Constellation Brands Inc, Q3 2024, Earnings Call 2024-01-05

Presentation

Operator

Greetings. Welcome to the Constellation Brands Third Quarter Fiscal Year 2024 Earnings Call. — ***Operator Instructions*** — Please note this call is being recorded. I will now turn the conference over to your host, Joseph Suarez, Senior Vice President of Investor Relations. Thank you. You may begin.

Joseph Suarez

Thank you, Darrell. Good morning, all, and happy new year. Welcome to Constellation Brands Q3 Fiscal 2024 Conference Call. I'm here this morning with Bill Newlands, our CEO; and Garth Hankinson, our CFO. As a reminder, reconciliations between the most directly comparable GAAP measures and any non-GAAP financial measures discussed on this call are included in our news release or otherwise available on the company's website at www.cbrands.com. Please refer to the news release and Constellation's SEC filings for risk factors, which may impact forward-looking statements made on this call. Following the call, we'll also be making available in the Investors section of our company's website, a series of slides with key highlights of the prepared remarks shared by Bill and Garth in today's call.

Before turning the call over to Bill, in line with prior quarters, — ***Operator Instructions*** —, which will help us to end our call on time. Thanks in advance, and now here's Bill.

William Newlands

Thank you, Joe, and congratulations on your recent promotion, and good morning, all. Happy new year to everyone, and welcome to our Q3 fiscal '24 call. I hope you all had a wonderful holiday season and were able to enjoy some of our great products with your family and friends. We have several topics to address on today's call. So let's start with the key takeaways for this quarter.

First, I am pleased to report that our beer business again delivered very strong performance that accelerated throughout Q3. We achieved depletion growth of over 8% for our beer portfolio with a particularly outstanding end to the month of November. We led Thanksgiving beer sales in U.S. tracked channels and continued to see accelerating momentum in the last week of the month, reflecting both ongoing strong consumer demand and restocking after the earlier Thanksgiving holiday this year. And once again, for another entire quarter, we achieved leading share gains in tracked channels with more than 2-point expansion in the U.S. beer category and a nearly 3-point gain in the higher end. This marks the 55th consecutive quarter of depletion growth for our beer business and the tenth leading share gains.

Secondly, in line with our consistent disciplined and balanced approach to capital allocation. We executed $215 million of share repurchases in Q3 while maintaining our net leverage ratio excluding Canopy equity and earnings, unchanged from last quarter at 3.2x. As well as continuing to deliver cash returns through our dividend and advancing our organic growth investments at our Obregon Brewery and new brewery site in Veracruz to support additional production capacity for our beer business.

And thirdly, as noted at our recent Investor Day, over the past few months, our Wine and Spirits business, much like others across the industry has seen a broader marketplace deceleration. In light of these and other near-term headwinds, we are further revising our fiscal '24 organic net sales guidance for Wine and Spirits to be down 7% to 9% and the operating income guidance for that business, excluding gross profit less marketing of brands divested last year to be down 6% to 8%, which I will elaborate on shortly. Of course, we are not pleased with these revisions, and both our leadership team and our Wine and Spirits teams remain fully committed to improving the performance of this business and to achieving its medium-term targets.

In addition, as announced earlier today, Robert Hanson has elected to step down from his role as President of our Wine and Spirits business in a few weeks at the end of the current fiscal year. We have initiated a process to identify a successor for this role, and I will step in to lead the Wine and Spirits business in the interim while, of course, retaining my chief executive oversight across both the enterprise and our beer business.

Despite these revisions and leadership changes, as noted at our recent Investor Day, we continue to believe that over the medium term, our Wine and Spirits business should accelerate its net sales growth to 1% to 3% and improve operating margins to 25% to 26% supported by the significant transformation undertaken over the last few years to better align our portfolio with broader consumer-led premiumization trends, expand our omnichannel capabilities, and extend into targeted international markets.

More importantly, in fiscal '24, we still expect our enterprise comparable EPS guidance, excluding Canopy to remain within our previously stated range of $12 to $12.20. And over the medium term, we continue to expect low double-digit EPS growth, as outlined at our Investor Day. Now let's step through these key points for Q3 in more detail.

As noted, our beer team once again delivered remarkable results. Modelo Especial led the charge, achieving a roughly 12% increase in depletions and remained the leading share-gaining brand in tracked channel dollar sales. Strengthening its position as the #1 beer brand in the U.S. market, having ultimately achieved that top spot now on a 52-week basis.

The broader Modelo brand family also delivered phenomenal results. Cheladas achieved an increase in depletions of approximately 22% year-over-year in Q3 and on a rolling 12-month basis, the combined set of Chelada flavors and pack sizes reached the 20 million case milestone, which is over 350% more than that set of brands was doing just 5 years ago in fiscal ’19. Additionally, Modelo Chelada Especial our original flavor, which was recently launched in a 12 pack, 12-ounce format was a top 15 share gainer in Circana in Q3, and we are excited about the opportunities ahead for our new Chelada flavor and pack size additions. Also, in the Modelo family, Oro continued its strong first year of going national with a third quarter as a top 5 share gainer in the high end. We look forward to the growth opportunities ahead for Oro as awareness grows and we introduce new pack sizes next fiscal year.

Beyond Modelo, our Corona Extra and Pacifico core beer brands continued to perform strongly in Q3. Corona Extra maintained depletion growth at about 1%, while Pacifico delivered an outstanding 19% increase. And on a rolling 12-month basis, Pacifico also reached the 20 million case milestone, double its volume from 5 years ago. In addition, both brands remain top 10 share gainers across the entire U.S. beer market and tracked dollar sales.

