Constellation Brands Inc, Q1 2023, Earnings Call 2022-06-22

Presentation

Operator

Good morning, and welcome to the Constellation Brands First Quarter Fiscal Year 2023 Earnings Call. — ***Operator Instructions*** — As a reminder, this conference is being recorded. It's now my pleasure to turn the call over to Patty Yahn-Urlaub, Senior Vice President of Investor Relations for opening remarks. Please go ahead, Patty.

Patty Yahn-Urlaub

Thanks, Kevin. Good morning, and welcome to Constellation's Q1 Fiscal '23 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 measure 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 we make on this call. Before turning the call over to Bill, similar to prior quarters, I would like to ask that we limit everyone to one question per person, which will help us to end our call on time. Thanks in advance, and now here's Bill.

Bill Newlands

Thank you, Patty, and good morning, everyone. Before we get started today, I wanted to take a minute to recognize Patty, who, after 15 years with Constellation, has elected to retire next month. We appreciate Patty's commitment in helping shepherd our Investor Relations function since joining the company in 2007. And on behalf of all of our team here at Constellation, we thank Patty for her many contributions to our success over the years, including managing our relationships with a number of folks on this call. We wish her the very best in retirement. Effective July 1, leadership of our IR function will transition to Joe Suarez, who joined Constellation last November as Vice President of Investor Relations. Joe previously served as Managing Director at Teneo, a global CEO advisory firm. Prior to his time there, Joe also served in a range of commercial, governance, finance and investor relations roles for a couple of major players in the global resources sector. We look forward to the continued success of our Investor Relations function under Joe's leadership. With that, let's move on to a discussion of our first quarter results. We're off to a strong start in our new fiscal year, thanks to the solid fundamentals of our business, the disciplined execution of our strategy and the relentless commitment of our Constellation Brands team as well as that of our distributors and retail partners. Our performance in Q1 fiscal '23 continued to build momentum in 3 key areas tied to our long-term goals. First, our beer business once again delivered industry-leading share gains with Modelo Especial and Corona Extra taking the #1 and #4 spots among share-gaining brands across track channels. The business achieved an important milestone, having reached more than 5 full points in shares gained over the last 5 years. Coming back to Q1. Our beer business delivered net sales growth of 21% and added nearly 15 million cases in incremental shipment volume. As anticipated, these significant increases were partly driven by the lapping of supply challenges as a result of severe weather impacts in Q1 fiscal '22. For clarity, ships and depletes in our current quarter were roughly equal on an absolute basis. Importantly, our shipments mainly were underpinned by continued strong demand for our authentic Mexican beers, our consistent and balanced approach to pricing and the effective ramp-up of new brewing capacity from our organic growth investments. Second, our Wine & Spirits business outperformed the U.S. Wine & Spirits category in tracked channels, where we gained share supported by strong performance of our higher-end brands. Our Wine & Spirits business grew net sales by 2% and saw overall U.S. depletions increased by over 1% with the premium wine and fine wine and craft spirits portions of our portfolio achieving 8% and 16% depletion growth, respectively, with brands like Meiomi, the Prisoner, High West and Casa Noble delivering double-digit depletion growth rates; and third, our sustained and strong operating performance and cash flow generation enabled us to continue to deliver against our established capital allocation priorities. Our balance sheet remains strong. We continue to invest behind the momentum of our beer business with a focus on growth and flexibility, and we exceeded our planned $500 million accelerated share repurchase activity with an additional $800 million in buybacks. In fact, we have now fulfilled the share buyback portion of the $5 billion goal in cash returns to shareholders that we promised. Now let's discuss in more detail our beer business performance. We maintained our #1 position as the #1 supplier in high-end beer in the U.S. and achieved depletion growth of almost 9% in the quarter, consistent with our expectations and our growth profile target. As for Memorial Day, which celebrations took place within the quarter, we were the #1 share gainer for that holiday, capturing 1.5 share points of total beer and 2.3 points of high-end beer in the U.S. tracked channels. In the on-premise, our beer business achieved a 30% depletion growth rate across the portfolio and delivered double-digit growth for the Corona and Modelo brand families as well as Pacifico. As mentioned, Modelo Especial remains the number one share gainer in tracked channels, adding over 1.2 points in incremental share, nearly double the incremental share of the second largest gainer. Overall, Modelo Especial delivered the total depletion growth above 15% for the quarter. Our Modelo Chelada brand family grew in line with our medium-term double-digit CAGR expectations, achieving over 39% depletion growth in the quarter. The national release of our new Limón y Sal 12-ounce, 12-pack helped this popular flavor of our Chelada brand delivered the 15th largest share gain across the entire U.S. beer category in tracked channels. And although it is still very early days for our other Modelo innovations, we are encouraged by the initial data we're seeing in test markets, particularly for Oro. We continue to be encouraged by the sustained healthy growth of Corona Extra. This brand delivered over 4% depletion growth for the quarter, and as mentioned earlier, was the #4 share gainer in the U.S.

