

Constellation Brands Inc, Q1 2016, Earnings Call

2015-07-01

Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Constellation Brands' First Quarter Fiscal Year 2016 Earnings Conference Call. — **Operator Instructions** — Thank you. I will now turn the call over to Patty Yahn-Urlaub, Vice President of Investor Relations. Please go ahead.

Patty Yahn-Urlaub

Thank you, Lori. Good morning, everyone, and welcome to Constellation's First Quarter Fiscal 2016 Conference Call. I'm here this morning with Rob Sands, our President and Chief Executive Officer; and David Klein, our new Chief Financial Officer. This call complements our news release, which has also been furnished to the SEC. During this call, we may discuss financial information on a GAAP-comparable organic and constant currency basis. However, discussions will generally focus on comparable financial results. Reconciliations between the most directly comparable GAAP measure and these and other non-GAAP financial measures are included in the news release or otherwise available on the company's website at www.cbrands.com.

Please also be aware that we may make forward-looking statements during this call. Although statements represent our best estimates and expectations, actual results could differ materially from our estimates and expectations. For a detailed list of risk factors that may impact the company's estimates, please refer to the news releases and Constellation's SEC filings.

— **Operator Instructions** — Thanks in advance, and now here's Rob.

Robert Sands

Thanks, Patty, and good morning and welcome to our discussion of Constellation's first quarter 2016 sales and earnings results. As Patty mentioned earlier, I'm joined today by David Klein, Constellation's newly appointed Chief Financial Officer following the recent departure of Bob Ryder, who served as our CFO for the past 8 years. Bob has been a significant contributor to our organization during his time here. His accomplishments at Constellation are numerous, and I wish him success in his future endeavors. We have an incredibly talented finance organization, which is why we're expecting a seamless transition for David as he assumes his new role. David brings a wealth of experience to this critical leadership position, most recently serving as the CFO for Constellation's beer business, where he was integral in orchestrating our glass sourcing strategy, implementing commodity management processes and instilling production cost management discipline at the brewery. David has also been very involved in the oversight of our Nava Brewery buildout, which includes managing capital expenditures at the facility. Now during the past year working with the beer team, David has divided his time between Rochester, Chicago, San Antonio and Mexico. I believe that many of you have had the opportunity to meet David, and I would like to publicly congratulate him and welcome him to our executive management team. You will be hearing more from David in just a few minutes.

Before we get started with our quarterly review, I would also like to take a few moments to discuss this morning's exciting announcement of Constellation's planned purchase of the Meiomi wine brand. Meiomi is predominantly a California pinot noir and represents a synergistic high-growth, high-margin, accretive complementary tuck-in to our existing portfolio of wine brands. Launched in 2006, Meiomi sold about 60,000 cases in the U.S. marketplace in 2010 and has grown to become a nearly 600,000 case brand since then. It is currently the fastest-growing major pinot noir in IRI channels at the \$20 luxury price point and has experienced dollar sales growth of more than 50% over the last 52 weeks. In calendar 2014, Meiomi generated more than \$65 million in net sales, with an operating

profit margin profile that significantly exceeds the margin rate of our overall wine and spirits business. The right brands with the right financial profile, like Meiomi, Meiomi can be efficiently integrated into our distribution platform to provide synergies, scale and route-to-market benefits and is very similar to our successful Mark West acquisition.

As I have previously mentioned, tuck-in acquisitions have been identified as one of our capital allocation priorities, especially those that are strategic, synergistic, good value and meet our strict financial criteria. Meiomi is one of these acquisitions. This acquisition does not signal a change in strategic goals for the business or impact our ability to achieve our targeted leverage range. Our top priorities remain unchanged, and they include reducing our debt to less than 4x leverage. This creates significant capital allocation flexibility and opportunity to increase returns to our shareholder through dividend growth and share buybacks, capturing the organic growth opportunities we see across all of our product categories, completing the brewery and glass plant expansions as planned, while ensuring that we do not impact the tremendous commercial momentum we have within the U.S. beer market and complementing our organic growth efforts and shareholder cash return focus with complementary brand acquisitions that enhance our portfolio. These priorities are intact and will remain our core focus for delivering shareholder value over the long term.

And now I'd like to shift the focus of our discussion to our quarterly results, which reflect a great start to our new fiscal year. Overall, our beer business had – has been unstoppable. Our wine and spirits business is on track to meet its goals for the year, and we continue to progress as planned with our Mexican brewery and glass plant expansions. During the first quarter, the beer business generated results that exceeded our expectations, posting double-digit sales and depletion growth. These results are some of the best in the industry. In fact, during the first quarter, Constellation beers delivered about 2/3, that's 2/3 of the total U.S. beer industry volume growth, leading volume gains among

U.S. brewers for the eighth consecutive quarter in IRI channels.