Our beer brands clearly continue to resonate strongly with the consumer, and I’m incredibly proud of and thankful to our entire beer team for their consistently strong execution. With that backdrop, we remain confident in our fiscal ’24 net sales growth guidance of 8% to 9% and from an operating income guidance perspective, we now expect our beer business to deliver 7% to 8% growth for fiscal ’24 as we realize additional benefits this year from the marketing effectiveness actions discussed during our Investor Day.

Over the medium term, we still see significant opportunities to continue to achieve net sales growth of 7% to 9% in our beer business supported by the fundamental distribution, innovation and demographic drivers as well as consumer-led trends also discussed at our recent Investor Day as well as to continue to achieve best-in-class operating margins of 39% to 40%, supported by savings and efficiency initiatives across our cost of goods sold, marketing and broader SG&A. And last but not least, we continue to support the growth of our beer business through modular investments in brewing capacity and productivity initiatives to unlock further production upside.

Moving on to the Wine and Spirits business. As noted earlier, our Wine and Spirits business is operating amid a broader marketplace deceleration. As we have shared in recent quarters, we are actively working to address mainstream headwinds affecting our 2 largest volume brands, Woodridge and SVEDKA. However, we anticipate these efforts to extend beyond fiscal ’24. More broadly, while we are maintaining a disciplined approach to taking price across our portfolio, the competitive environment is now adding pressure with more aggressive discounting and price points beyond mainstream.

Again, we believe the broader deceleration in these higher-end categories to be temporary and have continued to execute strategic pricing actions instead of implementing reductions like certain competitors. In addition, we have made the decision to adjust some aspects of our U.S. wholesale distributor agreements, focused on improving mix, inventory and state and channel level sales execution. We are actively engaged with our largest distributor partner to ensure that our portfolio continues to make progress against our vision of leading the higher end as well as on the revitalization of our mainstream brands.

From an international perspective, while we experienced a decline in the quarter driven by previously noted weakness in our more mature markets, inventory levels in Canada, our largest export market, seem to now be normalizing following the destocking from recent changes to inventory regulations, so we anticipate more balanced supply-and-demand dynamics for this market going forward. Importantly, despite the impact of these near-term headwinds on organic net sales, our prudent pricing and cost efficiency efforts enabled margin improvement for Wine and Spirits in Q3. Beyond these near-term challenges, our focus remains on driving growth across our higher-end brands.

As shared during Investor Day, over the last few years, our Wine and Spirits business has established a stronger foundation to advance toward these targets. Since fiscal ’19, we have doubled the number of fine wine and craft spirits brands in our portfolio, and we have invested and expanded our footprint in higher-growth DTC channels and targeted international markets. With our structural transformation securely in place, I want to thank Robert Hanson for his contributions over many years including initially as a nonexecutive member of the Board. We wish Robert well and all the best in his future endeavors and look forward to announcing the appointment of our next Wine and Spirits business President in the near future.

Lastly, I’d like to emphasize again our unwavering commitment to our consistent, balanced and disciplined approach to capital allocation. As noted at our Investor Day event, we continue to target a strong balance sheet that supports our investment-grade rating, and we are working toward a net leverage ratio of 3x, which we expect to achieve within fiscal ’25. We expect to maintain a dividend payout ratio of approximately 30%, supporting continued growth of our dividend per share in line with our earnings expectations.

We plan to invest approximately $5 billion in growth and maintenance CapEx from fiscal ’24 to fiscal ’28 primarily focused on brewing capacity expansions for our beer business. We continue to opportunistically buy back shares with $215 million repurchased in Q3, which leaves us with an additional $2.6 billion still within our existing share repurchase authorization. And finally, we continue to look at tuck-in gap-filling M&A opportunities with a highly rigorous transaction criteria.

So to close, let’s go back to the key takeaways for the quarter. First, we have a beer portfolio and team that consistently delivers industry-leading performance and we see significant opportunities, as outlined at our Investor Day to continue to drive similarly strong growth over the medium term. Second, we remain committed to delivering value to our shareholders through consistent execution of our balanced and disciplined capital allocation priorities. And third, our Wine and Spirits business is focused on realizing net sales growth and improved operating margins by leveraging its reshaped higher-end leaning portfolio as well as our enhanced DTC channel and international market footprints and capability. And lastly and importantly, we continue to expect our enterprise comparable EPS guidance in fiscal '24, excluding Canopy, to remain within our previously stated range of $12 to $12.20 and over the medium term, we continue to expect low double-digit EPS growth, as we outlined at our Investor Day.

And with that, I will now turn the call over to Garth, who will review our financial results in greater detail. Garth?

Garth Hankinson

Thank you, Bill, and good morning, everyone. As usual, my discussion on our financial performance will mainly focus on comparable basis results and stepping through our P&L. However, as of this quarter, we will discuss enterprise results, followed by business segment detail to better address our performance against the outlook shared at our Investor Day at these different levels. Beginning with net sales. We achieved enterprise-wide top line growth of 1% for the quarter. This was the result of solid beer net sales growth of 4%, partially offset by the Wine and Spirits net sales decline of 8%. Wine and Spirits net sales decline was 7% on an organic basis.