beer market in tracked channels. We continue to expect modest growth for Corona Extra in fiscal '23. And Pacifico delivered depletion growth of more than 20% for the quarter. We continue to expect Pacifico to grow in line with our medium-term 10% to 15% total annual volume growth forecast in fiscal '23. All in, our beer business delivered strong net sales growth for the quarter and this, in turn, supported a double-digit increase in operating income. Looking ahead, we're confident that our beer business remains well positioned to deliver against our net sales and operating income growth targets for fiscal '23 despite the ongoing inflationary pressures affecting consumers. We'll continue to take appropriate pricing and cost management actions to ensure we maintain both the growth algorithm of our brands and our industry-leading margins. We'll also continue to support our consumer-led innovation and brand building efforts throughout the remainder of the year. which will include the launch of our Fresca Mixed vodka spirits and tequila Paloma flavors in early September. And we continue to make progress with our brewing capacity additions including our new brewery to be built in the state of Veracruz. During the quarter, we were pleased to have formally announced the location of our new brewery with the President of Mexico, Andres Manuel Lopez Obrador, as well as with both the Governor of the State of Veracruz and the Mayor of the city of Veracruz along with federal, state and municipal authorities. The new brewery will be located in the port of Veracruz, one of the most prominent sea ports in the region and will have ample access to water and necessary resources and a highly capable workforce as President Lopez Obrador himself has stated. We look forward to continuing the remarkable journey of our strong performance of our beer business with a focus on both growth and flexibility as we deploy the investments needed to meet steadily rising demand for our products. Now let's move on to Wine & Spirits. Our strategy to increasingly focus on higher-end brands, aligned with ongoing consumer-led premiumization trends, continues to enhance the commercial performance of our Wine & Spirits business. The premium wine, fine wine and craft spirits portions of our portfolio all significantly outperformed their corresponding categories and track channels. Meiomi, the Prisoner and Kim Crawford remain the driving forces behind our premium and fine wine growth with continued share gains in tracked channels and strong increases in depletions. And in craft spirits, our High West and Casa Noble brands delivered dollar sales growth ahead of the competition. We maintained share in mainstream wine with Woodbridge primarily driving that performance. Our innovation efforts also continued to produce excellent results with Meiomi Red Blend becoming the second largest new product growth contributor in the wine category in just over a quarter since its launch. And we are seeing incremental growth from the expansion of our Wine & Spirits brands into international markets with particularly significant gains of more than 60% in international shipment volumes for our fine wine and craft spirits products. As with our Beer business, we continue to closely monitor the state of consumer and remain disciplined in our approach to ensure we balance both pricing and growth across our Wine & Spirits portfolio as economic conditions further evolve. That said, while consumers are reporting increasing concerns about the economy, these concerns have not yet translated into significant behavior change for beverage alcohol shoppers, particularly for our major brands. In total, beverage alcohol servings per capita in the U.S. have remained and are expected to remain stable with growth of 1% to 2% based on population growth expectations. Against that backdrop, we are encouraged by the continued strength of our high-end beer and Wine & Spirits brands in the first quarter of this fiscal year and remain confident in our ability to drive additional growth for both businesses over the medium term. To that end, we are accelerating our investments in digital capabilities to further support future growth. These investments will be focused on securing the talent and enhancing the technologies needed to further optimize our marketing efforts and reinforce our leading position in 3-tier e-commerce and DT sales as well as unlock value from enhancements to our procurement, supply chain management, plant operations and back office activities. Online beverage alcohol sales remain over 4 point times the pre-COVID rates and we are seeing great traction with our DTC and 3-tier e-commerce efforts, having outperformed the competition by 3.5 points in these channels over the first quarter. We are now planning additional investments as part of these efforts this fiscal year and expect the total impact of this digital business acceleration program to ultimately result in incremental earnings to be realized over the coming years driven by more effective marketing as well as more efficient supply chain, procurement, data and analytics and operations platforms. Garth will provide additional details in just a few minutes. Beyond