So what's driving this phenomenal level of growth and momentum? We continue to experience robust consumer demand for our iconic portfolio of Mexican beers with our top 5 brands experiencing solid growth across almost all channels and packaging sizes during the quarter. In addition, we are benefiting from strong sales execution and excellent ongoing support from our wholesalers. The introduction of creative new marketing programs that resonate with consumers, increased investment and enhanced media plans, continued distribution gains across the portfolio for our core brands and package types and the expansion of product offerings like Corona Extra cans, Modelo Especial Chelada and Corona Light draft.

The beer business kicked off the "120 Days of Summer" selling season by posting market share gains during the Cinco de Mayo holiday, led by Corona Extra and Modelo Especial as the #1 and #2 share gainers respectively across all U.S. beer brands.

The new Corona cans have been a hit with consumers. We dedicated significant media support behind the launch with English- and Spanish-language TV throughout the NBA Playoffs, Univision and Comedy Central. We see great opportunity with the can launch as this format currently represents only a small portion of total Corona Extra volume.

Modelo Especial continues to maintain strong momentum as the #2 imported beer in the U.S. and delivered depletion growth of nearly 20% during the first quarter. Modelo Especial launched its first-ever national English-language campaign with targeted programming, including first-round NBA Playoffs on ESPN and TNT. This effort will continue into the summer.

Corona Light draft expanded its launch with 28 new wholesalers in existing markets. We also activated the Kenny Chesney sponsorship during the quarter, which will continue

through September. And I am sure that many of you viewed our new dual-branded Corona Extra, Casa Noble Tequila TV spot leading up to the Cinco holiday, which was aired on a variety of high-profile TV programs. This advertisement drove new distribution of Casa Noble in select on- and off-premise accounts. Overall, the strong results that the beer business achieved in the first quarter are the primary driver of the upward revision to Constellation's EPS guidance for fiscal 2016. As such, we now expect beer volumes to increase mid- to high single digits, which should drive net sales growth of approximately 10% and underlying operating income growth of 13% to 15%. Beer operations continue to run smoothly. The brewery and glass plant expansions are proceeding as planned. All key performance metrics and initiatives for the brewery are on or better than target, with the first incremental 5 million hectoliters of capacity expected to become operational by the end of calendar 2015.

During the first quarter, we achieved high levels of productivity and record capacity utilization at the Nava Brewery, and construction of the second furnace at the glass plant is underway. And we have begun site excavation and installation of utilities for the previously announced incremental brewery capacity expansion from 20 million to 25 million hectoliters.

Overall, I am very pleased with the outstanding commercial and operational performance of the beer business. Given the continued strength of this business, we are currently evaluating plans for our next increment of capacity beyond 25 million hectoliters.

And now I would like to discuss the operational results for our wine and spirits business. During the first quarter, we experienced improving depletion and consumer takeaway trends for our U.S. wine business, posted better-than-expected results in Canada and delivered excellent dollar sales and depletion growth trends for our portfolio of spirit brands. We are benefiting from positive mixed trends across the business. We gained

share of feature and display activity at retail. And we are maintaining IRI volume share in the U.S. wine market. We successfully maintained margins for the wine and spirits business in the first quarter after delivering operating margin expansion of 130 basis points in fiscal 2015. And we remain on track this year to maintain the expanded margin achieved last year. As outlined last quarter, one of our key strategic objectives for this year is to focus our marketing efforts on a subset of our focus brands in order to drive key brands that have scale, higher margin and the greatest growth potential.

Now let me give you a few examples of what we currently have underway. Black Box will be running 2 commercials championing the exceptional value of this premium boxed wine – has to offer. The commercials air this summer and for the first time will run in the fall season as well. Woodbridge by Robert Mondavi kicked off its Moments TV campaign in June and is expected to garner more than 1 billion LDA media impressions through year-end. You can see the spot on channels like HGTV, Lifetime, Travel Channel, Food Network, TLC, Bravo, TBS and E!. We've created a new, fully integrated, digital advertising campaign for Clos du Bois, which is running now through the end of summer to engage consumers with this French-inspired California wine. The quality of our wine brands has also attracted some terrific media attention this spring, with mentions of brands such as Black Box, Kim Crawford, Mark West, Robert Mondavi Winery, Ruffino, The Dreaming Tree and our newest brand, Tom Gore Vineyards in such recognizable publications as fortune.com, Wine Enthusiast, bloomberg.com and E! Online.