As Bill noted, beer business depletions for the quarter were above 8% as the year-over-year growth momentum from summer continued through the fall, supported by ongoing strong consumer demand of our portfolio. Again, we saw a particular acceleration in depletion volumes at the end of November as we extended our leadership across key holidays with outstanding performance during U.S. Thanksgiving. Our on-premise channel realized modest growth in depletions of about 1% for Q3 and accounted for approximately 11% of our total volumes as we've been able to replenish inventories following the keg disruption over the summer and began to advance growth and draft performance in the on-premise.

Shipment volumes for beer business grew 3.4%, and we achieved favorable pricing slightly above 1% as we began to lap the elevated pricing increases from last fall. These volume and pricing uplifts were partially offset by a shift in packaging mix. Altogether, these year-over-year shipment, pricing and mix changes drove the 4% or approximately $77 million increase in beer net sales for the quarter.

For our Wine and Spirits business, Organic net sales declined 7%, driven by lower shipment volumes due to the previously referenced category headwinds and the change in our process aimed at aligning shipments and depletions. As a reminder, per prior calls this year, we now make quarterly shipment adjustments to align with depletions versus our former practice of only doing 1 annual adjustment in the fourth fiscal quarter. We believe this process change has partially driven less favorable comparisons for the first 3 quarters of fiscal 2024.

Now shifting to operating margins. For Q3, enterprise-wide operating income increased 7%, and operating margin increased 170 basis points to 32.3%. This was primarily a result of an increase in operating income of 7% for our beer business, which also drove a 100-basis point increase in beer business operating margin to 38.5%. Enterprise-wide operating margins also benefited from a 13% reduction in corporate expense. These beer business and corporate expense tailwinds were partially offset by a 5% decrease in our Wine and Spirits business operating income, which still yielded a 60-basis point increase in operating margin to 25.4% for the Wine and Spirits business. Excluding the gross profit less marketing of the brands that are no longer part of the business following their divestiture, operating income and operating margin for the Wine and Spirits business decreased by 4% and increased by 80 basis points, respectively.

Stepping through these drivers in more detail, starting with beer. The increase in operating income and margin were a result of benefits in cost of products sold as we continue to build cost efficiency and productivity savings. For the quarter, total cost savings were approximately $55 million, an $11 million or a 6% decrease in marketing costs as a result of shifts in timing of spend. Note, that marketing as a percent of net sales was 8.7% for the quarter. A $4 million decrease in SG&A expense, primarily driven by lower legal fees, partially offset by higher compensation and benefit expenses, and $6 million of favorability from the divestiture of our craft beer business.

These benefits were partially offset by a $12 million unfavorable foreign currency impact as we still realized a higher Mexican peso rate year-over-year, inclusive of our multiyear hedging positions. Additionally, in line with our full year expectations and guidance we are still facing higher costs in our packaging and raw materials, which resulted in a $17 million headwind for the quarter. We have also faced an $11 million increase in depreciation as a result of our capacity expansions.

The reduction in our corporate expense, which for the quarter was $10 million, was primarily driven by the reduction in third-party services, particularly in our digital business acceleration investments partially offset by increased compensation and benefits. Our Wine and Spirits operating income margin, excluding the gross profit less marketing of the brands that are no longer part of the business following last year's divestiture had a year-over-year improvement as the volume declines and unfavorable mix were more than offset by reduced logistics and warehousing costs, favorable SG&A costs due to reduced third-party consulting expenses, and lower compensation and benefits, more favorable material costs driven by our cost savings initiatives and reduced marketing expense as we continue to shift our marketing focus towards more efficient, high-return efforts.

Interest expense for the quarter was approximately $104 million, driven by higher average borrowings and higher weighted average interest rates. As a reminder, approximately 5% of our debt obligations are subject to adjustable rates. As Bill noted, we ended the quarter with a net leverage ratio of approximately 3.2x excluding Canopy equity and earnings and remain on track to reach our target goal of 3x within fiscal 2025. Our comparable effective tax rate, excluding Canopy equity and earnings for the quarter was 18% versus 18.8% last year. Our comparable EPS for the quarter, excluding Canopy equity and earnings, was $3.24, reflecting the consistent growth of our business and representing an 8% increase.

Moving to free cash flow, which we define as net cash provided by operating activities less CapEx. We generated free cash flow of $1.4 billion through the first 3 quarters of fiscal 2024, a 10% decrease driven by a 33% increase in CapEx investments attributable to the expansions at our existing Obregon facility and the construction of our new brewery located in Veracruz.

As we look towards the end of fiscal ’24, our guidance for enterprise comparable EPS, excluding Canopy equity and earnings, remains unchanged at $12 to $12.20, underpinned by the following expectations. First, an unchanged 8% to 9% net sales growth outlook but a higher 7% to 8% operating income growth expectation for our beer business. As stated in our prior calls this year and at our recent Investor Day event for our beer net sales, we continue to expect pricing to be between 1% to 2% and mid- to high single-digit volume growth in fiscal ’24. And we still anticipate shipment volumes for the second half to account for approximately 45% of the full year total. Bill already addressed the drivers of the uplift in our beer operating income growth guidance but it’s also important to note that we still expect beer operating margin to be approximately 38% for the full year.

Second, for our Wine and Spirits business, we now expect a decline of 7% to 9% in organic net sales and a decline of 6% to 8% in operating income, excluding the impact of the divested wine brands that are no longer part of our results. Bill also already addressed the drivers for these revisions. Third, from a corporate expense perspective, we now expect that to be approximately $260 million to $270 million for the full year, which includes a slightly lower end to the range versus our prior expectation. And similarly, our interest expense expectations are now slightly lower at approximately $450 million. And last but not least, we continue to expect our comparable effective tax rate, excluding Canopy, to be approximately 19% and despite the additional $215 million of share repurchases executed in the third quarter, we also continue to anticipate weighted average diluted shares outstanding to be approximately 184 million.