the growth, we continue to expect from our businesses which will be further supported by our digital business acceleration program. We also continue to believe that our ownership position in Canopy represents a compelling opportunity in developing – in a developing industry with significant long-term growth potential. Within that context, we think Canopy's focused on premiumizing its cannabis-branded portfolio to improve performance in Canada is appropriate. And we are also supportive of its efforts in the U.S. to strengthen the distribution of its emerging CPG brands and build a competitive THC ecosystem as Canopy continues to gain traction. Canopy's agreements with Acreage, TerrAscend, Wana and Jetty, position it to quickly scale operations across the U.S. upon federal legalization. We continue to support Canopy through our strategic relationship sharing our experience and capabilities to support the continued advancement of their U.S. strategy, specifically in the areas of commercial sales, marketing and operations. And as announced yesterday, part of our holding in Canopy's convertible debt will be transitioned into equity, which will reduce Canopy's debt while maintaining our share of equity ownership without putting additional capital at risk. On a separate note, earlier today, we also announced that our Board of Directors has approved a proposal to eliminate our Class B common stock. After an extensive review and analysis by the special committee and with the special committee's recommendation, our Board agreed that it is in the best interest of the company and all Constellation shareholders to eliminate the Class B common stock. Under the proposal, owners of our Class B common stock, which are primarily the Sands family, would convert those shares into Class A common stock and receive $64.64 per share in cash, which equates to a total amount of $1.5 billion. The transaction requires shareholder approval, including approval of a majority of the issued and outstanding shares of Class A common stock not held by the Sands family or their affiliates, executive officers of the company or Directors that also hold Class B common stock. Once shareholder approval is received, we expect that the proposal would deliver a number of corporate governance and other benefits, including the elimination of the higher vote Class B common stock, including the associated voting control of the Sands family and a reduction in the concentration of voting power; a simplification of the company's equity capital structure to better align the voting rights and interests of all shareholders; a broader appeal of our shares to a larger base of investors who prefer single voting class common stock structures; operating cost savings associated with executive salary and certain benefits as well as administrative savings from maintaining the Class B common stock. We expect the executive salary and benefits cost savings will be about $15 million to $20 million per year using the $17.5 million midpoint of that cost savings range and our current trading multiple of approximately 21x PE. That equates to roughly $300 million of value on a tax-effective basis. Other corporate governance benefits include a rotation of the lead independent Director position on the Board at the next available normal cycle opportunity. And finally, a shift to majority voting in uncontested elections from the current plurality standard for our Board of Directors and the adoption of a Board anti-pledging policy. We will be seeking the approval of shareholders at a special meeting, and a proxy statement, including all details of the proposal will be available ahead of that special meeting. In the meantime, the announcement we made this morning related to the proposal can be found on our company website, cbrands.com. And at this point, we will be unable to comment further or provide additional information on the proposal during today's call beyond what is available in that announcement. In closing, I once again want to recap the 3 highlights I shared earlier on our performance in the first quarter of fiscal '23. First, our beer business continued to achieve industry-leading share gains, driven by our high-performing Modelo Especial, Modelo Chelada, Corona Extra and Pacifico brands delivering overall strong financial results with double-digit growth for both net sales and operating income. Second, our Wine & Spirits business outperformed the U.S. Wine & Spirits category and tracked channels, particularly through the strong performance of our higher-end brands and also grew net sales in the quarter. And third, we continued to deliver against our established capital allocation priorities, including through the $1.3 billion return to shareholders and share repurchases through June and dividends for the first quarter of this year. We are now at over 90% of our $5 billion promised goal. We were very encouraged by the continued strength of our business in the first quarter of this fiscal year and remain confident in our ability to drive sustained growth over the medium term. And with that, I'd now like to turn it over to Garth, who will give you more detail of our financial results in the quarter. Garth?