Recent ratings further attest to our portfolio's strength, with 90-plus scores coming from the Wine Enthusiast and Wine Spectator for luxury tiers of our Ruffino, Kim Crawford and Ravenswood brands. You may have noticed that beginning with the first quarter, we've changed the composition of our reported Focus Brands in order to better align this disclosure with our current brand priorities and the sales and resource focus for the wine and spirits business. We now have 15 brands that comprise our Focus Brands versus 20

brands previously. Notable additions include 2 of our innovation brands, The Dreaming Tree, an ultra-premium multi-varietal wine which was introduced about 3 years ago in collaboration with singer-songwriter Dave Matthews, and SAVED, a luxury brand inspired by contemporary artist, Scott Campbell, who is perhaps known best as the tattoo artist to the Hollywood stars. And we experienced overall depletion growth of 3.5% for the first quarter, with our Focus Brands growing nearly twice that rate. These results were driven by a number of our fastest-growing brands, including Kim Crawford, Ruffino, Simi, Black Box, Estancia, Clos du Bois, The Dreaming Tree and Woodbridge by Robert Mondavi.

For our spirits portfolio, we experienced excellent net sales growth of 8% and solid depletion trends in the first quarter, driven by Casa Noble Tequila, Paul Masson Grande Amber Brandy and SVEDKA Vodka. Within IRI channels, our dollar sales growth in spirits continued to outperform the market during the quarter.

Now before I turn the call over to David, I would like to provide some context for the cost-effectiveness plan we have initiated as many of you – as you may have seen mentioned in this morning's press release. As we transform our business, it's becoming increasingly important to evolve our organizational structure for sustainable long-term growth in a way that can bring out the best in the business today and at the same time position us to adapt quickly and effectively in responding to future business needs. As such, we have shifted resources and investments to long-term growth opportunities across the business as well as improved efficiency by consolidating and streamlining resources in areas where it makes the most sense. The position changes associated with this initiative will be minimal, but the majority will occur within our wine and spirits business. The objective of this effort is to build the best organization that will enable us to be more agile and effective while unlocking growth potential. David will provide a financial overview of the program in a few minutes.

In closing, I would like to reiterate that everything we do at Constellation Brands is guided by one of our most important strategic imperatives to apply rigorous financial discipline. And our financial discipline involves maintaining our commitment to our capital allocation priorities, which include ongoing debt reduction to less than 4x leverage, potential share repurchases and dividend increases and tuck-in acquisitions like Meiomi, Mark West and Casa Noble.

I would also like to remind everyone that during my tenure as CEO for the last 8 years, our team has created significant value by transforming and simplifying our product portfolio through the rationalization and divestiture of business assets in an effort to premiumize and grow the business. And my plan for the future is to continue to deliver value and generate growth.

With that, I would now like to turn the call over to David Klein for a financial discussion of our first quarter results.

David Klein

Thank you, Rob, and good morning, everyone. I first want to say I'm excited about my new role at Constellation. This is a stellar company with tremendous prospects in a dynamic industry. I believe Constellation offers one of the best combinations of top line growth and profitability in the beverage alcohol space. I look forward to partnering with Rob and the rest of the executive management team as we remain focused on executing Constellation's strategic goals and our capital allocation priorities, as outlined by Rob earlier.

I've had the pleasure of meeting members of the investment community at investor events in my previous roles as Treasurer or as CFO of our beer business. I look forward to spending more time in building relationships with you going forward in my new role.

With that, let me provide some Q1 highlights. Comparable basis diluted EPS was up 18%. We paid out a quarterly common stock dividend for the first time in our history. And the continued robust marketplace momentum for our beer business, along with our agreement to acquire the Meiomi wine brand, are driving our full year comparable basis diluted EPS projection up \$0.10 to a range of \$4.80 to \$5 for fiscal '16.

Let's take a closer look at our Q1 results where my comments will generally focus on comparable basis financial results. Consolidated net sales on a constant currency basis grew 8% for the quarter. We continue to see robust marketplace momentum for our beer business with depletion growth of 10%. Beer net sales increased 11% on volume growth of 10%. Wine and spirits net sales on a constant currency basis increased 4%. This primarily reflects higher shipment volume and favorable mix. Net sales benefited from the overlap of a U.S. distributor inventory destocking, net of a related distributor destocking payment, which occurred during first quarter fiscal 2015.

For the quarter, consolidated gross profit increased \$68 million, up 10%, with gross margin increasing 130 basis points. Beer gross profit increased \$65 million primarily due to volume growth and favorable pricing. Beer gross profit margin increased nearly 2 percentage points to 49.2%. This was driven primarily by pricing and COGS favorability.

Wine and spirits gross profit was up slightly as volume and mix benefits were effectively offset by the overlap of the distributor destocking payment. Gross margin held steady at 40.7% as the benefit from mix and favorable COGS were offset by the overlap of the distributor destocking payment.

Consolidated SG&A for the quarter increased \$18 million. Beer SG&A was up \$16 million primarily due to the higher marketing spend. Due to the factors just mentioned, consolidated operating income increased \$50 million, and consolidated operating margin improved 130 basis points. Beer operating margin increased 170 basis points, while

wine and spirits operating margin held fairly steady.

Interest expense for the quarter was \$78 million, down 10%. The decrease was primarily due to lower average interest rates. At the end of March, our total debt was \$7.3 billion. When factoring in cash on hand, our net debt totaled \$7.2 billion, a decrease of \$51 million since the end of fiscal 2015.

I'd like to take a moment here to note that we're currently in the process of revising our credit agreement to take advantage of the favorable market conditions to extend tenor and ensure our facility is appropriately sized and flexible given the recent growth of our business. Our effective tax rate for the quarter came in at 31.8% and compares to a 32.5% rate last year. The decrease was primarily driven by various favorable tax items. We still anticipate our full year tax rate to approximate 30.5%.

Now let's review free cash flow, which we define as net cash provided by operating activities less capital expenditures. For the first quarter, we generated \$76 million of free cash flow compared to \$101 million for Q1 of last year. Operating cash flow totaled \$206 million versus \$232 million for the prior year quarter. The decrease was primarily due to the timing of interest payments and overlap of a tax refund in Q1 FY '15, partially offset by our earnings growth. CapEx for the quarter totaled \$130 million, which was essentially even with Q1 last year. For fiscal '16, we still expect free cash flow to be in the range of \$100 million to \$200 million. Our projection reflects operating cash flow of \$1.15 billion to \$1.35 billion and CapEx of \$1.05 billion to \$1.15 billion for fiscal '16, which includes \$950 million to \$1.05 billion for beer.

Before reviewing our fiscal '16 P&L outlook, let me provide a few financial comments related to the Meiomis transaction. We expect to finance the \$315 million purchase price with borrowings under our credit agreement. We expect the transaction to close around the beginning of August and to be \$0.03 to \$0.04 accretive to EPS for fiscal '16. We are

only buying the brand, inventory and some great supply contracts, so we expect integration of the brand into our wine and spirits business to be seamless.

Now let's move to our full year fiscal '16 P&L outlook. As mentioned earlier, as a result of the continued strong marketplace performance for our beer business and the expected accretion benefit from Meiomì, we are increasing our comparable basis diluted EPS projection from \$4.80 to \$5 versus our previous \$4.70 to \$4.90 range. The beer business is now targeting mid- to high-single-digit volume growth, net sales growth of approximately 10% and 13% to 15% operating income growth. As a reminder, fiscal '15 beer shipments ran ahead of depletions as distributors brought inventories back to more historical levels. As a result, we expect our fiscal '16 depletion growth rate to be above the shipment growth rate and therefore in the high-single-digit range.

We continue to project beer operating margin to expand and be in the 33% range for fiscal '16. This is expected to be driven primarily by gross margin improvement as we plan to continue to make investments in marketing and our SG&A structure. We expect our beer operating margin to fluctuate throughout the remainder of the year as we start to bring additional brewery capacity online.

During Q2, there will be an annual inflation increase under our Interim Supply Agreement with ABI for the finished beer that they are currently supplying us. For the wine and spirits business, we continue to expect net sales and operating income growth to be in the low- to mid-single-digit range before any benefit from the Meiomì acquisition. Our fiscal '16 comparable basis guidance excludes comparable adjustments, which are detailed in the release. These adjustments include approximately \$20 million of anticipated costs associated with the cost-effectiveness plan outlined by Rob earlier. Cost savings from this initiative are expected to be reinvested in areas of the company that drive growth.

We ended Q1 fiscal '16 with a net debt-to-comparable basis EBITDA leverage ratio of 3.9x.

Even with our projected higher level of CapEx spend, dividend payments and the funding of the Meiomis acquisition, our strong projected earnings and operating cash flow growth have positioned us to be below the 4x leverage range at the end of fiscal '16. Operating below the 4x range, combined with our strong free cash flow generation capabilities, provides a significant financial flexibility, especially as beer CapEx spend normalizes. This flexibility, combined with our continued focus on our significant organic growth opportunities and strong free cash flow generation capabilities, should provide us ample opportunity to increase future returns to shareholders through dividend growth and share buybacks.

With that, we're happy to take your questions.

Question and Answer

Operator

— **Operator Instructions** — Your first question comes from the line of Nik Modi of RBC Capital Markets.

Nik Modi

Congratulations, David. A real question strategically on the wine portfolio. Constellation still has a lot of exposure to the low end of the wine segment despite focusing internal and M&A resources on becoming bigger at the higher end. So I'm just curious, have you guys ever thought about becoming a lot more aggressive on shedding the low end of the portfolio and then taking those proceeds to innovate more at the high end and complement it with more bolt-ons like the one we saw today?

Robert Sands

Yes, Nik. That's something that we have done over the years. We really shed the bulk of the low-end portfolio, I think around – I don't know, 2008, when I became CEO, and

we disposed of the Almaden and Inglenook brands, which were primarily, by that time 5-liter bag-in-the-box which really represents the vast majority of the sub-premium market. Now that said, we do desire to continue to offer a full portfolio of wines to both our wholesale and retail customers because even elements of the sub-premium part of the business remain important. And for us to remain a relevant supplier, we feel that it's strategically important to remain in that business. Now that said, we really do not focus any of our advertising or marketing dollars against those brands and have really shifted almost virtually 100% of those resources against our higher margin – or I should say, high-margin Focus Brands and to drive a positive mix in the business. So that's currently where we stand. We don't have any plans to divest any more of the tail part of the portfolio.

Nik Modi

Great. And then just one real quick one on capital allocation. I know you guys referenced dividends and buybacks. And if you can just provide a little bit more context on buybacks. I mean, can we expect something once the beer CapEx is kind of past its peak or is it something that could happen sooner?

Robert Sands

Go ahead, David.

David Klein

Yes. So as you probably know, we still have about \$700 million remaining under our previously authorized share repurchase program. I would say, as Rob outlined our capital allocation priorities, we do have the brewery buildout underway. We have just recently instituted the dividend. And so I think we need to work our way through those. But yes, we are open to share repurchases once again when the time is right.

Operator

Your next question comes from the line of Bryan Spillane of Bank of America.

Bryan Spillane

Just a question about the beer business. You increased your outlook or raised your outlook for the year. And just simplistically, is that because you tracked better in the first quarter than what you were expecting? In the balance of the year, your plans haven't really changed much. Or is it a function of your – even your outlook for the balance of the year has improved?

Robert Sands

Yes. I think that it's – I think it's both, Bryan. I mean, the beer business volume and dollar growth is tracking well ahead of our expectations. We don't really see a chink in that armor in the rest of the year. So we really don't have any reason to believe at this stage that there'll be a significant slowdown. So that has caused us to realistically raise our guidance on beer growth for the year to 10% net sales.

Bryan Spillane

Okay. And just as a follow-up, the – in terms of the production turning on in Nava, the additional production turning on by the end of the calendar year. Just in terms of milestones, have we started like test batch brewing yet? Is – if you could just kind of update us where we stand now in terms of the milestones on hitting that target?

David Klein

Yes, Bryan. So there's a lot of activity going on in Nava, as you would expect, right? And so the first things that we're going to see that really begin to come online are packaging lines. We don't expect the actual brewhouse to be in a functioning state until closer to the end of the calendar year. But I can say that at this point, everything is going according to plan in the buildout at Nava.

Operator

Your next question comes from the line of Judy Hong of Goldman Sachs.

Judy Hong

So first, just Rob, regarding the CFO transition announcement, and I understand that Bob is obviously not on the call to answer this question. But I guess, the timing was somewhat unexpected for many people. So anything you can share with us in terms of what led to that decision, particularly on the timing issue?

Robert Sands

No. I mean, there's really nothing to share. I mean, obviously, the timing was related to when we had these discussions internally and when, therefore, it was appropriate to make the announcement relative to Bob's departure. So there's really nothing more or less to it than that. Obviously, when the decision was made that Bob was leaving, we had to make an announcement. And I don't really care when that announcement would have been made, it would have seemed as it did at whatever time it was. So – that's pretty much it, Judy.

Judy Hong

Okay. Sorry, David? Okay. So the second question, David, just in terms of the gross margin on the beer side. I mean, certainly, Q1, I think, came in a little bit higher than what we would have anticipated. And I think you commented on some of the fluctuations that you expect throughout the year. But can you give us a little bit more color just in terms of the bridge for Q1 and how that sort of evolved as we get into the balance of the year?

David Klein

Yes. So what you would see year-over-year, Q1-to-Q1, is margin expansion driven by pricing as well as COGS improvement as our procurement team has taken over the procurement activities at the brewery. For the rest of the year – and by the way, the brewery also was operating effectively at capacity in the first quarter, which gives us a better number as well. For the rest of the year, we're going to bring on several packaging lines, we're

going to bring on part of a new warehouse and we're going to bring on the first 5 million hectoliters of brewing capacity. And once we put them in service, meaning we've run beer down the line or beer through the brewhouse for commercial sale, we then put those assets into service, which means we begin depreciation. However, at that point, there's still a lot of work, as you might imagine, that goes into optimizing the lines in the brewhouse and the warehouse. And any of that expense that happens after we put the assets into service falls right to the bottom line as an expense, right? So we expect that that's going to create some of the choppiness for the rest of the year. And then, additionally, as I mentioned in my initial comments, we have an inflation adjustment on the finished goods that we're buying from ABI that actually took effect the first week of June. I think that really kind of bridges us out from the 34.8%, really, to the 33% range, which we've called out.

Judy Hong

Okay. And just a clarification, that also includes some of the packaging procurement savings that you would've seen already or expected to see as you get into the balance of the year?

David Klein

Yes, we've built in – again, our procurement guys have done an outstanding job of really getting us some great benefits. We've built that into the guidance that we've provided for the year.

Operator

Your next question comes from the line of Mark Swartzberg of Stifel Financial.

Mark Swartzberg

Congratulations, David. Two questions, one on the beer side. We saw price mix just shy of 1%, which was a similar number to the last quarter. Could you just speak to not only

your view of that number going forward for you, but also to what – which I presume is largely a mix issue, but why isn't that number stronger? And then how are you – how does that relate to what you're seeing out there in the marketplace from competition? So just some comments on the pricing environment and how you see it playing out for you. And then totally unrelated question is on the – this cost cutting you've announced, which is good to see. Could you give us a little bit of detail on where you expect those savings to come from and to what extent this is sort of a moment in time thing you're doing and to what extent you think you'll be engaging in this sort of thing going forward?

Robert Sands

Yes, Mark. First of all, on your question on price mix. Basically, our plan has – I should say our plan or our view has not changed at all from the year – for the year. We really haven't moved into the season where beer pricing is usually taken, which is in the fall. We will, of course, be looking at the market as we normally do on a market-by-market, case-by-case basis. But we still fully expect that we'll be within our guidance range of 1% to 2% on price mix, so we don't see anything at the moment that would cause us to believe any differently than that. And then your second question?

Mark Swartzberg

Well, the second question was...

Robert Sands

Yes, cost savings from restructuring.

Mark Swartzberg

The cost savings and to what extent — *indiscernible* — you need to do it.

Robert Sands

So we don't expect any material cost savings from the restructuring, really, because that

was more of a streamlining in some areas and a reallocation in other areas. So really, what we've done here is if we've taken a look at the business. We said, "Okay, what areas could use greater efficiencies, streamlining, areas that aren't, I'll say, commercially oriented, aren't directly related to revenue and that we thought could function better as if it – if they were streamlined and made more efficient?" At the same time, we're real-locating resources to what we think are critical revenue and growth-driving areas for the future, Bill Newlands' innovation and growth organization. We're building a big organization or a reasonably large organization under Bill to continue to drive effective growth and innovation. We're also redirecting dollars to the commercial side of the business in the form of brand-building activities, again, that we think will continue to drive organic growth. So we're just being prudent around making sure that we're investing in the right areas of the business for the future.

Mark Swartzberg

And innovation in Chicago specifically are getting a lot of those – that redirection, so to speak in dollars?

Robert Sands

Well, innovation is – yes, and it's not Chicago per se. I mean it's really San Francisco; it's Chicago where our – it's both places where our beer, wine and spirits innovation people are located. And then the commercial side of the business, as I said, we're – we continue to increase our spend in advertising and marketing because we think that it's critical to continue to drive the kind of success that we've had. So in particular, the commercial side of the beer is a very important part of the business for us to continue to invest in because we can't just take our current growth and be penny-wise and dollar-foolish for the future. We have to make sure that we're taking all the right steps to ensure that we're able to maintain this kind of "hit it out of the ballpark" growth that we've been enjoying.

Operator

Our next question comes from the line of Tim Ramey of Pivotal Research Group.

Timothy Ramey

It looked to me – and you sort of alluded to this that the Meiomi acquisition is a lot like the Mark West deal, asset-light, no assets, bulk wine-sourced. Am I correct in that or is that a fair characterization of the business?

Robert Sands

Totally fair characterization of the business. It also enables us to reallocate internally some of our some of our resources against higher-end pinot noir.

Timothy Ramey

Yes, absolutely. I mean, this means higher capacity utilization for your wineries.

Robert Sands

So a lot – yes, a lot of synergies is the bottom line because, as you said, it's – there are no assets other than some existing inventory and the intellectual property. So we're fully capable of continuing to produce the wine in a style that – and this is important, the style that is – have you had the wine?

Timothy Ramey

I have not. I have to give it a try.

Robert Sands

It's an interesting pinot noir. I mean, it didn't become successful as it is because it's a sort of run-of-the-mill product. It's a somewhat unique product for pinot noir in that it's a little heavier and fuller body than I would say your typical California pinot noir in that price point.

Timothy Ramey

Got it. And...

Robert Sands

You'd know something about that, Tim.

Timothy Ramey

I will do more research. And I'm guessing the relevant EBITDA for the \$65 million in sales may not be that big. Do you feel like you can disclose that? Are you basically valuing this off the pro forma EBITDA?

Robert Sands

Yes – no, we really haven't disclosed it, but the purchase price pre-synergies was about 10x the transferred margin. So post-synergies, it's going to be significantly better than that. So it's a real good deal, especially given the growth rate, which was I think 50% in IRI on over 0.5 million cases in the last 12 months. So I mean, a tremendous deal.

Timothy Ramey

If it's anything like Mark West, you'll have a great success.

Robert Sands

Better than Mark West, Tim.

Timothy Ramey

Cool.

Robert Sands

Not that, that wasn't a great one, too.

Operator

Your next question comes from the line of Vivien Azer of Cowen.

Vivien Azer

Congratulations, David. My first question has to do with your beer outlook. Clearly, quite good. I was hoping you could offer a little bit of incremental color in terms of the positive guidance revision, Corona relative to Modelo, please.

David Klein

Yes. I would say in that kind of breakout between Corona and Modelo Especial, I think the interesting thing that we've seen in our portfolio over the recent history has been the growth and acceleration of growth for Corona Extra. A lot of – about 40% of that growth has been driven by the can introduction, which we're very pleased. But again, it's such a large brand that the Corona brand growing is very good for Constellation. And I would say that we still – we expect to continue to see the growth rates that we've been experiencing recently for Modelo Especial. There's no indication that, that brand is slowing down at this time.

Vivien Azer

Terrific. That's helpful. My second question, switching to the wine side of the business. Rob, you outlined a number of commercial initiatives and marketing that's launching around a number of wine brands. So as we think about total company A&P as a percentage of sales, certainly, that stepped up in '15, how should we think about that for fiscal '16, please?

Robert Sands

For this year?

Vivien Azer

Yes, please.

Robert Sands

Yes. I think that we will continue to see 2 things, okay, increased marketing and the concentration of that marketing against a smaller subset of brands. As I mentioned, we have initiated TV marketing at fairly significant rates against Black Box, Woodbridge by Robert Mondavi, for example. And with the way that we can measure very directly now through household-type surveys and pantry studies the impact of our advertising, we believe quite strongly that some of these campaigns, in particular the Black Box and the Mondavi Woodbridge that we have previously tested, is actually not only good for longer-term brand building, but we think that it pays back in the short run with the incremental increase in purchases and consumption that we've seen in the test markets where we've run these ads. So we are expanding that. And I think that what you're seeing basically is our depletion growth, which was in the 3.5% range, which is an acceleration, is indicative that what we're doing is working. And then also from a depletion point of view, which is a little hard to see through our financial results which are shipment-based, we're seeing a pretty significant increase in mix as well against the business. So pretty much, I'd say that what we're doing here is working pretty well. In fact, I think very well. So we're pretty optimistic about the wine and spirits business for the remainder of the year.

Operator

Your next question comes from the line of Caroline Levy of CLSA.

Caroline Levy

Congratulations, David. We look forward to spending more time with you. My question is about the regional performance of the beer business because it seems like, certainly, big beer had a very difficult May from what I understand, and there was quite a bit of out-of-date inventory on the shelves towards the end of May, early June. And maybe that is simply in certain regions, but any detail you could give us on what you saw in your brands and whether you think big brands will hold pricing as you move through the summer?

Robert Sands

Yes. So May was tough for some of our competitors. It was not particularly tough for ourselves. We saw a slight de-acceleration, but it was probably a result of there being one less selling day in the month, which has about a 1/20 or a 5% anticipated impact. June, very strong IRI dollars for our beer business in the 4-week period ending 6/21, up 14% for Constellation's beer business in dollars. So we see no negative impact or unusual occurrence relative to May on our business. But as I said, yes, some of our competitors have found that period to be difficult. And regionally, the answer continues to be no as well. There's nothing going on regionally for us in terms of a shift of geographic mix or we're not seeing an acceleration in some parts of the country and a slowdown in others. Everything is pretty much steady as it goes. So nothing for us. Hence, we increased our guidance now for the year to the 10% sales growth range on the beer business because, as I said in my – in the answer to some of the earlier questions, it's just evident to us that our previous guidance is – was understated relative to current and expected trends for the remainder of the year.

Caroline Levy

That's excellent. Just a quick follow-on. On the cans, there are markets where you've tested them where cans are 6% of mix. Overall, can you give us an idea of where they are now and where you think they could go?

David Klein

Yes. So just kind of to look at quarter-over-quarter, and I'll focus on Corona, because remember, Modelo Especial is a big can brand, right? But the new launch is really focused on Corona Extra. And for Corona Extra, say, first quarter last year, about 3% of our depletions were in cans. And this year, it was about 5%. We clearly believe that we'll continue to see the can momentum build. And we also know, however, that we won't end up with a can mix like the domestic players, but we think we can someday line up maybe more in

line with some of the other import players in terms of their can mix.

Operator

Your next question comes from the line of Rob Ottenstein of Evercore.

Robert Ottenstein

Just back on the cans, while we're on that. Can you give us any sort of sense of – and I know it's a guess, what sort of cannibalization rate you're getting with cans?

Robert Sands

We think the cannibalization rate is fairly low, actually, probably below everybody's expectation. So I don't think we can really know what the cannibalization rate is, by the way, right, because you'd have to say, "Well, okay, glass would've grown at x percent." But for the cans, we can't answer that question necessarily. And so we think the cans are representing, let's put it this way, primarily incremental business. So probably at this like 3% to 5% that we're talking about right now, cans are being used on occasions where glass could not heretofore have been used and, therefore, we think pretty low cannibalization and pretty much incremental growth.

Robert Ottenstein

Okay. And then as my follow-up, it's my understanding that at California, particularly Southern California, represents something like 25% of the business; and Texas, 10%. And I was just very surprised that you didn't apparently see any impact from kind of historically bad weather and rainfalls in those areas. And it's obviously a tribute to the strength and momentum of the business, but I'm just wondering would results have been even better with kind of normal weather in Southern California and Texas?

Robert Sands

Yes, maybe. I would say, yes, I would say we did see a little bit of impact of weather

towards the end of May, but everything just kind of bounced right back in June. So it's kind of hard to say whether there was really any impact from that. Probably, as I said, the Sell Day impact was the greatest impact that we had in May, even though the weather had to have had some kind of effect on a temporary basis on the sales. But we don't think that it was anything material and it certainly hasn't driven any trend change. And to the extent that – I don't know, in Texas, people couldn't get out and buy a beer, they restocked.

Operator

Your final question comes from the line of Bill Chappell of SunTrust.

William Chappell

Welcome, David. Two quick ones. One, just on – back on Meiomi. Should we still kind of expect the kind of one deal a year tuck-in or has the market changed where you're seeing more opportunities out there in the wine space?

Robert Sands

Yes. I think that one deal a year is an overstatement. Let's see, since I've been CEO for the last 8 years, I think we've done 3 deals of that nature. Mark West, Casa Noble and, now, Meiomi. Our strategy hasn't changed. No, we don't – I don't think that there's any more significant deal flow. I wouldn't suggest anything different will occur from a number or timing perspective. We keep our eye open for these kinds of things that come around every once in a while. They're very advantageous, if it's the right thing at the right time. We try to stay away from some of the, I'm going to say, trendier stuff that has a tendency to kind of go up and down. You take Meiomi. You take Mark West. These were classic brands in a category, in this case, pinot noir, which is not trendy but fast-growing and will continue, we believe, to be a fast-growing varietal as people continue to discover pinot noir. And we think taste preferences are, on a long-term basis, changing towards pinot

noir. So Mark West covers sort of the \$10 to \$12 pinot noir range and Meiomi covers sort of the \$20-plus pinot noir range. So that puts us in a really strong position in one of the fastest-growing and most stable segments of wine, which is the pinot noir varietal, in particular. So no, no change in the sort of the frequency or – of those kind of deals.

William Chappell

Okay, that helps. And then, David, just actually housekeeping on tax rates. Tax is higher this quarter. Should it just be closer to the 30.3% for the rest of the year or is there any given quarter where there's kind of a catch-up to get you to that 30.5%?

David Klein

Yes. I think, as you know, our tax rates, our ETR in a given quarter is really driven by the geography of the earnings and our resolution of our various tax issues. So I would say that, for us, we're confident in the 30.5% rate and we don't really have a view on the quarters where the delta will land.

Operator

I will now return the call to Rob Sands for any additional or closing remarks.

Robert Sands

Okay, well, thank you, everyone, for joining our call today. We've covered a lot of ground. But before we go, I want to reiterate how pleased we are with the excellent performance of our business this quarter. Now the team plans to continue to capitalize on the tremendous momentum we have underway in the beer business to drive growth and enhance financial performance. From a wine and spirits perspective, we are gaining traction and we are on track to achieve our goals for the year. I'm also excited about the acquisition of Meiomi wine business, which is an excellent addition to our portfolio. Our fiscal '16 is off to a great start, and we are eager to continue this momentum into our summer selling season. As we head into the Fourth of July holiday weekend, I hope you remember

to bring some of our fine wine products to your celebrations and to please enjoy them responsibly. We will be on the road next week as we begin to introduce David Klein to those of you he has not already met. So I look forward to seeing you.

Operator

Thank you for participating in the Constellation Brands First Quarter Fiscal Year 2016 Earnings Conference Call. You may now disconnect.

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