Beyond the P&L, for free cash flow, we expect to be in the range of $1.4 billion to $1.5 billion for fiscal ’24, reflective of $2.6 billion to $2.8 billion in operating cash flow and $1.2 billion to $1.3 billion of CapEx.

In closing, we continue to deliver industry-leading results in our beer business and remain confident in our ability to achieve our stated EPS targets for this fiscal year despite incremental category headwinds affecting our Wine and Spirits business. As we look further ahead, we remain excited about continuing opportunities to build shareholder value over the medium term which we hope to achieve by capturing the substantial growth opportunities that exist for our beer business, executing against our consistent, disciplined and balanced capital allocation priorities and delivering enhanced performance in Wine and Spirits, supported by the significant transformation that business has undergone and the actions that we are taking to improve this business.

We encourage existing and prospective shareholders who have not yet had an opportunity to review our recent Investor Day presentations to access those through our Investor

Relations website, ir.cbrands.com, to gain further insights into our medium-term perspective on these topics. And with that, Bill and I are happy to take your questions.

Question and Answer

Operator

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

Nik Modi

So Bill, maybe you can provide some context. Obviously, you provided a few intra-quarter updates, one at the Analyst Day and one at the Morgan Stanley conference. Just regarding both the beer and Wine and Spirits business. And obviously, things came out a little bit differently. So I was hoping you can just kind of give us a perspective on what exactly happened to cause some of the delta? And if some of the clarity or perspective you gave us around the gaps between scanner data and your actual results, how we should think about that because I'm sure that's going to be something we're all going to have to start thinking about over the next couple of weeks.

William Newlands

Sure. Thanks, Nik. And again, happy to new year to you. As we said in our prepared remarks, we're obviously very pleased with our beer business in Q3 and we are particularly happy with the strong acceleration in the momentum that sort of came out of November. Interestingly enough, the delta between Circana and our numbers sort of changed about the minute Garth stopped speaking at the conference in November. So that was always interesting how that works. As we've noted, we expect about 45% of our beer business volumes will be achieved in H2, which is in line with the normal seasonality of that business.

And for Q4 specifically, we expect those shipments and depletes will end up being about 20% to 21% of our total fiscal year volumes. But we also expect that we're going to continue to drive mid to high single-digit volume growth annually, which is consistent with the depletion performance that we've now achieved for over a decade. And again, that's consistent with what we've also said, 1% to 2% annual average pricing increases, which supports the 7% to 9% annual net sales algorithm that we've said we will do in the medium term.

On the Wine and Spirits side, obviously, we're further revising our guidance down, was not a decision we took lightly, and we're certainly not happy about it. We examined numerous scenarios and ultimately determined the adjustment was really needed to reflect a number of things: The broader category deceleration and other factors that affected our performance including gaps from our prior U.S. wholesale expectations that we're actively addressing with our distributor partners and importantly, while making sure we maintain an appropriate inventory level for the remainder of this year, setting ourselves in good position to see sequential improvement in fiscal '25.

Of course, as I said, we're not pleased with these revisions, and neither is our leadership team nor our Wine and Spirits team, but we're certainly committed to improving that performance in the medium term and expect that our net sales and operating margin targets will be consistent with what we said at Investor Day.

As you've also seen, I'm going to be temporarily taking over that business, and I will be spending a fair amount of time with the Wine and Spirits division as we work through the process of appointing a new leader, which we have already started considering both internal and external candidates. As you probably know better than many, I spent several years of my career within the Wine and Spirits categories, and I look forward to working more closely with that team in the interim, particularly as that business turns its focus toward enhancing operational effectiveness and marketplace execution to build on the reconstituted higher-end portfolio and organizational structure that we put in place over the last few years.

But ultimately, and I'd like to, Nik, reiterate this one more time. In fiscal '24, we still expect our enterprise EPS guidance to remain within our previously stated range of $12 to $12.20 and over the medium term, we also continue to expect low digit EPS growth, as outlined at Investor Day. Hopefully, that gives you some good perspective on those elements you asked about.

Operator

Our next question comes from the line of Bonnie Herzog with Goldman Sachs.

Bonnie Herzog

All right. I wanted to drill down a bit more on your beer margins. Bill and Garth, you raised your fiscal year beer operating income growth guidance. But this does still imply very low op margins in Q4. So I guess I'd like to better understand the drivers of this. And really how much visibility you have in terms of whether it's your marketing expense or commodities, hedges, et cetera, for the rest of this fiscal year. And then possibly any color on how margins should be phasing next fiscal year would be helpful.

Garth Hankinson

Yes, well Bonnie just to start on the question for next fiscal year, obviously, we'll give guidance on next fiscal year at our next conference call in April. But as it relates to margins this year, I mean, obviously, margins are progressing in line with what our expectations are. And what you saw in the third quarter, well this is the first time from a year-over-year perspective where we had margin improvement which again is what we expected at the outset of the year. What we've always said about margins is, and this ties back to what we've said about volumes and shipments and depletions is 55% of our activity will occur in the first half of the year and 45% in the second half of the year. And in Q4, specific to your question on Q4, that it's always typically one of our lower shipping quarters. And so therefore, margins are lower just by virtue of reduced throughput through our facilities.

On top of that, we continue to have increasing depreciation costs that we referenced during our prepared remarks. But as I say, I mean, we do expect that Q4 margins this year will be better than they were of last year, continuing the trend of year-over-year improvement and which, obviously, we feel confident about our ability to get back into our 39% to 40% range as we went into very good detail at our Investor Day.

Operator

Our next question comes from the line of Kaumil Gajrawala with Jefferies.

Kaumil Gajrawala

You're depleting, right now, you had a run rate of about 8% or I guess you did 8% for the quarter. There's expectations for some pretty good shelf space gains in April. Could you give some context on what that might mean for a pickup in depletion?

William Newlands

Well, here's what I'd say about that. As we said earlier, we were very pleased with the 8.2% that we got in the quarter. And we finished November very, very strong. And certainly, we're up, as you would have expected, that strong performance in late November continued into December. So we're very excited about our ability to continue to see exceptional depletions as we move into this calendar year and soon into the new fiscal year. The important thing to me is we continue to gain share.

Our 2 share point gains that you saw in the overall category, nearly 3 in the high end continue to be industry-leading and are frankly, an acceleration of what our share gains had been earlier in the year. So we're very comfortable again, 7% to 9% top line driven by mid-plus single-digit growth profile, which we've said we see the runway on that for a long time to come. And certainly, this quarter and certainly, our expectations for the rest of the year are consistent with that.

Operator

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

Bryan Spillane

I wanted to go back, Bill, and just ask a bit about the management transition in Wine and Spirits. And I guess, a, what are you looking for? Like what are the attributes or the skill set that you think is needed? And then if you could just maybe separate how much of the focus on wine or how much of the improvement path is going to be dependent on uncontrollables. So just the category improving? And how much of it is you think things that are controllable, things that execution elements or things that Constellation can do to improve.

William Newlands

Sure. Thanks for the question, Bryan. I'd say this, our transformation of that business is largely complete. As we've said now a number of times, it's a very different business than what it was several years ago, even though we still have a fair amount of business in the lower end of the business. What I would say is this. We will be focused on an individual who can bring great operating efficiencies and execution in the marketplace.

We think it's critically important that we improve our wholesale performance in the United States, and we think there's going to be continuing opportunities for us to perform very well in DTC and international channels as we have developed that business over the last couple of years. All of those things, I would argue, are well within our control. A lot of work is being done on the mainstream portion of the business, particularly on SVEDKA and Woodbridge to enhance the performance of those businesses. I think that will – you will start to see that play out in the new fiscal year.

And we believe that – we believe some of the softening that's occurred in the overall business is transitory and will come back our way. Given the real strength that we've seen in our higher-end business like Meiomi and Kim Crawford and the Prisoner and Mi CAMPO and things of that nature. So I'm always of the belief that a significant portion of your results are really within your control. And we're going to focus on those critical factors that improve our business performance as we head into the new fiscal year.

Operator

Our next question comes from the line of Nadine Sarwat with Bernstein.

Nadine Sarwat

A 2-parter for me. First, you obviously have posted really good beer depletions this quarter. But looking at 2023 for the overall industry, U.S. beer has been weaker than the historical plus or minus 1% that we've seen over the last decade. I'd love to hear your thoughts in your experience why you think that is. Any key takeaways to share on the health of the consumer? And what would you expect to see for the industry as a whole in '24?

And then finally, just to come back to Wine and Spirits again, good to hear you reiterating that medium-term growth algorithm you disclosed at the Investor Day. But would it be possible for you to share more details as to how – where that conviction in achieving that is, given the guidance cut today? Any building blocks? I appreciate the initiatives you mentioned but clearly, the gap between the guidance for this fiscal year, and that medium growth algo is quite big now. So any color would be appreciated.

William Newlands

Sure. So let's start with the overall beer market. One of the things that we've seen, and it’s accelerated a bit, is the separation between the low end and the high end in the beer market. The high end continues to be where the strength is, and we continue to be the leader in the high end, gaining almost 3 share points in the most recent period.

Part of that is driven, I think, by a couple of things. One is we have such a strong base with the Hispanic consumer, where beer remains a critical part of their consumption pattern. Our brands have great brand loyalty and again, that’s very valuable to us as time goes forward. But one of the things that we also noted – let’s take the light beer category. While there’s been a lot of movement within that category within brands. The overall sector is not overly healthy. It’s down. And we’ve noted that continuously.

So I think the important part as you think about the overall beer sector is to look at it bifurcated. The low end has not been successful and has been challenged on a volumetric basis, but the high end continues to perform well, and we’re fortunate that we are leading at the high end.

As it relates to the Wine and Spirits, what I’d like to do on that particular point, given I’m about to do a major deep dive into that business is we’ll come back to you with more details on where we see our progress going to occur in that particular business when we do our next earnings call at the beginning of the new fiscal year.

What I would say is this, we’re going to be focused – very, very focused on execution and working closely with our distribution partners to make sure that we are outperforming the categories in which we play through our distributor network. That’s going to be an important part of our ongoing success going forward, and it will be a critical part of where I’m spending my time.

Operator

Our next question comes from the line of Chris Carey with Wells Fargo.

Christopher Carey

Garth, the beer savings number that you called out, which I believe was $55 million, is a big number, certainly in the context of the savings targets through fiscal ’28 that you laid out at Investor Day. And so I guess, are you pulling forward savings into fiscal’24 from other years or are you perhaps just getting better at the ability to drive savings in the near term and perhaps we should be thinking about over-delivery or maybe just building more confidence in your ability to hit those targets over time. So again, I’m just trying to get some context for your self-help capacity in the beer gross margin, which was quite strong this quarter.