Question and Answer

Garth Hankinson

Thank you, Bill, and good morning, everyone. Fiscal '23 is off to a great start. We're executing against our business strategy, and we're on track to achieve our targeted financial performance goals for the year. Our beer business achieved double-digit net sales and operating income growth, and our Wine & Spirits business is progressing as marketplace momentum accelerates for the portfolio. In addition, our strong cash flow results enabled us to accelerate and complete our share buyback as we repurchased 5.3 million shares for $1.3 billion through the first 4 months of our fiscal year. As a reminder, one of our key capital allocation priorities has been to return $5 billion to shareholders through a combination of dividends and share repurchases by the end of fiscal '23. To date, we've completed the share repurchase portion of this commitment well in advance of our year-end target. As such, we are now forecasting weighted average diluted shares outstanding of approximately 186.5 million for fiscal 2023, which includes share repurchases through June only.

As is typical, since we do not know the timing and cadence of future share repurchase activity, any additional share repurchases have been excluded from our guidance assumptions. Now let's review Q1 fiscal '23 performance in more detail where I'll generally focus on comparable basis financial results. Starting with beer. Net sales increased 21% primarily driven by shipment volume growth of over 17% from ongoing robust demand for our core portfolio and favorable price. As a reminder, we're seeing a favorable shipment volume overlap versus last year's Q1, which was impacted by supply shortages and missed shipping days as a result of severe weather events impacting Texas and Northern Mexico. Depletion growth for the quarter came in at nearly 9% driven by the continued strength of Modelo Especial and Corona Extra as well as the return to growth in the on-premise channel. Q1 shipments were generally aligned with cases depleted as distributor inventories remained at normal levels. The on-premise channel grew more than 30% in Q1 and now accounts for approximately 13% of our depletion volume versus 11% in Q1 fiscal 2022 when the on-premise channel continued to be somewhat affected by the pandemic. Moving on to beer margins. As expected, beer operating margin decreased 260 basis points to 40.2% primarily driven by the expected impact of inflationary headwinds, leading to increased COGS for transportation and material costs, including pallets, cartons, steel, corn and aluminum. Additional factors include higher depreciation and brewery costs associated with planned capacity additions at our Obregon production facility in Mexico. These headwinds were partially offset by the favor overlap from 2 items: one, fixed cost absorption related to increased production levels compared to last year's Q1 driven by the weather events I just mentioned; and two, decreased obsolescence primarily related to hard seltzers. On an absolute dollar basis, marketing investments increased versus prior year. However, due to favorable top line leverage, marketing as a percent of net sales decreased 40 basis points to 9% versus prior year. We continue to expect marketing as a percent of net sales to be in the 9% to 10% range for the year. For full year fiscal '23, we continue to target net sales growth of 7% to 9%, which includes 1 to 2 points of pricing within our Mexican product portfolio and operating income growth of 2% to 4%. This implies an operating margin of approximately 38% for the year. Throughout the remainder of the year gross margin will be negatively impacted as benefits from price and our cost savings agenda are expected to be more than offset by the following COGS headwinds. First, elevated inflationary pressures will continue throughout fiscal 2023 across numerous cost components but largely driven by aluminum, cartons, wood pallets and steel. In addition, we'll see increased logistic costs for fuel and freight rates for truck and route. Second, we're expecting incremental brewery costs driven by labor inflation in Mexico as well as increased head count and training expenses to support our continued capacity expansion initiatives at both Nava and Obregon. Third, as a result of these brewery expansion plans, the step-up in depreciation expense will continue as additional capacity is planned to come online throughout the fiscal year. Moving to Wine & Spirits. Q1 fiscal '20 net sales increased 2% driven by a combination of increased shipments and favorable price and mix. Q1 depletion growth was driven by double-digit contributions from Meiomi, the Prisoner brand family, High West and Casa Noble. Operating margin decreased 330 basis points to 19.6% as mix and price benefits, combined with a favorable inventory adjustment, were more than offset by higher COGS driven by inflationary headwinds, including higher material costs for grapes and glass, as well as increased transportation and warehousing costs. SG&A and marketing increased as a percent of net sales versus the prior year primarily driven by increased head count and marketing initiatives to support key growth areas of our business. For full year fiscal 2023, the Wine & Spirits business continues to expect net sales to decline 1% to 3% with an increase of 4% to 6% in operating income, implying operating margins of about 24% for fiscal '23. Despite unit Q1 margin results, we expect to achieve our Wine & Spirits margin goals for the year through a combination of the following initiatives that are primarily weighted to the second half of the year. We expect ongoing premiumization and mix improvement driven primarily by our fine wine business and the timing of the vintage transition for these products. We have planned incremental pricing actions beginning in the second quarter. A strong New Zealand vintage coming online is projected to drive volume and enhanced margins. And finally, we expect to see benefits from our ongoing cost savings initiatives. Now let's proceed with the rest of the P&L. This is a good point to provide additional detail regarding the digital business acceleration initiative that Bill outlined a few minutes ago. Constellation is already an emerging digital business today with impressive progress in key areas such as DTC, 3-tier e-commerce and digital marketing. The digital business acceleration effort will help to create a more cohesive digital strategy and is an entirely new way of doing business that is designed to enable us to become best-in-class initially in the areas that include procurement, end-to-end supply chain planning and marketing optimization. The implementation of our new SAP platform last year enabled a framework for us to proceed with this initiative, which is expected to add $35 million to $40 million in corporate expense this year. As a result, our initial corporate expense guidance increased from $230 million to a range of $265 million to $270 million. We expect to start to see some benefits from these investments later this year. Our fiscal 2023 EPS comparable guidance of $11.20 to $11.50 remains unchanged despite the lower share count. Corporate expenses as a percent of net sales remains at about 3%, which is at the level that had been trending during the SAP implementation. In fact, the Q1 increase in corporate expense of approximately $7 million was primarily driven by investment spending for our digital business acceleration initiative. You can expect to see the majority of the remaining fiscal 2023 spend for this project to occur in Q2. Comparable basis interest expense for Q1 increased slightly due to higher average borrowings, and we ended the quarter with a net leverage ratio of 3.2x, excluding Canopy equity earnings. During Q1, we entered into an agreement that amended and restated our senior credit facility. This resulted in an increase in our existing revolving credit facility from $2 billion to $2.25 billion and extended its maturity to 2027. In addition, we issued senior notes and subsequently repaid the 2018 3.2% senior notes and the 2013 4.25% senior notes that were coming due next year. We believe that this was the appropriate action to take in a rising interest rate environment. Moving to free cash flow, which we define as net cash provided by operating activities less CapEx. For Q1, we generated free cash flow of $562 million, which represents a 7% decrease versus prior year driven by a 73% increase in CapEx investments to support planned capacity expansions and related activities in Mexico. We continue to expect fiscal 2023 free cash flow to be in the range of $1.3 billion to $1.4 billion, which reflects operating cash flow in the range of $2.6 billion to $2.8 billion and CapEx of $1.3 billion to $1.4 billion, including investments targeted for Mexico beer operations expansion. In closing, our excellent performance and strong business fundamentals demonstrate that we are committed to generating net sales and operating income growth while returning value to shareholders. Our path to impressive Q1 results were paved by great execution in growing our core business and supported by investments to enhance our portfolio and operations. With that, Bill and I are happy to take your questions.

Operator

— ***Operator Instructions*** — Our first question is coming from Bryan Spillane from Bank of America.

Bryan Spillane

Just 2 questions for me. One is as we think about the – assuming that the shareholder proposal gets approved and there's the $1.5 billion outlay, how would we finance that? And are there any offsets to offset the incremental cost of financing? And then second is just as we think about the incremental – the accelerated investment in digital, should we think about that as being part of the kind of the cost base going forward? So is it a multiyear investment? Or you're just having a good year and you figured you'd spend – you'd sort of pull forward some of the expenses. So really those 2 things, how we think about offsetting the incremental cost, I guess, of the $1.5 billion; and then how to think about the digital investments.

Garth Hankinson

Yes. Thanks, Bryan. So I'll take those in that order. First, on the funding of the $1.5 billion. First of all, we're in a very enviable position given the strength of our balance sheet and given our investment-grade rating. We're – obviously, given the timing of this proposal, we're still thinking through exactly how we're going to fund the $1.5 billion, but likely will include some new debt and may or may not include some of our existing debt that we have available to us under the revolver. So there will be more to come on that as we move forward. That being said, whatever we do, we do remain committed to our investment-grade rating, and we intend to remain within our targeted leverage range and can do so as we support this commitment. On the digital business acceleration cost, so – this is – this will be a multiyear program that's in place. What the spend will be in future years? We will work on that as we move through this year and into next. But this is not a pull forward per se, this will be incremental investment, and so you'll see more about that, as I said, as we move through this year and into next.

Operator

Our next question is coming from Bonnie Herzog from Goldman Sachs.

Bonnie Herzog

All right. So I guess the key question this morning that we're hearing from investors is on your full year guidance and why you maintained it despite the significant outperformance in Q1 and also thinking about the significant repurchases. So I guess we're all trying to understand your level of conservatism, especially considering it implies that your beer shipments only grow about 3% for the balance of the year despite what I think is pretty darn good momentum behind your brand. So what are we all missing? I mean maybe you guys could sort of lay out for us some of the key puts and takes to help us better understand this.

Garth Hankinson

Yes, Bonnie. So Bill and I will probably try to take this a little bit in response to your question. So I would say, first of all, Q1 was on our estimates for the quarter, keeping in mind, as we stated, as we entered the year that this year would be a bit lumpy just like last year was a bit lumpy as we've been overlapping the production issues we had last year. So you'll continue to see some of that lumpiness. For the balance of the year, I would say that we continue to expect that we're going to have strong depletions, and we will continue to have shipment growth that is in line with our long-term algorithm. So the business will continue very much going forward in a very strong manner. As it relates specifically to the guidance, I kind of alluded to this in my scripts, while we did get a benefit from the share repurchases, obviously, from retiring more shares and reduced share count, we also introduced today the incremental spend on the digital business acceleration initiative. And those 2 things kind of net out against one another. And for that matter, as we look again to the balance of the year, it's just a little bit too early for us to make any adjustments given that we're still monitoring macroeconomic conditions as well as what those economic conditions, including inflation, have on the consumer.

Bill Newlands

Yes. The only thing, Bonnie, that I would add to that is I always try to look at what our depletion rate looks like and to make sure that you're seeing the consumer takeaway. And as we stated, we're gaining significant share in our beer business. We're gaining share in almost every sector of our Wine & Spirits business. Both of those were very positive within the quarter. And don't get confused or funnelled, if you will, by the lumpiness of the shipment timing because, last year, as we know, because of weather-related events was a bit unusual. And so therefore, the overlaps in particular, quarters of this year will be a little different. I look at the depletions, and our depletions were very strong, yielding share-gaining performance within the market. More importantly, we are continuing to see strong consumer demand throughout the year. And certainly, the consumers continues to be interested with our business despite an understanding that there's – it's going to be an interesting year relative to questions around inflation and around recession. But we remain very confident in the performance of our business, and I think it was reflected in the quarter we delivered.

Operator

Your next question today is coming from Dana Mohsenian from Morgan Stanley.

Dara Mohsenian

So maybe we could just take a step back and talk about how you think your business is positioned if we do move into a recession and a period of weaker consumer spending both looking at past cycles and what you've seen so far this cycle. And second, maybe just an update on June depletions. Have you seen any trade down impact on your business so far? So maybe first conceptual and then be a bit more concrete. What are you seeing near term?

Bill Newlands

Sure. well, let's deal with a few facts that I think are very strong and supportive of our business. We are finding that 7 out of 10 shoppers who purchased beer have that as a planned purchase before leaving their home. I think that's very strong. It speaks very well to our business. We then look at a thing like buy rate. And buy rate, the way we discuss by rate is equal to the number of trips times the spend that occurs during the trip. And that's actually up versus pre-pandemic levels and is actually accelerating in Q1 for beer versus the prior 3 months. I think those are very strong indications of the strength of our portfolio, particularly when you look at the share gains that both Garth and I have alluded to up to this point. June looks consistent with our yearly algorithm. I think it was another very solid month, and it's consistent with what our expectations are for the year, as we've said it earlier. So just to recap. Modelo continues to be on fire. We're continuing to see strong results in Corona Extra. Once we get over the supply chain issues in Pacifico – you saw a very, very strong quarter in Pacifico. So our anticipation is that we are going to continue to see a very solid year in our beer business as the year progresses, recognizing there's a lot of unknown variables that are going to go on relative to the economy.

Operator

Your next question is coming from Nik Modi from RBC.

Unidentified Analyst

This is Philippe — ***indiscernible*** — on for Nik. Question on pricing, on beer pricing. You came in a little bit before expected and your 1% to 2% target for the full year. We are – how are you thinking there pricing will evolve in the balance of the year? And do you think the narrowing price gaps versus domestic beer could be a benefit, potentially accelerating your market share gains going forward as we get into a more uncertain macroeconomic environment?

Bill Newlands

So our – we've been very clear that our long-term algorithm on pricing is 1% to 2%. As you know, last year, we were slightly above that result. And frankly, we think that it is particularly important to keep the consumer in mind as we make choices around our pricing algorithm. Our current algorithm works very well for us. And it's fairly flexible. And the benefit of that approach is it does provide the flexibility as we watch and see how things develop over the course of the year. So what I can assure you of is we are closely monitoring what is going on both from an inflationary standpoint as well as pricing, and we'll be ready to adjust our approach if that proves to be necessary or appropriate. But what I would say is it's not going to change our long-term algorithm. We still believe that 1% to 2% over time is correct for our business and helps us maintain our consumer base, which ultimately, at the end of the day is what it's all about.

Operator

Your next question is coming from Chris Carey from Wells Fargo Securities.

Chris Carey

Just to start, Bill, just a clarification. You said that depletions are consistent with your yearly algorithm. Were you referring to the beer growth algorithm of 7 to 9 or the volume component within that algorithm? So that's just a clarification. And the main question is I hear you in response to the resilience of the consumer. I was wondering if you could just maybe frame consumer risk within your portfolio. For example, do you see relatively higher consumer sensitivity in Modelo versus Corona, given different demographic exposure? And maybe just offer some thoughts on how you could evolve your strategy, as you just noted, should you start to see a change in the consumer habits.

Bill Newlands

Sure. So to answer the first question, it's both. Depletes and volume, we expect to be roughly equal over the course of the year. Because there is growth, shipments are always a little bit higher because you're working off a bigger base. So there's always a bit more shipment in any year because, unfortunately, we have a strong growth profile within our business. Premiumization rates, and I think this is an important one also relative to our portfolio, are continuing to hold. In fact, in beer, 59% of dollars are now in the high end. You remember just a few years ago, when we were predicting that we'd pass 50%. It's continued up to 59.5% as of this point in time, which is up 1 point – 1.1 points versus prior year. You're also seeing similar activity in the wine business, where the premiumization that's occurring is continuing to occur there as well. All of those things speak very well to the sustainability of our growth profile for our business. And as we've said before, there's still plenty of room for growth within all of our franchises. But using Modelo as an example, Modelo is still growing substantially in a lot of secondary markets where there's a lot of distribution opportunity as well as gaining share in markets that have more sustained and long-term strength. So we're very comfortable that we have a long and sustained runway for growth across all of our brands, and certainly, the facts are backing that up.

Operator

Our next question today is coming from Lauren Lieberman from Barclays.

Lauren Lieberman

Great. So I guess I'm trying a few different questions. From an industry volume standpoint, Bill, you've spoken very clearly to the strength of your brand momentum in your portfolio. But industry-wide in beer, I mean my understanding is there's historically a pretty strong correlation between gas prices and beer consumption. And so I think some of the industry data that's out there or anecdotal has been that there has been a deceleration in industry volume in recent weeks. So I was just curious if you could comment on that. If you guys are not seeing that, if you think something different, if you don't think there's a relationship with gas pricing. I'd be curious that broader industry perspective would be helpful because I have no doubt that within that, your brands are in a great spot.

Bill Newlands

Certainly, it's something that we're all watching. One of the benefits that you've seen in at historical times of recession or recessionary style trends is alcohol beverage tends to be an affordable luxury, and therefore, it tends to continue to be consumed during that window of time. Let me give you an exact fact around beer-drinking households. It holds an essential status for many, many consumers. In fact, if you look at 172 edible categories, beer ranks 15, about – and therefore, what it says is the consumer is consistently wanting to continue to participate in this category. That doesn't mean that there won't be short-term impacts because of gas prices and other inflationary pressures. But overall, it tends to be a category that is – that is a stable for a lot of people, and that's probably particularly true for our Hispanic consumer base, which, as you know, we over-index with that consumer base. So I think it speaks pretty well to our position at least of being able to work our way through a recessionary environment pretty – in a pretty healthy way.

Operator

Your next question is coming from Nadine Sarwat from Bernstein.

Nadine Sarwat

Two questions for me, if I may. The first, could you just help us understand exactly why the Q1 price mix was above that longer term 1 to 2 that you mentioned? Is that the phasing of pricing? Is there a mix component we're not taking into account or perhaps some distributors taking pricing? Color on that would be appreciated. And then my second question on Canopy Growth. I appreciate your comments in the prepared remarks that you remain committed to that investment. But the company does continue to lose share in Canadian recreational cannabis, continues to face challenging – challenges reaching profitability. U.S. scheduled legalization is looking increasingly less likely, at least in the short term. So could you maybe provide more color as to what gives you conviction that this business can meaningfully improve in the long term?

Bill Newlands

Sure. Let me take the first part of that because you are correct. If you look at the data, it certainly shows that the pricing scenario at the moment is above the 1 to 2 algorithm. There's a number of things involved in that. One is it only reflects tracked channels. So that's a piece of it. It is partly mixed. As you see different sizes and different products and different subcategories within beer affecting it, you see different scenarios. It's partly retailers making choices about hitting specific price points, which, in some instances, will drive the percentage higher but doesn't reflect the change in our pricing strategy. As I said earlier, I think this all goes back to our algorithm being particularly important and particularly flexible in our ability to see what's happening in the market and adjust as necessary as part of it. But all of those elements weigh into what is certainly some higher pricing than what we have noted in our words.

Garth Hankinson

Yes. And on the Canopy question, there's no doubt that over the past couple of years, Canopy has faced a number of headwinds. That being said, we remain very, very positive on the category and very optimistic for Canopy. The reason we feel that way, right, is that, number one, in Canada, we believe that the Canopy team, through its recent announced restructuring programs, have a renewed focus on driving the premium end of that business, which is profitable and that the team up there is on a path to profitability in the near term. In the U.S., we continue to see very good green shoots for the category in general in terms of consumer consumption. Whether you look at retail sales or you look at state-by-state tax income associated with cannabis sales, both are growing very, very quite nicely showing that the consumer is adopting the category. We also really like the approach that the Canopy team has taken in the U.S. If you look at some of the – some of the options that Bill outlined in his prepared remarks, Canopy's position with Acreage and TerrAscend and Jetty and Wana have them very well positioned to take advantage of the U.S. market once it does open up and once legalization occurs. So that's why we remain – that's why we continue to have conviction on the category.

Operator

Our next question is coming from Rob Ottenstein from Evercore ISI.

Rob Ottenstein

Great. I just wanted to follow up a little bit on the pricing question. And that is if you can talk a little bit about your views about what appears to be happening based on channel checks, trade checks that retailers are essentially taking or increasing their margin given the much higher price increases for other brands and just the fact that distributors, right, have pressures in terms of their costs, and they're likely to want to see higher prices, so if you could talk maybe a little bit about that dynamic. And I think we all understand the long-term algorithm, why that makes sense, but these are extraordinary times.

Bill Newlands

They are extraordinary times. And I think the one thing that's important, Robert, in extraordinary times is to remain balanced, sensible and not sort of get caught up in the world wind at the moment and doing things that what I would describe as anti consumer. So that's why we are, again, saying that we are going to be judicious as to how we look at this, balancing the understanding that there are a lot of pressures that our consumers and all consumers are under because of inflationary pressures in the market. You have seen some increase in pricing as one of the prior callers asked that is being taken either at the distributor level or at the retail level to hit specific price points, and it's being reflected. So we're trying to walk the delicate line of what's appropriate, what is – what can we do to reflect and address the rising costs that we are all facing while keeping our consumer base. We think that's in the long-term interest not only of our company but for the category as well. And as I said, we are going to be very judicious, we are watching it very closely. And as I said earlier, not to repeat myself, but we do have a very flexible algorithm that allows us to address questions in real time, and I can assure you we keep our eye on it almost on a daily basis.

Operator

Your next question is coming from Andrea Teixeira from JPMorgan.

Andrea Teixeira

So as we all listen to what you said in terms of like how you exit consumption and depletions, it sounds as if you are – you're still quite confident as you exit the quarter and enter the Q2, and correct me if I'm wrong on the beer side. So given you cast the guidance for the balance of the year, should we summarize and interpret that you're monitoring how volumes would flow through as you're shipping more than depletion and, at this point, you're helping wholesale that retailers take a larger share of the profits at this point? But if everything goes well in the summer, goes as expected, perhaps you could take pricing as you go into the fall, which is a typical pricing point, a pricing action point. And if you can comment on how you're going to balance because your low single-digit implied shipment volume for the balance of the year? Obviously, it [discouraged] investors. Is there anything we should be noting in terms of like the level of conservatives that you're assuming now? Or is that just a function of again, looking at how your typical consumer will behave, given higher oil prices?

Bill Newlands

So let me try to – hopefully, I'll answer most of those here as I try to answer it. First of all, let me go back to something that I said in my prepared remarks, which is, while it looks like we shipped a lot more than we depleted in the first quarter, that is purely because of the overlap of last year where there was weather events. And the absolute – on the beer side, the ships and depletes in the absolute were roughly the same, and we expect that to remain over the course of the year. As Garth noted a little earlier, it is going to be a little lumpy because we had a time in the first quarter where we went against weather-related activities. We obviously, in the back half of the year went against times when we were rebuilding the inventories for last year. So it will just be a bit of a lumpy year. Relative to pricing, most of our pricing, as we look at how we do it, is roughly 60% in the first half and 40% in the second half. That's just the way it has worked consistently. So we do have pricing moments. And as you know, we look at it SKU by SKU, market by market. We don't do broad-based pricing answers if it is a very micro view of pricing and how we look at it. So again, that gives us the opportunity to see how the year is developing, what opportunities exist in the marketplace. And we look at that, as I said, on an ongoing basis. So we think that, that remains the best way for us to proceed. It's worked very well for our company over the course of time, and we think it's going to continue to serve us well going forward.

Operator

Our next question is coming from Bill Chappell from Truist Securities.

Bill Chappell

So kind of the same questions that you've gotten on elasticity and market environment and that on beer but applied to why. Kind of any thoughts or what you're seeing or would expect to see kind of how this environment affects wine sales. And when I think of that – I know there's as you said, affordable luxury but just wondering if you're seeing consumers go from $25 wine down to $20 wine or if there's a net benefit for the Woodbridge franchise, as more and more people are looking at popular price wine. Just didn't know if you were seeing that or expect to see that and how that would affect your outlook?

Bill Newlands

Sure. You bet. So in wine, and I quoted the beer example earlier, in wine, the entry levels of the high end are, frankly, the most robust growth profiles, and that's sort of in that $11 to $25 range. That represents about 28% to 29% of total dollars. And that's also, interestingly enough, it's the exact same number, 1.1 points versus a year ago. I quoted the beer one was also 1.1 points a bit earlier, but that's also up 1.1 points. And of course, that's perfect for us because we've got brands like Kim Crawford, Meiomi and Unshackled and various other brands that fit right into that price point. So therefore, it's not surprising that those brands are doing extraordinarily well. As I said earlier, our premium wine and our fine wine and craft spirits businesses had a very strong quarter with strong depletion growth of 8% and 16%, respectively. So we had a very strong start in wine. And certainly, the premiumization that you're seeing continues. It would be a different answer if we talked about mainstream wine where, frankly, it's been more challenged, even though we're very pleased that our Woodbridge brand is gaining share in a challenged subcategory. So overall, it's very similar in style to what I responded earlier in beer, and we're quite pleased that it is.

Operator

We reached end of our question-and-answer session. I'd like to turn the floor back over to Bill for any further closing comments.

Bill Newlands

Great. Thanks again. Thank you all for joining our call today. As you could hear, we're off to a very good start to the year. We delivered excellent operating performance, underpinned by strong business fundamentals which provides us with great momentum as we head into our key summer selling season. Consumer demand and takeaway especially for our beer brands, remains robust as I've stated before, and we're well positioned to achieve our targeted financial goals for the year. Overall, we've demonstrated again that we're committed to pursuing our strategic growth initiatives while returning value to our shareholders. In closing, I'd like to wish everyone in the United States, a happy fourth of July holiday weekend and hope your celebrations with your friends and family include some of our fantastic beer, wine and spirits products. