meiomi we purchased or the original Prisoner we purchased. And that allows us to continually make sure that before we package and bottle a wine, that we are getting exactly into the zone or the cluster that the consumer is buying for Meiomi or for Prisoner. And we do not allow anything to go to bottling unless it fits into that spectrum of analysis day in, day out.

We also do this with NPD in terms of what's the new product? What's the new flavor where we want to hit, okay, so where does it sit in the intensity curve? And then how do we go about it? We'll talk a little bit more about the buttery chardonnay in Mondavi. It's one of those key things. How – what was the intensity of butter that we needed and how can we go about getting it.

Highest and best use of capital. It's especially important to us as we start to pivot and look at NPD but having the capabilities to run with NPD or if we want to look at how our vineyards are planted and we want more fruit. We can't continually spend money on expansion. So the question the team came back with is how hard are we actually using our assets today? And if we're using them as a single site point of this decision making rather than a network of Constellation, that's where we start to see these efficiencies and these improvements. So 3 years ago, we were looking at something like $80 million in terms of increased tanks or cooperages, cooperage requirements within our wineries. We put together a network team that looked at each of the different wineries and locations we have, and it's something like 44, and all the tank capacity and the ways we could move wine or fruit around. And suddenly, we didn't need cooperage anymore. So we could take that capital from expansion, work our assets harder and then start to send that back to more important things like a new winery in Italy to help us with our Prosecco, right, up near Venice. We've been able to do some more vineyard expansion down in New Zealand, in Marlborough for Kim Crawford. Some of you would have thought – seen yesterday the new packaging line we have at High West. All these things, I think, have come about from us, taking a little bit more time and consideration in terms of highest and best use of capital and making quality decisions around it.

And it's not on the slide, but I'll also say we take a lot of care and a lot pride in looking after our employees from a safety perspective, and we're always measuring quality in terms of quality checks, consumer complaints and where that's headed. And we're working in the right direction, and there's been some great wins and some great improvements over the last couple of years as we made that very much the forefront of what we do day in, day out.

The last piece on here is around $20 million. I'll talk to where we're headed shortly. But what we've done in the last 3 years, Colin and his team have really driven some prior product productivity initiatives through the wineries and it has generated over $20 million of savings through our COGS that come through as our standards.

So jumping across to our COGS. And I don't want to belabor the point, I think a lot of you in the room already would understand, but wine COGS and spirits COGS are different to beer COGS in terms of when we release them and when we sell them. That's when the standards and the margins and the P&L start to flow. So if we go and buy grapes today for Schrader, it's not going to be 3 years' time until you see that come through from a P&L perspective. And if we then buy grapes for Kim Crawford, it might be 6 months to 12, 18 months before you see that. So any savings that we do as a team will take a period of time to materialize themselves through our P&L and the way that they look at it.

But over the last 3 years, and we're starting to see it really gain traction now, but we've been beating out the CPI index by 37%. And we've been 54% lower than a PPI index or basket of goods for similar competitor size. And that's really giving us great knowledge that these decisions and going after quality and highest and best use is starting to give us the right direction in terms of our standards. And ultimately, our standards are going to help drive those margins that we're all after.

So that's where we've been. What do we have to look out for and where we're heading. The Gallo transaction, as Robert mentioned before, it's taken us a little longer to put this one away. It's still in process, as all of you know. We've got harvest going on. The team are trying to run wineries that are knowledgeably going to go to Gallo as Gallo assets. So the teams have already got new contracts and things. The fruits coming in. Everything's going on. But at the same time, the attention to detail at all our sites and getting this harvest through has been first class.

But what I wanted to show you here is the extent of the deal. It's the biggest U.S. wine deal in history. I think the next biggest one was the Treasury-Beringer deal or Foster-Beringer deal. We had about $1.5 billion back then. And then the third one was the Constellation-

Mondavi, I think, was the third one. So from that perspective, we're dealing with a big beast and we're dealing with a lot of complexity. So what I wanted to show you is where we are today in the blue. So 40 sites, 120 brands, 1,600 employees and ops making 54 million cases. And we got – nearly got 600,000 tons worth of capacity. As context, the industry is about 4 million tons in totality. So we're pushing up around the – just over 10%, 10% to 15% in terms of industry percentage of tons coming through us. Post divestiture, we'll be back down to 30 sites. We talk about the power brands before, but there'll be about 20 main brands for us that we're still making. The team will be 850, 24 million cases and 260,000 tons of capacity. And just a breakout of – it's a bit – a little hard to see, but that's the world. And there's a breakout of California. Green is what we've retained, red is what we've divested and yellow is third party.

So our global operations base, we still have a presence across the world, starting to really focus up in terms of the U.S. We will – Canandaigua side over the East Coast goes. So really, a Californian-centric business, a little bit up in Washington. And obviously, from a spirits perspective, we've got Mexico. We're spread out through the U.S. Canada goes now for us. And spirits is coming in from Sweden.

So not only is the team dealing with the divestiture. You heard it from Robert before, but unless we're making what the consumer wants, we're not going to be successful. And the consumer and what they're looking for from us is changing all the time and ways the business want to get after it. So taking what Robert was talking about in terms of the consumer trends, how does that look from an operations perspective? And what are we doing about it? So from a premiumization example, taking Simi chardonnay. Simi is a brand that hasn't had a lot of love. The team, the exec team really want to put a lot of focus on it. There's a lot of heart in that story. It's one of the oldest brands in the U.S. It was set up by a female lady back in the day, went right through Prohibition, still made wine, stuck it down in the ground where no one will find it and basically bootlegged their way through Prohibition to where it is today. And that story, we're about to make – take the dust off and make it ring true again to the consumers. But what we're doing right now given it's harvest, we've got to get some fruit in. So whereas they're picking some fantastic Russian River chardonnay, some Sonoma chardonnay to put it into some tiering that you'll start to see come through in the next sort of 9, 15 months in the Simi and the new rejuvenated Simi package.

Organics, and we talked a little bit about sustainability and what that means and where we're going. Well, not only did we make an investment up in Vienito, Venice for our – to be able to produce more and more Prosecco, it's where pinot gris is coming from for us. We're about to release an organic pinot gris coming from Ruffino. We're also doing great things in New Zealand. We're part of New Zealand's sustainable wine growth in terms of what we do with Kim Crawford and Nobilo and really pushing those wines through.

And then from a convenience and a way to consume, you heard about all the new wines that are coming out in bourbon barrel and rum barrel and so forth, Woodbridge as the next tier – the next brand to – for us to release in that range. So a lot of work going on there. Casa Noble, High West are always expanding on their single-barrel program where you, as a customer, can go in and select an individual barrel and then have that packed up by us and sent to your restaurant or to your store or whatever needs to be.

We're in the process of justifying at the moment can investment for us, to be able to run cans at Woodbridge. Prior to this, we've been using our beer assets, craft brewing assets around the country. But as we start to get scale, as we start to need flexibility, Kim Crawford's coming in cans, 250 mL, which we worked out last night. It's about 8.5 ounces, I think, Jim, and then 12.5 ounces, I think, for the 375 mL. But we're running different formats with cans. We need to run different clusters and pack types in terms of where we come off the line, whether we're running sleeves, whether we're running preprint. But this investment will allow us to be flexible. It'll allow us to be nimble, and allow us to get after it in a big way.

And Crafters Union is another great example of a brand that we brought out of another part of our business that came out of the New Zealand business. It was a wrapped bottle and the artwork came from students. We got an award for – if it was selected, per varietal, so you were awarding students down there to come up with the great designs around it, we uplifted that after they started cans, we brought it here to the U.S. and this is running superbly well for us and gives us confidence that, as Robert said, bringing up this next brand, that we will have the same success and look at that.

And we're also looking at Woodbridge and Tetra. All right. So we've been running Vendange. Vendange is going to Gallo. We've been – Rex Goliath and things. But Tetra and the way that we look at that convenience package is something that we need to be after as well. So we as ops need to make sure that we've designed the network, we're ready to go with whatever gets thrown at us in terms of capability needs, varietal needs. And from a – making sure we start thinking about sustainability and what the consumer is after in that space.

So that's 2 of the big things that are already at play at the moment. Taking our core base of where we are today, we talked about safety a little bit before but making sure that we take care of our people day in, day out. We talk about our qualities, absolutely front and center for us at all times. And making sure our customer is getting what they need in a timely fashion is also extremely important.

So taking those core strengths overarched with the great team of people, what does our future state need to be if we're going after a premium portfolio, 25% of our revenue coming from NPD and innovation. And at the same time, a condensed port – a condensed network in which we do have some drags. We're going to be challenged with some overheads in our packaging facilities, but the team have had some great ideas, and we'll talk about this in a minute on how to overcome them. So we don't miss a beat in our charge towards our 30% operating profit.

So our future state. We talked about a premium, more agile production, ready to go when we need it. We want an on-time and to service level. I think we've been a little bit vanilla in the way we've been looking at things. We'll do anything for anyone. But at some point, we need to make sure that we've got our customers categorized in the right way. Our brands are categorized in the way. We've got to make sure that our service delivery methods are categorized in the right way. And the way that we take orders and fulfill orders is all sort of lined up, and Robert talked about that before. It's about process.

We've been a little hand to mouth in Excel spreadsheets and – as opposed to database and real-time metrics to help us run operations. And we're investing in that. So we talked a little bit about how is the best use of capital before. But freeing up some capital will allow us to put in a big data ring, a network into Woodbridge. And surprise, surprise, we went from basically having pigeons taking temperatures of our tanks to being able to sit on a computer screen at any one time and then being able to dial up and down the temperature of those tanks, which is extremely important during harvest to control the ferment.

Inventory. It's always something that has been in the back of our minds is how much inventories sit between us in terms of, let's say, Woodbridge, to where a customer is actually on shelf with Woodbridge? And we're going after this in a fast way and in a matter-of-fact way. But we think there's a lot of opportunity in our supply chain from end-to-end to really look at inventory, make sure we have the right amount of the right brands when it counts.

We want to work back from the consumer. Be collaborative on our way through and work more as a leadership team rather than solo. So Jim and I are working closer together. Matt Deegan, who runs our sales business. We need to be holding hands and making sure that as the consumer understand then what the distributor needs and then what we need to do is from an operations perspective.

And then lastly is just continuing to work the network and working our assets harder more as Constellation and then Robert Mondavi or Simi or Charles Smith is working it all together as one group of great brands, but we have a fantastic network behind that we push and pull the demands we need through our production facilities.

And lastly, just talking through a little bit more on looking at the ways in which we look at individual brands and individual SKUs and making sure the bill of materials, all the cost inputs that are going in are very aligned to what the consumer wants and where the consumer wants to pay it. So we said before, COGS has made up of 50% [grape] cost. We've got another conversion costs that's maybe 10%, 10%, 15%. We've got some packaging costs, we've got some dry goods, takes you up to about 93% by the time you're there. Transportation and logistics is small, overheads is small. So if we want to make an influence in terms of the way that we go about our business and margins, we really have to get after the way we can – our conversion, which I'll talk to you about – a little bit before. We also need to get about making sure that the right fruit goes into the right bottle at the right cost.

And looking at it from a menu of options and dialing this up across the board, is it going to be incredibly important as we move forward. So not to take you just from – and leaving you with just words, I wanted to give you some clear, concrete examples of where we're heading and reasons to believe.

So margin expansion and agility. Designed based on value. And what we mean by value is what is the consumer going to pay for by brand. We have to get after Woodbridge. We have to get after SVEDKA, and we have to get after RMPS if we're going to have any hope at all in getting to a 30% margin without the help of just pricing and help of – I'm not spending enough on marketing and where we need to.

So I've given a rough percentage down the left-hand side of the different areas over the time frame that we're starting to look and go after a few key things, which I'll talk through in a minute. But the takeaway from this slide is from our total cost input that we have as a business, we're after a 10% saving off of that base. 0.6% short term is going to come from transportation and distribution. I mentioned before, we do everything for everyone. We'll send a case over here, we'll send 3 cases over there. Is that the right customer to send a case, 2 or 3 cases to? And I'm not talking about compromising on service level quality at all. It's just making sure that when we have a truck, we fill the truck up. Or when we go to a customer, then potentially, that customer has a couple other orders that we can also put together rather than seeing a single one order on a day and instead of matching it to a week. Can we swing products straight out of Woodbridge straight to our customer where it makes sense? Can we work more with the beer team in terms of understanding what their transportation network looks like and the way that they're getting after taking their product through to the customer. We have 120-odd carriers that we use currently across the volume that you saw before. Beer has 24 carriers across the volume that they have.

So complexity we've probably introduced, and we've never had a chance to sort of stand back and say, hey, can we do this a little bit better? We want a better mix of rail and intermodal and trucking. We need to look at our C frame.

Field to finished goods, 0.5% short term, and then we see a big chunk in the F21 and on. This looks at not only the grapes that are going into the specific products as we run the diagnostics across it, but it also is looking at our dry goods, making sure that that's the right dry goods at the right time. When I look at harmonizing, having a small selection of what we can choose from, we have something like 150 different bottle types that we use in wine. Now I could line up 5 or 6 of those, and we couldn't tell the difference between those 5 or 6. It just happens. We've never had a chance to really sit back and go, hey, can we pick one? And maybe one will make it a little bit simpler for us in operations. And nobody is going to see it on the shelf and no one's going to sort of experience that. So that's the kind of thinking, and that's kind of rationale we're going after. And please don't think for a second that we're sitting there as operations going, you going to have one glass, you're going to have 2 different types of label. You're going to have 3 different [clubs] of cartons. This is a collective decision that we get together as a team and look at the value look, look at the value, whether or not it does make a difference. And then we also ask ourselves, if it does make a difference, does it make a meaningful difference in where we would see a slowdown to what the consumers' purchasing from us, or shifting to another competitors? So we're looking at the competitors on an ongoing basis, label weight, carton weight, glass weight, glass color and so forth. And I'll get to a couple of specific examples in a minute about Woodbridge. Four-wall efficiency. That talks about all the great things that we're doing within our operations space. We've had $20 million of savings over the last 3 years, Colin is going after more as is the spirits team and what they're doing. And we're looking at that all the time. That's activity-based costing. It's the right labor force for harvest based on the length of harvest. And what's actually happening on a scheduled basis, rather than just going lump sum. We need 3 months' worth of labor is going to come in on August 1, and it's going to finish up on October 30, right? It actually looks like, well, we don't actually bring in too much fruit for the first 3 weeks of August. So maybe only need 10% of that force. Then we're going to jump up to the 30%, and then we're going to go at 100% and we're going to scale back down again. So it's really emulating and mirroring the intensity of the work that needs to be done, making sure of their quality at all times.

It's also about reducing waste. Complexity of bottles, complexity of dry goods, complexity of wine blends, all these sort of things at the same time will create a waste stream. And waste stream after waste stream after waste stream adds up. So we're going after even the smallest minutest detail. But in a business of our size, if we don't do that, we're missing out on our opportunity there that allows us to make our product a lot more efficiency, gives Jim a little bit more money to be able to make sure we're talking to the consumer in the right way.

Moving to the big 3% bucket. This is really starting to look at how our vineyards have been planned at the top. I gave you the example of To Kalon, this highest and best use philosophy. We just finished the vineyard planning in Lodi, so North Central Valley, near Woodbridge, 550 acres is planted out to red blending varietals. These are varietals that we traditionally had to go and buy on the Central Coast were up in Napa and Sonoma way. And these will go in to help with our Prisoner brands, brand family, will going in to help our RMPS family. It is unheard for us as Constellation to consider Lodi as a source of fruit for those particular brands. But this vineyard has been planted in such a way with the right claims, with the right varieties. The quality offer here will surpass those regions where it's not been a prime focus to grow those varieties. And so we're confident that we can substitute 550 acres of our own vineyard. And I refer it into planes and been sourcing upward to $2,000 a ton. So that gives us great confidence then that you'll see those COGS in those margins over time when those wines are released, as I said before, coming through.

And as a business, we got 65,000 acres of vineyard that we're taking this harvest off. We've got 77 varietals. So the complexity that sits there, if we go through line by line, as we said before, in terms of block allocation. But importantly, we – and what brand is for, and is it the right fruit mix for that particular brand, again without ever, ever compromising on quality or style, this is where we're going to see some grading roads.

So tying it up here is our contracts start to come off, looking at what we could plan ourselves. And in a lot of times, when we look at growers and partnerships to what they may need to plant to make sure that their vineyard is not going to come to an end in 3 years, and they have business for the next 25 years. So we do a lot of partnerships around the world with our grower base with new plannings, new ideas and set them up in a sustainable way.

Forecasting, planning and inventory. We talked a little bit there before. A little bit hit and miss on where we are. We can get a lot more focused and a lot more narrow in terms of the decision-making there and work as a team from our distributors, our sales teams back through our customer service teams, looking at the inventory that we've got sitting truly as days on hand, safety stock, how much we've got sitting with their distributors, how much we've got sitting in with Constellation. All those things we're looking at the moment, and we're after 0.9% in that cost category.

And then lastly, as we've got some new – as we've got the – not new, but the components of our network that we're left with Constellation going forward. How do we really make them work hard, how we're making them work together. And a great example of that is, we are now looking at the old Ravenswood winery, which is over at Sonoma is actually now going to be like a second Prisoner winery in terms of the fruit that doesn't fit into our Napa facility because of permits and so forth. It is a fantastic facility for now – for us to now use as a Prisoner or for Prisoner supply. And this hasn't been done before because Ravenswood would have done Ravenswood and Prisoner does Prisoner and Mondavi does Mondavi. But all that sort of thinking and going on, that's how we're getting about that.

So finally, wrapping up here. In terms of making sure we are first and foremost on Woodbridge where there's a couple of things that we've gone after, making sure that bottle type and decisions around bottle use are the right ones and taking some complexity out. We're about to do a repack and refresh of the label and looking at some capabilities behind that, but that will also allow us to tidy up the number of label types that we have, the number of carton types that we have. We've got instances where we're putting things into printed cartons. They get ripped apart in store because they're never going to be a point-of-sale material. They're going to be just put clusters on shelf. But yet, we spend a whole lot of money making pretty cartons to go that just get ripped up and put in the recycle. So these are the kind of things that we need to look at really, really hard there.

We've had SKU proliferation that you couldn't believe. If I told you there was more than 100 different SKU types at Woodbridge, I think you'd be surprised. There is a huge amount of complexity in the SKU. And not only that, it's like the last 25% of those – of that SKU mix is making us negative margin. So it's dilutive to our overall ambition.

So us, analyzing that and looking at that in the right way allows us then to make very clear decisions around what the remainder of the base at Woodbridge needs be and where we need to hit with that. And coming through also, we've got this margin-accretive NPD products like the barrel-aged series that's coming through. We get cans right through the investment we're going to make. We have Tetra coming through. And then suddenly, Woodbridge doesn't look like a dilutive to our ambition of 15 and 30. We start to prop that up, we start to get 300, 400 points. And then suddenly, we start to get very, very close, if not better than where we need to be hitting. Which gives us a great amount of confidence that as we tackle SVEDKA and RMPS, these opportunities are going to exist as well. And we just need to do it in a very sustainable way. And at the end of the day, making sure the quality is – and style is never compromised.

So in summary, where we've been, we've got some runs on the board. And we've had some headwinds at wine and spirits. The top line, perhaps, hasn't performed as well as we have. Some of the brands haven't performed as well as we've needed. But the operations team, the team that's come together is an A-class team and day in, day out is – comes to work looking for opportunity, looking to make it better. Take away, we've got the best team in the game.

We never will compromise on quality. Style is so important to us. I want everyone to know that Prisoner today tastes like it did when we purchased it. It's the same with Meiomi. The only reason we will change that is if the style – what the consumers is asking us, if Meiomi, said to change that style for us. And we can track that really well and have the confidence that we don't allow things to go to bottling. So Mark West, examples of the past are not going to happen into the future because that's what we come to work for.

Transforming our network. You saw the complexity of it. We want to line it up. We want to make sure that it's right for the consumer, right for the NPD, but importantly, it's working really hard for us because if we can squeeze the best costs into the business in terms of how we make things and sets us up to make a great business base to hand over to Jim and to Matt and for Robert to run in terms of the right COGS, world-class COGS, the right quality, after the consumer with brands they love, and the team is really passionate there going after. And that's how we're going to win. And it's – that's the game that we're in to win.

So with that, thank you very much. And we've got to have a break of 15 minutes. So I think, Patty? Yes.

Patty Yahn-Urlaub

— *indiscernible* — and be back 10:00 here [for lunch].

[Break]

Patty Yahn-Urlaub

Hi again, everybody. If everybody could please take their seats. We're going to get started. And I know you've all been asking me, are we going to post the slides? So they'll be up shortly, okay? So anyway, without further delay, I'm going to bring up Lisa, Schnorr who's CFO for our wine and spirits business. And then Jim Sabia will wrap it up. And then we'll do Q&A, okay? Thanks, Lis.

Lisa Schnorr

Thanks, Patty. Welcome to beautiful Napa. I just moved here in July, and I'm still amazed every day at how beautiful it is. From Rochester, New York. Yes, of course, where I live most of my life. So yes. I think I'm going to use my cheers, too, because it's not – there's not a lot of lighting up here.

So welcome back. Before the break, Robert took us through the wine and spirits' vision and strategy and how we plan to transform the business. Then Sam talked about some of the great work we're doing – he and his team are doing on the supply chain to unlock significant value there. In a few minutes, you're going to hear from Jim Sabia, who's got some really great marketing materials to show you, and he'll talk more about our investments in brand building, in consumer demand building activities to accelerate our growth. I have the boring part today. I'm going to talk about the financials, so we'll keep it short and sweet. I'm going to spend the next few minutes outlining how our various transformation initiatives give us great confidence in our ability to outpace the high end, to outgrow the market and to out execute our competition and deliver financial goals of mid-single-digit top line growth and migrating towards operating margins of 30%.

As Robert mentioned, our strategy is focused on high growth, high-margin opportunities where consumer trends are favorable. These opportunities are concentrated in the high end, generally at $11 and up, where we see overall dollar growth in the high single digits driven by growth in super premium, ultra premium, luxury and super luxury price segments.

After completing the Gallo and Black Velvet transactions, we'll have about 24 million cases globally of wine and spirits volume. And that's using fiscal '19 as a starting point and subtracting with approximately 1/3 of that volume operating at $11 and up. The remaining 2/3 is made up of 3 large scale brands, the first one being Woodbridge, which is about 9.5 million cases. And that plays in the popular price segment, which is declining in the mid-single digits. SVEDKA is about 4.5 million cases. And it plays in the vodka category, which is growing at about 2%. In RMPS, Robert Mondavi Private Selection is about 2.4 million cases total. The majority of this volume is in the base tier of that brand, which plays in premium glass, a segment that's declining low single digits. But a growing portion is in the barrel age tier, which represents about 30% today of the brand in total. And it competes in the super premium segment, which is growing mid- to high single digits. These 3 brands, while competing largely below $11, gives us scale both from an operational standpoint and importantly with our distributors and retailers. And collectively, our whole portfolio of outstanding products provides overall growth volume – growth in volume and value greater than the industry.

So how do you get from low single-digit volume growth to mid-single-digit net sales growth? I'll talk about that. I'll go through the growth drivers, just the highlights, and then I'll dig into some of them in greater detail.

First, pricing and mix should add 200 to 300 basis points of growth, with about half coming from each. And then we expect to pick up another 100 to 200 basis points of growth through velocity acceleration and NPD and innovation, and that's net of product life cycle management or SKU rationalization. And so we add all that up, and we see an opportunity to grow our top line in the 4% to 6% range over the next few years, assuming stability in the marketplace.

So digging into, first, mix. This is just simple math, really. When we look at our portfolio and where the growth is coming from with brands like Kim Crawford, Meiomi, Ruffino, the Prisoner and High West growing faster than Woodbridge and RMPS, we see the mix benefit. But that goes beyond brand mix and also really gets into SKU mix. So I talked about the RMPS barrel age tier versus the base tier. The barrel age tier is priced at about a 30% premium to the base tier, and it's growing at a 20% rate versus the base tier, which is essentially flat.

Pricing is also going to be an important contributor of growth as we look ahead. Historically, we've been disproportionately focused on depletion volume, as Robert mentioned, and used price as a primary growth lever.

Going forward, we'll shift our focus to value and profit growth by eliminating deep discounts, simplifying our pricing structures and raising prices where appropriate. And through this process, we've been consulting with our distributor partners and they're very supportive. In one instance, we were able to reduce the number of deals on 1 brand from over 100 down to 7. So it's a win-win for us and for our distributors. We need to do this throughout the portfolio. And we'll sustain it through automation of our price promotion management systems. And let's face it, we've got some great success here from our beer business, and we're taking the learnings from the beer business and translating them over to wine by investing incrementally in the consumer to drive demand for the brands, which gives us pricing power. Of course, in the short term, we might have a bit of a drag on volume, but we'll mitigate that through incremental consumer investments. Jim will talk a little bit more about drivers and drags in a few minutes. But you can see how it's important that revenue growth management and our marketing programs work hand-in-hand to get the value increase through price. As Jim likes to say, price up, spend back.

In addition to pricing power, our marketing investments should allow us to accelerate our velocity and get a greater return on our distribution gains. We can see these benefits from some of our recent media investments. On the heels of our outstanding new national advertising campaign, we've seen improvement in trends in Woodbridge during the second quarter and even in the latest IRI period, we continue – that brand continues to outperform its price segment. By consistently focusing on the consumer and increasing awareness for our brands, we believe these trends are sustainable in wine and spirits.

And finally, innovation will become an ever more important part of our growth strategy. As Robert mentioned, this will include new-to-world brands, leveraging our ventures investments, and importantly, we'll emphasize building on the successes of our large-shouldered power brands. Some recent examples include last year's introduction of SVEDKA Rosé, which has experienced great success in the marketplace. Combined with the media campaign we started running last year, SVEDKA Rosé has helped accelerate the growth of this large-scale brand.

Our upcoming introduction of Kim Crawford cans is also a really exciting new product, new innovation. We're excited about the potential to bring – to expand consumer awareness and bring more consumers into this great brand. And I might be a little bit partial, but I think it's some of the best packaging I've seen in a long time, so kudos to our marketing team for that.

And RMPS Buttery Chardonnay, which is rolling out to retailers in time for the holiday season. So when you add up all these building blocks, you can see why we're so confident in our ability to achieve sustainable mid-single-digit top line growth.

So I'd like to turn now to margins. Our operating margins are currently in the low to mid-20s, have been impacted a bit this year by the disruption caused by the delay in timing of the transaction. But as we look ahead, we believe we have a glide path to the 30%.

Pricing and mix will contribute 100 to 200 basis points of margin expansion. The supply chain initiatives that Sam talked about will add another 300 to 400 basis points of margin improvement. And then ultimately, to achieve our margin targets, we need marketing and SG&A combined to be in the range of 20% to 22%, so we'll need to capture another 300 to 400 basis points in margin expansion through cost savings there. This is going to come primarily through SG&A as marketing is already running at its targeted 10% to 11% of net sales.

In terms of stranded costs, which is heavily weighted towards SG&A cost takeout, we do continue to believe we can capture the $130 million we've been talking about. We're expecting to capture $20 million this year, despite having to manage the full portfolio for an ongoing basis. We expect another $110 million-or-so in benefits from stranded costs in the next couple of years through a combination of SG&A and COGS. Much of the COGS has already been identified and is included in the 10% reduction of COGS that Sam talked about earlier. So we'll need to get the balance from SG&A. Some of this has already been identified and is ready to be actioned as soon as we close the divestiture. The remainder will require looking differently at how we prioritize our SG&A spend, and having landed our vision and strategy just recently, we'll use that to inform the capabilities required to support our future state and then build towards that future state over time. We plan to kick off an org design work stream in the November-December time frame once we complete the supply chain transformation work. It was really important we got behind the supply chain work first because as Sam mentioned, there's a longer lead time. $1 saved today in grape or wine blend won't translate to savings on the P&L for 1 to 2 years. But we're confident we can get there, and then we'll be able to get to the 10% to 12% SG&A load.

So I want to turn to cash flow. I don't want to spend a lot of time on inventory, but I want to hit on this just quickly. We believe there's an opportunity to take out up to $50 million in inventory all in, that's dry goods, bulk line and finished goods, through some of the initiatives Sam already outlined.

Now turning to CapEx. Over the past several years, we've invested an average of $125 million to $130 million annually. Before that, we were running at about $100 million or less. And frankly, we were underinvesting in the business. So we've had to play some catch-up, and Sam talked about some of these things we've done in the past few years: incremental investments in our vineyards in New Zealand, expansion in Italy, both to support our growing import business, and we've made large investments in U.S. vineyards to reduce our overall grape costs.

To support our go forward business, we'd be looking at a run rate less than the $125 million to $130 million, and we'll provide more insight on that in future months. This CapEx will be focused in areas that support our growth strategy, with a particular emphasis on building capabilities to support key consumer trends. The big buckets are: high growth categories including convenience formats, as Sam alluded to. We need to bring in capabilities to do cans in tetra and ready-to-drink in-house as well as California sparkling. These investments will allow us to bring some of our NPD packaging in-house and save a pretty meaningful amount of COGS, and these projects will have relatively short payback periods. The second bucket is continued expansion to support growth in our core brands, including Ruffino, Kim Crawford and SVEDKA, and then expanding our barrel program to support growth in our whiskey business, high-end wines and spirit barrel-aged wines.

And finally, as Robert alluded to, and I think Jim will hit on in a few minutes, we will need to upgrade some of our facilities, including Simi and Robert Mondavi, both the wineries and visitor centers will need to be upgraded to support the relaunch of these brands. We want to make sure the consumer is getting an outstanding experience when they visit our facilities. Just like we've done with The Prisoner Wine Company, which you'll visit later today. Also, you might be aware that a Montage Hotel is being built in Healdsburg, just up the street from our Simi winery. So this is definitely the right time to invest in a facility upgrade there. We want to make sure we're capturing the traffic of people driving from their hotel into downtown Healdsburg, and they stop by and have a great experience at our Simi facility. And then finally, about 1/4 of our CapEx program will go to support maintenance and repairs in health, safety and environmental.

So to sum it all up, we see a great opportunity here with an outstanding stable of brands. We have a winning portfolio and a winning strategy to outpace, outgrow and out-execute, and we see a path to delivering mid-single-digit top line growth and 30% operating margins. Now the delay in the transaction might take us a little bit longer to get there, but we're confident that we've got the right focus on the consumer to deliver on our strategy. And that's all I have.

And at this time, I would like to turn it over to Jim, and give him a little extra time to take you through some of our really exciting new marketing.

James Sabia

Thank you, Lisa. Okay. Hello, how are you all? It's good to see you. So as you know, I know a lot of you from working on beer for the last 10 years or so. I've had the opportunity over the last 18 months to work on wine and spirits. And from a marketing perspective, I'll get into some of our principles. They're very similar. As you think about beer, you think about wine and spirits, there's CPG marketing principles that we're going to bring over to – we're starting to bring over to wine and spirits. But learning about the product, you're listening to Sam, I just, as I listen to him, I was learning more. And we have such a great portfolio of brands, and Robert talked about the power brands. I'm going to take you through some of the work that we've done to get us ready to really accelerate this growth.

So for marketers, right, what do we do? What's our responsibility, is we have to increase our consumer demand. Now Robert talked about this category being a very push category. And quite frankly, I didn't realize how much of a push category it was until I got into it, right? Continue to push, push, push, and then you have these price promotions that you have to cycle, so you push more, and more press motions. You get into this circle of pushing, right? But where is the pull? Where is the consumer demand? So for us, our biggest responsibility as marketers, working with our sales folks as they push, as the distributors push, our responsibility is to pull, how do we get the product off the shelf, off the display, and I'll share with you how we're going to do that.

We spent a lot of time on developing brand positionings, right? What immediately – they have to be meaningful, they have to be ownable, they have to be relevant. And you think about wine, there's a lot of wine categories, there's thousands of thousands of wine, so how do we differentiate our brands from all the other competitors out there? So as a team, with the marketing team, we spend months at a time R&D'ing our brand, looking at what's meaningful, what's ownable? And what does the consumer really care? And I'll talk you through on how we did that.

One of the biggest initiatives we've had over the last 18 months or so was using analytics. On the beer side, we've used analytics for a number of years, where every month, we take an analogy called the drivers and drags, which is a regression model. And we're doing that now with wine and spirits. And it's really allowing us to understand what's driving our business on a monthly basis and what's dragging our business on a monthly basis. And I talked to a number of you yesterday about Woodbridge and Robert talked about taking price. And yes, we are going to take price on Woodbridge. And that will be a drag, we understand that. In this category, it's elastic, and we believe it's on average, between 1.5% to 2% elasticity, right? So we understand that when we do take price, we're going to lose some volume. However, our responsibility is what's going to drive the business. So you have your drag, then you have to offset that by drivers. And drivers, I'll talk a lot about is, distribution and media and promotions and retail and activation.

The other area that we're spending a lot of time and energy on working with our sales counterparts is shopper analytics. At lunch yesterday, I asked a question, what percentage of wine is sold off of display versus off the shelf. And everybody said 50% off the display, 55% off display. And I thought myself, there's about 50-50, 50% shelf, 50% display. And actually, 84% of wine is off the shelf. And only 11% of wine is purchased from a display. Now there are some key weeks around Easter, Memorial Day, July 4, Labor Day and O&D that are more critical than others. But on average, people, consumers buy off the shelf. So we have to win on the shelf. So how do we do that? And I'll share with you some analytics.

So we're working closely with our sales counterparts, our distributor counterparts and saying, yes, we have to get displays. However, every day, let's go fight for more facings. And some of our brands, it's not even about simple distribution. I'll get into Kim Crawford about that particular insight that we found there. And as Robin mentioned, and Sam mentioned, insight-driven innovation is going to play a role, about 25% of our volume going forward. And we're going to get out in front of it. We're going to do smart things. We're going to be consumer-centric in everything we do when it comes to innovation, what we're going to play. I mean this consumer is moving so fast when it comes to innovation, when I talked to a lot of you about seltzers last night. I mean it's happening quick, so we have to be ready in wine and spirits, on what's happening with the consumer.

So here is – and I had the team go back literally 4 or 5 times because I don't believe it. I mean, I shop differently. I mean, but I don't believe it, so they went back and they went back and said, Jim, this is what's happening, right? Wine purchased by location, right? So 84% of wine purchase comes off the shelf, right? Look at the cooler, displays and comparing that, yes, it is higher than beer and spirits, but it's still only 11%. So displays are important, and we measure displays. We measure feature in displays, but we have to win on the shelf. We have to win.

So this is an analysis the team did, and it's showing if we went from 1 facing of pinot noir, right, Meiomi, to 2 facings, to 3 facings. Look at the amount of growth we would get. And then Kim Crawford, right? And Woodbridge, Ruffino Prosecco, and then we even did California grocery. Kim Crawford 750 going from 1 facing to 2 facings, picks up 69% of wines, that's where the consumer's shopping. And then if you – we all know wine shelves, right? They remind me a lot about craft beer shelves. They're crowded. I can't even navigate. I go in front of you, you can't even see. However, when you get a brand that has 3 and 4 facings, they have the blocking of that brand. It's very, very easy then to find it and to purchase it off that shelf. So this is all the work that we're working with our sales folks about, how do we then drive more velocity? Because the sales individuals will tell you, look, if I can get more shelf space, you get me more velocity, right? So what comes first, though? So we're working really closely with them, working with our distributors, working with our national accounts and trying to share with them, this is what we're doing for the wine category. And this is what our vision is, this is our strategy. We're going to take price, and that's good for you, Mr. Distributor and Mr. Retail, right? We're going to take price. And we're going to spend back. So we're going to drive consumer demand. We're going to take advertising. We're going to start advertising wine, right, on TV and good properties, to drive this category, to drive more because then we can take some pricing power. So this is a really big initiative we have with our sales folks on driving incremental facings against our power brands on shelf. And then we did an analysis of space at the sales. So we look at our brands in terms of the velocity we have. And then we took velocity per point of distribution, and then how much space we have. And this just gives us more confidence in all the work that we have, the potential of our portfolio compared to some of our major competitors up top and then to individual brands down below. I mean look at Meiomi. In terms of the velocity per point of distribution. The highest they can profit, even Woodbridge and Ruffino. So all brands have very good velocity per point. So now how do we get incremental facings in incremental space on the shelf?

So as Robin mentioned here, our power brands, 10 brands. And I have a tendency to look at this photo a lot and say, okay, what are we going to do with this brand? What are we going to do with this brand? How much potential does this brand have? I don't know about you all that came to High West with us yesterday, but I was blown away by that, right? I was, by Brendan and his team and how good that product was and the potential of High West. And everybody says, Jim, you're going to mess up High West because you've got to put too much, too much money against it, and you're going to turn it into a mainstream brand. We can take these wonderful brands that sell 100,000 cases, that have so much more authenticity and backstory and grow them into 200,000, 300,000 in the right way. Will you see High West on Major League Baseball or the NBA? No, you probably won't. But you're going to see it organically grow in certain parts of the cities and the major markets. They take a brand like Woodbridge. And I'm going to show you some of that work. Ruffino, we're working on that. SVEDKA and the rest of the portfolio. And wait until you see the new Prisoner tasting room, and I'll share with you some of the new offerings we have for that.

So Woodbridge, right? So the objective of Woodbridge is talking to consumers on why did Robert Mondavi, right, who made Napa into a world-class area of wine, recognized all over the world on making incredible wines that Sam talked about, To Kalon. We got testing in To Kalon today, sir? Right? Why did Robert Mondavi make Woodbridge, right, back in the '80s, early – late '70s? Because he wanted to put good wine on every American table. He wanted to increase the household penetration of wine. He's Italian and Italians drink wine when they're kids, if not – no. I mean it's part of their culture. Wine is part of their culture, right? It's part of the culture of Italians. And he wanted to put wine on every American table. So this was his objective, right? Putting wine in every American table. So we needed to tell that story. We needed to tell the story about why he did it. So here is kind of our media plan we have in terms of, in national cable, digital, social, NFL, right? Big, big, big media dollars against Woodbridge, right? So we started airing in June 17 of 2019, set a lot of networks, and a lot of different social and digital. Also, we looked at Woodbridge in terms of tetra, Sam talking about this, tetra. We're going to introduce tetra and the GP on tetra leases is about almost 50 GP on this SKU, right? So we're going to introduce this. Robert talked about ready-to-drink convenience. So this is going to be a SKU that we're going to introduce with Woodbridge. And then we look at here, okay, new segments to grow penetration. And this is the spirit's barrel age that we just talked about. And a price point of $7.99 versus the more traditional $5.99 or $6.99. So this is the spirit barrel age, the first in the popular brand segment, and we're going to continue to push this in 3 varietals, we're shipping in January. So we talked about the drag, right, of pricing. These are some of the drivers that offset the drags, advertising, innovation. And this is hot off the press, still working out all the final details, but Woodbridge will be the official wine of Major League Baseball, right? So taking a big brand, taking a brand that has high household penetration. And Robert talked about a lot of households buy wine in America that's less than $10, $11. So we're going to use all the assets that baseball can bring us. We get to use all 30 teams collectively in advertising, in marks, we get to make all of the POS, right? We want to get on the floor of displays. They're still very important, to remind consumers about your brands, but also during the key holidays, we're going to have TV and social, we have a chance to have consumers go to the All-Star Game, go to the World Series Games, and that allows our sales folks, right, to be able to then go to our retailers, say hey, why don't you put Woodbridge on the floor for July 4 because we're going to send consumers to the World Series. So bringing in, so this is the brand where we're taking more of a bigger CPG approach, a lot above the line, a lot are below the line, a lot of advertising, pushing this brand. And then developing the pull for consumers.

So we produced an ad, I'm going to show you an ad, this is a 60-second spot. We're running it at as we speak, and we're real proud of it. The consumer takeaway is very strong, so I'm going to play it for you.

[Presentation]

James Sabia

So that's the spot we're airing, from 1 to all, communicating why did Robert Mondavi – to develop Woodbridge. So Woodbridge, now we go to Meiomi. So what we do is we develop what we call a focus of sale. What is the focus of your selling communication? And for Meiomi, it's really about the unrivaled taste of this brand. It really is a Flavor Forward, it isn't just a tagline. It's the way this brand tastes. From Sonoma to Monterey to Santa Barbara, it's triapolated. It's made like no other for a taste like no other. This is such a unique brand that we're going to continue to push. We have very high GP, we think there's so much opportunity for this brand going forward. So for this brand, beginning in November, beginning September, I'm going to show you an ad that we're going to run on digital, run on social and then we're going to run during the November to December time period to put on the TV, right? It's going to launch on TV on November 4, during the biggest wine selling season, delivering over 400 million impressions. We have a 360 program on Meiomi, a little bit different than Woodbridge, but very similar. So we thought about Meiomi, we thought about that consumer, we thought about okay, what are the passion points around that consumer? And as we talk to consumers, and we realize who we're going to target, they told us they love to play golf. I like watching golf, I like to play golf. So Meiomi is the official wine of the PGA Tour, and we activate about 5 or 6 events during the course of the year. We have in-store merchandising, on-premise public relations, the spot I'm going to show you, and then the digital social.

So here is a power brand. So power brands, the 7 power brands and then the 3 true estate power brands. This is 7, they get a lot of 360, have a lot of money spent against it. Doing in a way that's ownable to them, right? Ownable and emotional to consumers. So this is a spot that is on social digital right now, that'll be airing in TV in November.

[Presentation]

James Sabia

So Woodbridge was talking about Robert Mondavi as the wine maker and why he did it, his objective. This is a little more rational, functional, based on what does this brand consist of, and why does it taste the way it tastes, and what we mean by it. So a little more rational, a little more functional, but we believe done in an emotional way that is engaging to consumers as they watch the film.

So Kim Crawford, this is an amazing brand that continues to grow with so much potential. It's the #1 in dollar velocity in super-premium. It's growing at 13% in its velocity, #2 in retail sales gains. We really, truly believe this brand has so much upside. And we're targeting a different consumer against Kim Crawford. We're targeting more female, more about this brand. We hear a lot from female consumers that Kim's a friend, Kim gives me social confidence. I get with my girlfriends and we drink Kim Crawford together. So we're really targeting the female consumer when we talk about Kim Crawford. So this is some of the analysis that Robert was talking about in terms of just the awareness. So this is aided awareness of Kim Crawford on the left-hand side here, and this is 2016. This is aided. So this is a list of wine brands. And we say to consumers, have you ever heard of these brands? In 2016, it was 13; 2017, we got up to 17; and in 2018, up to 27. Well, look at the gap, so there's so much non-awareness of the brand called Kim Crawford. And then the thing about Kim Crawford is, once we do get consumers into the franchise, on the right-hand side is their buy rates and how much money they spend per brand. So as we increase our aided awareness, as we increase our household penetration, and we get consumers into this franchise, they are very, very loyal to Kim Crawford. So when they buy it, they buy more of it. So we just have to continue to have consumers be aware of the brand, trial the brand, and then they will buy more of the brand.

Our advertising. This is our highest advertised brand we have in our portfolio. As you can see, it's TV, digital, social and during some key sales periods across different networks that targeted more to a female consumer. As Lisa and Sam mentioned, cans. This is the new Kim Crawford cans that we're going to introduce, the 2 packs because they're 250 mls, yes, there were 500 ml or 375s, so we have 2 packs here, great looking package. We're really excited about the convenience aspect of this with consumers.

So here is a new spot of Kim Crawford.

[Presentation]

James Sabia

So very different than Woodbridge, very different than Meiomi, right? So this is where the ownable, relevant positionings are critically important because as we did all this research on the wine category, they all look the same, some food, some friends, swirling of the glass, we needed it to be a little different. And it's not a criticism, it's just – it's redundant. How do these brands break through, right? How do you break through, right? So this is the advertising for Kim Crawford. I just want to make them, for the record, when I said Woodbridge kids, I meant Italian kids, 21 years old. I mean now I talk about 21 years as kids, so I apologize, I'm getting old.

So Simi. Robert and Sam talked about it, Lisa talked about it. We had a lot of discussion around Simi. And what are we going to do with Simi. It is a drag right now. It's not performing as well as our other power brands, but the more we talked about, the more we understood the history of this brand. I think it's 1876, what they did during prohibition, how they did it. We really, truly believe that there is an important role that this brand is going to play in our portfolio going forward, right? So what we're doing is we're truly getting underneath the brand, doing the audit, how are we going to position it? What's the focus of sale? Yes, it's been around for 135 years, but do they care? Do consumers care about that? Or they want to know something else about the brand, that's meaningful, that makes them pick it up. We're doing a package redesign, we're going to – we hired a new agency. And what Sam mentioned, we're going to do a reserve, let's go back one, I don't – please? We're going to do – so we have Chardonnay, as Robert talked about the growth of Chardonnay, right, Chardonnays are coming back strong. So we have a super premium Chardonnay, ultra-premium at $14.99, $15.99, but then we're going to have some Russian River Chardonnay, other parts of Sonoma. We're going to have, so different tiers of Chardonnay, right? Because Sonoma, I'm learning more and more, I'm learning from Sam and Chris Mallard and the whole group, Sonoma's really synonymous with great Chardonnays. So we have a brand called Simi that makes a wonderful Chardonnay, how do we make 3, 4 and 5, all the way up the ladder? Up to $45, potentially, of Chardonnays from Simi. So we also have Cabernet Sauvignon. I was in the Valley and the landslides, so there's more opportunity with this brand and there's some work to be done on the tasting room. This will eventually, right, have 360, it's a power brand, it's going to have new packaging, the retail up at the winery, public relations, innovation. I'll share with you trade and then digital and social.

And then this is a new SKU that we just introduced. So this is Simi Rebel Cask. We age this in rye barrels, so it gives – a little bit different. As Brendan talked to us yesterday about rye, and how do we get rye and how we – how rye's a different taste of rye, and all the different aspects you get from rye. So we aged this Simi into rye barrels. They're now available. And we priced it a little bit higher, its pricing point is about $21, $22. So we're excited about this. It's just going in the market, but the Rebel Cask, it goes back to the history and the attitude of this winery, back in, during prohibition, where I think they sell, I think they put a 0.5 million cases of wine in the basement. They didn't tell anybody.

0.5 million cases, in the basement, that's a lot of wine in the basement. And then when prohibition broke, they sold a lot of wine, and that just carried them through the years they had a shutdown.

So there's more film, we're going to have a film on working on Simi. But now Ruffino. So Rob and I are going to go in a couple of weeks, to go visit the team out there. It's a really good, underneath this brand, to understand what's working, how can we do more. Just give you a little, in terms of effect, Ruffino Prosecco. We sell about 0.5 million cases or so. La Marca is 1.5 million cases, right? So we really, truly believe that there's so much upside for Ruffino Prosecco, right? To go and get up to 1.5 million against our competitor. We look at, in terms of Ruffino Lumina. And these brands, the Ruffino Riserva Ducale, Modus. So looking at this whole portfolio and saying, okay, what do we do with this portfolio, where do we put more money against it, the pinot grigios, the Chianti Classicos, the – some of these other brands here? And then what's the strategy going forward?

So we hired an agency, we're getting underneath the focus of sale. And what we're really talking about is, if you – if you ever spent any time in Italy or you've been to Italy, the one thing Italians do very, very well is they enjoy life, right? They truly enjoy life, whether it's the wine they drink, the clothes they wear, the cars they drive, the coffee they sip, right? Go to the bank, it's a different story. You wait in line for a long, long time. It's very disorganized, right? There's no line, we just rush it, right? So the Italian way of living is such an incredible way to live. It's the art of living, so we're going to bring this to life through Ruffino. Ruffino, we believe, in America, is the #1 Italian brand. So what can we do with this, right? We have Prosecco, we have white wine, we have red wine, can we introduce it to maybe some ready-to-drink? Can we do, maybe liqueur, limoncello, or amaro or – there's so much opportunity with this brand as the Italian brand in America. So we're going to do a lot of work on this, working with the innovation team, working with the brand team, to get underneath this and really go after this brand.

And here's just some of the examples, right? In terms of the key holidays. One of the things we're really working closely with our sales division is that we're outlining the calendar, right? So there's Easter, Memorial Day, July 4, and then November, December. In the wine category, you do get a nice little spike in Easter, and then it's kind of flat. It's interesting. It's kind of flat through Memorial Day, July 4, Labor Day. And then November, December you get your huge spikes. Well, we're saying, wait a minute, we're going to participate. I mean a lot of people drink wine and spirits during Memorial Day, and July 4 and September, right? So what do we with – line up the calendar, let's line up the major holidays, let's line up our retail priorities with sales and marketing working together. So the retail sales team working with the brand teams develop these kind of displays. And so when then our sales folks work with their distributors, they say, okay, Memorial Day, we want to be on the floor with Ruffino Sparkling on this time period, right? And then we're going to go and execute against this, and then we'll give above the line advertising. So we have the below the line support and then the above the line support, to really drive this business. But it's a great-looking brand, and it's got the color of Ruffino Prosecco. It's an equity that we're going to continue to build on moving forward.

And we're going to introduce, I think Sam showed this, organic grapes, Ruffino Prosecco organic, to a – priced at $2 above our current Prosecco. But really have a channel strategy, don't put it everywhere, go into the Whole Foods of the world, go into some of those retailers that really care and those consumers care about organic. Target some liquor stores, target some off-premise accounts.

All right, then transitioning to The Prisoner. So those are – and I'm going to have to SVEDKA at the end, but those are the 6 wine brands that are part of the power brands, with The Prisoner, right? Our objective is to be the #1 luxury plus wine brand and how are we going to do that? We have to increase our household penetration, we have to increase our awareness. Robert mentioned, this is a 200-case brand, The Prisoner, at $45. 5, 6, 7 years ago, I don't think anybody in this room would've said that you could sell 200,000 cases of a wine brand for $45. But this is where the consumer is going, they're trading up. They're saying, you know what, $45 for a bottle of wine, it's a really good value, especially a value, a brand like this. So it is, it's got, we're going to enhance the awareness of some of our secondary SKUs, but we have some work to do, right? We have some work to do on positioning this brand. We really think about, what does this brand stand for? And if you've never been there, we're going to see today as you walk into the tasting room, it does a great job of kind of sharing what does this brand mean? What's the connection with the consumer? What's the attitude? What's the DNA of The Prisoner? So it's The Prisoner Wine Company, so everything we do. So here are some existing brands that we have underneath the umbrella of The Prisoner Wine Company, right? So there's a Saldo, which is a Zinfandel; there's Cuttings, which is a cab, and we're going to taste some of those later today. But then as we think about it, how do we – if we're going to line extend, and we're going to do innovation around The Prisoner Wine Company, how do we do it? Because we have to stay true to the DNA of The Prisoner Wine. The Prisoner brand is our master brand, right? That's our master brand, so if we line extend it, how are we going to do it? So this is new to the world. We haven't really communicated too much about this yet, but we're going to launch this in January. It's called Unshackled, right? It's a Red Blend, cab and Rose. As you can see, the targeted price. So the strategy is to develop – the innovation strategy, if you grow – attracting new consumers. So one of the things I've learned about in wine, is that your price points will tell you the household penetration. So if you start at $10, there's a certain amount of household penetration. You go up to $15. You go to $25. You go to $35. You go to $45, and the household penetration of consumers buying these wine gets less and less and less the higher you go, right? It makes sense. You spend $45 on wine, there's not that many people that can do that. But as you come down the ladder here, as you come down the pyramid, we're realizing that there is a lot, there's a lot more potential of volume in the $25, $24 range. So we want to capture that. We want to capture the trade, that part of the category that we currently are not playing with it, with a brand from The Prisoner. And we love the name, Unshackled, it talks about the DNA of The Prisoner Wine Company. We think the label is very creative, as you can see, it's a lock, right? You have to figure out how to open it up. We talked about The Prison – TPWC, right, Unshackled, red blend. So I don't know if we're going to taste any of this. I'll get us some in the back, right, Chris? We'll get some, we'll taste some. But Chris, we have any Unshackled? Yes, we'll figure that out. Or just pour on a glass and tell you it's Unshackled, you won't even know. Yes, we're going to have our red blend. And I tasted it, last week. It's very, very good. I mean for $24, $25, we're so excited about it. And here's another one, so this is Eternally Silenced. Again, look at the label, you're going to see this today. This is wax. This is a pinot. And this is a little bit higher priced. So this is more like The Prisoner, this is a little bit higher priced. So this is another opportunity we have. We just had a kick off PR in New York City a couple of weeks ago, doing some work on digital and social. Really think that – I mean, just the look and feel. So Unshackled and now, Eternally Silenced. It just feels like a family of brands that we're putting together for The Prisoner Wine Company. So we're really excited about this brand and the potential of this brand. And we know it's a little different go to market, though. It's a little different marketing mix, right? It's not going to be like Woodbridge, it's not going to be like Meiomi or Kim Crawford, the tasting launch, as you see, is a big part of that. But Robert talked about D2C, how do we do more D2C, with this particular brand? You're going to see some brands today that we don't have – we don't – haven't commercialized it. They're just in the tasting room. And using PR and all this. So really excited about this. As we said, we want to be luxury plus category. We really think The Prisoner Wine Company has so much opportunity.

So then we go to Robert Mondavi, which is a magical place if you've never been there and then To Kalon, to see and taste some of the products that come off of that – off those lots. It's absolutely an amazing place. It's spiritual. You go up to – are going to go up to, say for dinner, Patty? We have a lunch at, Robert and I would be there, we're going to – so what we're going to is eat and drink. To look back on, just like yesterday.

So this is a magical place. Robert talked about renovation. One of the first meetings that Robert and I had, we met at a meeting, went to a bar in San Francisco. He said, well what do you think about Robert Mondavi? Should we renovate it? Should we just let it go? And I'm like, no Rob, we have to renovate it, absolutely. This is our job. This is – I'd say this is our legacy, but this is what we need to do. So we have the President and myself and the team, we're really excited about what we're going to do eventually with the Robert Mondavi Winery and tasting rooms. Incredible brands. Incredible wines. It's such a – it's such a back story that we're going to tell. We told the Woodbridge story. We're going to tell the Robert Mondavi Private Selection story, but we're really going to 1 day tell the story of Robert Mondavi, and what he did for the wine industry, what he did for Napa Valley, in this country. And that's a story that needs to be told, and we're going to tell that story. So a lot of work's going on. We're looking at doing an audit, we do a lot of research going on. Brand renovation, facility improvements. We have to get this right because this is so critical to Robert Mondavi brand, right? It's the master brand of Robert Mondavi, you got Woodbridge, Robert Mondavi Private Selection, then you have Rob, probably Napa, and Napa goes from about $35 on a Napa Valley cab, then you go to Oakville, which is about $45 to $50, and then you go all the way up to the Reserve. And then we have some special products in the middle of that. But a magical place, magical wines that we're excited about the potential of it all. And here's how we're going to do more of it, different approach, this is more like The Prisoner, right? More different types of activities, different types of marketing, different types of go-to-market strategy.

And then High West, we talked yesterday, the core 4, really focused on 2, American Bourbon, Double Rye! How do we get that in all the right locations on and off premise, how do we merchandise it, how do we tell the story, listening to Brendan yesterday, we're – as

I was listening to him, I'm like, wow, we can write, I mean, we can write a print ad of that one, or wow, we can do social media on that. Just listening to him speak and listening to the passion he has and how great they make this product, there's such a wonderful story that we have to tell for this brand. We will do that going forward. As we talked about yesterday, here are some of the releases we have, the special products. But we have to do a better job on the core 2 first, right? Get the core 2, get the core 4 and then use these as, in and out specialty. Special products, in and out, we make it, we sell it. But how do we go from 100, 120 to 250, 300,000 for this particular brand? And this brand, as we go to market, it's a little different again, right? This one is a little more in terms of experiences, right? We have the experiences that we didn't go down to Park City, maybe in a couple of years, we do this again, we go – had to go to the Park City. It's an unbelievable restaurant. I haven't been there. Had the consumers go there, and they go to the distillery, we had a lot of social and digital. We have advertising and a little bit of print, and we have events. So we're the official American whiskey of the U.S. Open Snowboarding. So we get actively involved with that. So really, Sundance. So little more grassroots, a little more from below the line, up above the line.

Right, so those are the 9 power brands. And the last power brand I wanted to share is SVEDKA. As Robert talked about earlier, we position this brand, we went back and said, okay, what does this brand stand for? And if you're from New York, like a lot of you all are from New York, 10 years ago, 15 years ago, SVEDKA in New York was a really big brand. And it had an attitude. It had a very unique attitude, and it broke through. It's pretty provocative, right? But then you changed marketing leads and they change, and that's what marketers do. They come and they change everything, right? So you had a new brand manager come in and change, a new brand manager come in and change. But for the last 5 years, we never advertised it. They didn't really have a positioning, right? What was it? What does it stand for? So we went back and looked at the brand. We talked to a lot of consumers. When you think about SVEDKA, what is it? What does it mean to you? And they talk, and these consumers, who are their own individuals, they say, well I don't care what people think of me, I am who I am, I want to just celebrate my diversity and my inclusion, I want to be who I am. So we started thinking about SVEDKA, and how does SVEDKA bring that to life? We developed this campaign that we call Bring Your Own Spirit. And it really dramatizes our consumer and what we mean by bringing your own spirit, being an individual, stand up for yourself and be proud.

So I'm going to show you the spot, but this is new news. You guys are getting a lot of new news. But this is all confidential, right? This is – we're excited about this, right? This is the better – talk about betterment space, right? This is zero sugar. So this is a vodka, pure infuse, with some flavors, but zero sugar. So we're going to ship this. The team did an amazing job. Robert, about 6 months ago, challenged us to say, look, I'm watching this. I'm going to bars, I'm seeing botanicals, I'm seeing this betterment in vodka. What are we going to do? And the team worked really closely with Sam and his team, and were able to really do a, I believe a really great job. The product is wonderful. And that's going to be introduced in February, in March, national ship. So now I'm just going to show you the spot. We ran this spot last November/December, and it's interesting. We saw a lift. We saw a pretty good lift, really, wow. We ran this for 6 weeks, at like 7,500 TRPs, and we saw a lift, right? So now we say, we have, we think we have something here. So going forward in fiscal '20, we're putting more money in say fiscal '21, we're going to put more money against it. And the thing that's really going to work for us is now, this is – Woodbridge is our big wine brand, this is our big spirit brand. So these are our 2 big brands that we have to get on the floor during the key holidays. So we have to have below the line, and we have to have above the line, we have to have sponsorships. We have to do it all. These are the 2 big brands, Woodbridge and SVEDKA, that need a lot of resources and 360 marketing mix against it. And this is an ad we ran, we're in the process of developing a new ad, same campaign, but a different execution for next year. So here's Bring Your Own Spirit.

[Presentation]

James Sabia

So as you can see, 10 power brands, 7 of them really kind of 360, big marketing, above the line, below the line, 3 brands. No, we're going to take a different approach to, but these 10 brands, and Robert talked about focus, right? We used to have 70, 80 brands. We had a marketing budget that's spread out all over the place. Now we have 10 power brands, the way to put all our resources against. We're going to line extend, right? We're going to do innovation against these brands. We'll create – as you look at all the advertising, right, I talked about ownable, meaningful and relevant positioning, all very different, right? Doesn't feel like just another wine ad, doesn't feel like just another vodka ad, spirit ad, so this is where, working with sales, working with operations, working with the teams, that we just feel really excited about the potential of this portfolio and this division going forward.

So with that, I think it's Q&A. Yes.