Garth Hankinson

Chris, thanks for the question. And I guess the short answer to your question is no, we’re not pulling anything forward from future years in FY ’24. I do think that what you’re seeing this year is a continuation of a couple of things. One which we detailed at Investor Day, which is the shift from us from being builders of breweries to operators of breweries. And so we’re getting more efficient, where we’re doing a better job from an end-to-end supply chain. And that’s what gave us the confidence, not just in this year, but – and the cost savings targets that we laid out at Investor Day.

Another thing where we’re seeing benefits from is out of our digital business acceleration activities, which have been coupled with the discipline that we’re creating on an end-to-end supply chain, and it’s driven significant savings in a whole host of areas as it relates to procurement. So again, it is somewhat new muscle that we’re building really more in an extension of existing muscle as we, again, migrate from being builders to operators.

Operator

Our next question comes from the line of Dara Mohsenian with Morgan Stanley.

Dara Mohsenian

Just 2 follow-ups. Probably a mix question, just first on beer just to understand the strength in depletions at the end of the quarter. Is that more underlying strength? Was there anything timing related there? Has it continued in December? Should we look at sort of the 8% result in the quarter as sort of a true underlying gauge of the business, at least short term, understanding that's not the guidance, but how should we think about that?

And I know it's tough to talk about the gap versus scanner data. Obviously, it bounces around. But just any specific thoughts on what that could be going forward? And then I also have a wine question, if I can follow up on that.

William Newlands

Dara, why don't you do that right away because usually, once you ask your question, you don't have further access. What's your wine question?

Dara Mohsenian

I mean just look, the comments on the revision were helpful and the longer-term portfolio transformation. But at the risk of being blunt, it's been sort of years of disappointment on that business. It's a pretty large negative revision after Analyst Day in a short period of time. So I just wanted to hear a little more about the response, Bill, and how you might manage that business differently from a strategic lens longer term, perhaps a greater focus on productivity or whatever the changes are.

But how do you sort of think about managing the business differently and maybe how it fits in the portfolio just juxtaposition versus what's a very attractive beer business as we saw again this morning from a growth and margin standpoint.

William Newlands

Sure. So let's cover the first one initially about the depletions coming out of the quarter. Obviously, there's always a little bit of benefit when you have an early Thanksgiving because you give retailers a chance to restock after Thanksgiving. But let's make no mistake, the takeout that we had around the Thanksgiving holiday was exceptional which you wouldn't get a great restocking if you didn't have an exceptional takeout period. And obviously, we're very pleased to see without going into specifics that the strong November is playing into December as we expected it would because the underlying trends for our business remain very strong. And as I stated in an earlier question, our actual share gains have accelerated during the course of the year, which I think is very positive as well relative to our continuing success in that business.

As it relates to wine, as I said before, the thing that we were most concerned about coming out of this particular quarter is that we end our year in an appropriate inventory position and that we are preparing ourselves to work closely with our wholesale distributor partners to accelerate that business going forward so that we are winning in the categories and channels in which we participate. We've got a lot of work to do there, but we continue to believe the strategy work that's been done over the past few years to reposition our portfolio much more to the higher end is going to pay dividends and that as – and again, as I said, I think to Nadine a moment ago, I'll come back with some more specific thinking. We're going to do, as you can understand, a fairly deep dive into that business, and I'll have some more thoughts on that as we get to our next call.

Garth Hankinson

And Dara, as it relates to the gaps in Circana versus depletions. And as you mentioned in your question, it can be a bit difficult to draw parallels between the two. Look, for the balance of the year – for at least the balance of the year going forward, we'll give updates on this as we see fit. But I think you still have to think about that gap being in the mid-single digits.

That being said, I'll kind of remind everybody of the comments we made at your conference last month, which is we think that looking at that syndicated consumer takeaway data is really best to gauge long-term trends as well as relative performance. Just as a reminder, for our own business, Circana only picks up 50% of our total volumes. And there are certainly gaps between the volume growth of different tracked channel data providers. And importantly, you don't see things picked up per se as it relates to differences in time periods, meaning there can be shifts between key weekends or holidays between period-to-period that make it hard to tie depletions with the Circana data. So again, this is not – we don't use the syndicated consumer takeaway data the way that you do, and that's why we say it's not necessarily the best way to gauge our business.

Operator

Our next question comes from the line of Andrea Teixeira with JPMorgan.

Andrea Teixeira

So with your comments just now on the cadence of the quarter and into the fourth quarter. I wonder why you haven't raised guidance for being the **—** ***indiscernible*** **—** in terms of top line? And the second part of your – question, looking ahead into the spring, how much you would expect that – the shelf resets on the back of this strength will come – will structure you for that type of 7% to 9% algorithm.

William Newlands

Well, let's start with the second question first. We were quite pleased with the more limited changes that occurred on the shelf sets in the back half of last calendar year. But we're expecting significant gains, greater than our growth profile here as we get to the spring resets.

You would notice that we fully expect that we're going to finish our year in a very strong performance. You will note that we raised the bottom of our guidance, as Garth noted, and I think I noted in my remarks as well, so we actually have raised our expectations around the income side and of course, that translates through into better cash and various other things, as Garth noted.

So I think you should take away what I – hopefully, we were trying to portray, which is our business continues to deliver exactly what we've told you what we would deliver on the beer side, 7% to 9% top line growth and strong bottom operating growth to match. And certainly, I think our depletion rate coming out of Q3 reflects that strength.

Operator

Our next question comes from the line of Rob Ottenstein with Evercore.

Robert Ottenstein

Great, 2 questions. First, so wondering if you could talk a little bit about pricing? I know that you're talking about 1% to 2%, it was 1% here. So kind of 2 parts to this. One, what is the kind of the general environment for pricing in the beer industry now, the sense that you get? And second, I know that you do kind of a sporadic pricing. So it's a lot of the country is 0 and then certain parts is maybe 4% or 5%, and so then it averages out 1% to 2%. Can you talk a little bit about kind of the timing of your price increases? My understanding that your major competitors are pricing at the end of January and the beginning of February. So how does your pricing fit into that? So that's question number one.

And then question number 2 is kind of hearing a little bit, reading about an innovation, Corona Sunbrew. I think Sunbrew is citrus, that's off to a good start. I was wondering if you could talk a little bit more about that.

William Newlands

Sure. Obviously, I'm not going to comment on competitor pricing. But what I would say, Robert, is, look, we said early on. And in fact, some of you have probably question Garth and I on occasion about it that we believe that 1% to 2% was the right approach. We've done that historically for – over the long run. We were a little bit higher than that during the really high inflationary time frame around COVID, which we fully acknowledged and recognized but I go back to what we've always said, which is we really want to keep our consumer. It's a whole lot more expensive if you chase them off and have to go reacquire a consumer than it is to never lose them in the first place. And the 1% to 2% algorithm has proven very solid for us over the long term, and it's one that we're going to continue. I think certainly, you see in other categories, people being careful about pricing. And I think that reflects just an understanding of where the consumer may or may not be in various categories.

As it relates to innovation, Sunbrew is coming. We plan to talk mainly about that at our introduction for that, which will occur at the beginning of March. So I'm not going to spill all the beans on it, but we're particularly excited about that. We think it's going to be, again, another very interesting new product launch for our company on the heels of very successful Oro launch and very successful Aguas Frescas launch that has occurred in Modelo, which, as you know, is also expanding here in the coming years. So please stay tuned on that one. But I think we're very optimistic that, that provides some great opportunity in the Corona franchise.

Operator

Our next question comes from the line of Lauren Lieberman with Barclays.

Lauren Lieberman

I know we've covered a lot of ground, but I was hoping you could just touch on the improved cash flow outlook for the year because it's a pretty material change and exciting. So just wondering if you could talk a little bit about the key drivers on that uptick in outlook.

Garth Hankinson

Yes. Thanks, Lauren. Like – so there are obviously a few drivers of the change in cash flow. And obviously, I think that seeing the increase in cash flow just goes to further evidence the very disciplined approach we take to managing the cash of the company. Obviously, some of the drivers there will include things like the increase in beer margin – or I should say, beer operating income that Bill referenced in his remarks. There, obviously, will be some favorability in the taxes that I referenced in my remarks. As well as some other favorability on things like tax rate there or taxes and things of that nature. But our – but those are the primary drivers.

Operator

Our next question comes from the line of Filippo Falorni with Citi.

Filippo Falorni

I wanted to go back to the on-premise channel for the beer business. I think, Garth, you mentioned, it grew about 1% in the quarter. I was wondering if there's any more to recover from the keg issue that you guys had and then if you think about next fiscal year, we talked a lot about the opportunity to gain share in off-premise. But can you comment on your ability to gain tap handles and gain more distribution in on-premise channel as well?

William Newlands

Yes, you bet. As we said, we had some temporary impact around kegs, which was largely in Q2 of this year. But I think it is important to point out that last year, both Modelo Especial and Pacifico, were the #1 and #2 share gainers in draft despite some of those temporary issues. It remains a great opportunity for us when you think about it, I mean let's use an example.

Modelo Especial is #5 on draft but is the #1 beer by dollars in this country. But it's certainly – it's not #1 in the on-premise at this point. Again, a great opportunity. So interestingly, Corona Extra is the #1 packaged beer on-premise but again, still having opportunity in the draft side. So we continue to think that draft is going to be an opportunity for us as one of the growth drivers for us going forward.

And Pacifico is a great example, even though it was the #2 gainer, when you see just the real acceleration you have in that brand, I think there remains opportunities for both Modelo Especial and Pacifico in particular, in the on-premise. And I certainly would hope to see both of those brands maintaining their #1 share-gainer status as we get into this calendar year.

Operator
Our next question comes from the line of Gerald Pascarelli with Wedbush.

Gerald Pascarelli
I just had a question on your measured versus non-measured channels within beer. So like if we look at Nielsen, your price mix has moderated at retail. It looks to be currently running right in line with the midpoint of your 1% to 2% target. So if we compare this to non-measured channels, just curious if you've seen any near-term moderation in pricing? And if not, would you maybe expect trends to become a little more aligned as we look out over the near term?

William Newlands
I think by and large, the answer to your question is yes, that those are usually reflective. We don't see a lot of variation amongst channels on that particular thing. Although you do have some very big markets that are not generally covered by some of those tracked channels, New York being an interesting one.

So you do see some variation from time to time, but we don't expect that to be significant moving forward about what's the tracked versus what the non-tracked channels look like.

Garth Hankinson

And the moderation that you referenced is really just attributable to the lapping of the incremental pricing that we took in — ***indiscernible*** — of last year.

William Newlands

Absolutely.

Operator

Our next question comes from the line of Peter Grom with UBS.

Peter Grom

So Garth, I may have missed this, but is the expectation still for beer depletions and shipments to be roughly equal for the year? And then I think it was mentioned that shipments in the fourth quarter would be around 20% to 21% of full year shipments. Is that quarterly mix similar for depletions as well. Just we've seen a lot of changes in quarterly mix over the past few years that have resulted in differences in growth rates between depletions and shipments. So just trying to understand how we should think about it specifically for the fourth quarter.

Garth Hankinson

Yes. So on shipments and depletions, yes, those should be largely in line with one another for a full year that's consistent with how we operate the business every year. And from a Q4 timing as it relates to shipments and depletions, yes, both of those are in that 20% to 21% range that Bill referenced earlier.

Operator

Our next question comes from the line of Andrew Strelzik with BMO.

Andrew Strelzik

Thanks for taking the questions. Mine is about the competitive and promotional environment in beer, you've talked about your expectations on shelf space gains in the spring, the lighter spread between light and premium beer and even some of the pricing dynamics in wine. So just curious then what you're seeing across the competitive set now, how you're expecting that to evolve as the year progresses next year? And maybe any plans or programs or levers should the environment intensify?

William Newlands

Certainly. We expect the promotional environment to be fairly consistent with what usually is, we don't think there's going to be any radical changes around that topic. I think a lot of it goes back to what we've often said, which is the velocities that we have on our brands are superb. And obviously, at the end of the day, the retail environment is very interested in having brands focused on those that deliver outstanding velocities and sales per point of distribution.

We shared at our Investor Day that our sales per point of distribution is radically better than the competition. And I think that's going to continue to serve us well, especially when you consider the strong brand loyalty that we have with consumers. As we've also said on numerous occasions, our judicious 1% to 2% pricing actions, we don't pull back on our pricing in the marketplace, which I think is important also. So when we make those commitments of 1% to 2%, that's what we deliver.

Operator

Our next question comes from the line of Will Kirk with ROTH.

William Kirk

Just one for me, maybe for Garth. I heard the comment about $17 million higher in packaging and material costs for beer. I think that's the lowest year-over-year increase in some time. So is that the low level of inflation you'd be expecting there going forward? Or is deflation on those items even possible in calendar 2024? And I guess separately, it will probably be in the 10-Q later, but was – the transportation cost line for beer, was that deflationary year-over-year in the period?

Garth Hankinson

Yes. So as we said all year long, we would start to see benefits from easing inflation as we move through the year. And obviously, we saw that in Q3. Going forward, you asked the question around whether this is at a low point or inflationary in nature. What I would say on that is we laid out a pretty good detail at our Investor Day around what the drivers are that we're expecting over the medium term that are going to result in us getting back in our 39% to 40% operating margins and that includes low single-digit inflation net of our cost savings initiatives.

And obviously, there's some other offsets that can set like depreciation, but those really are the drivers moving forward. And then logistics was a bit favorable in Q3 as well.

Operator

Our final question will come from the line of Bill Chappell with Truist Securities.

William Chappell

Just one follow-up on the acceleration of the beer in November and into December. I think I'm right in saying a year ago, you had started to see a slowdown due to weather in California and the price increases that – just taken there with some elasticity. So was there more than I guess, more favorable comps that you saw that drove the acceleration? Or is that a key part of it? Or were the comps maybe not as affected as by those – by weather and price increases last year as we had assumed.

William Newlands

Well, as you often know, lots of things go into why you see acceleration, I think you've pointed out some. I think weather in California was better than it was the prior year, you saw Thanksgiving being slightly earlier than it was in prior year. I think all those things are true. What I would emphasize, though, is that the takeout around our business around Thanksgiving was particularly strong and our share gains that occurred during that period were as good as we saw during the entire year which again, just speaks to the strength of the brand.

There's gives and takes all the way along in the year, as you know, from various factors that occur but when you see that kind of share acceleration that we've been seeing in the sort of the 2-point range in the overall category and 3-point range in the high end, that just speaks to the continuing strength of our beer business irrespective of the potential gives and takes that occurred naturally over the course of the year.

Operator

Thank you. We have reached the end of our question-and-answer session. I would now like to turn the floor back over to Bill Newlands for closing remarks.

William Newlands

Thanks very much and thank you all for joining today's call. Again, we're very pleased that our beer business delivered strong performance in Q3 and is on track to achieve the higher end of our initial net sales and operating income guidance for the fiscal year. Our beer portfolio continues to deliver industry-leading performance, and we see a long runway of opportunities to continue to drive strong growth.

In our Wine and Spirits business, we're fully committed to realizing net sales growth and improving our operating margins in line with our medium-term outlook for that business as we leverage its reshaped higher-end leaning portfolio and enhanced DTC and international footprint.

And from a capital allocation perspective, we continue to consistently execute against our balanced and disciplined priorities, which are: Maintaining our investment-grade balance sheet, consistently returning cash to our shareholders through our dividend and executing opportunistic share repurchases beyond those needed to cover dilutions while advancing our organic investments to support additional production capacity for our beer business and deploying excess cash to smaller acquisitions that fill portfolio gaps, but with a thoughtful and prudent approach.

Altogether, we remain confident in our outlook for the full year and continue to expect our enterprise comparable EPS guidance for fiscal '24, excluding Canopy, to remain within our previously stated range of $12 to $12.20. And over the medium term, we continue to expect low double-digit EPS growth, as we outlined in our Investor Day. So thanks again, everyone, for joining the call, and I wish you all a safe, happy and prosperous new year. Thank you again for joining.

Operator

Thank you. This does conclude today's teleconference. We appreciate your participation. You may disconnect your lines at this time. Have a great day.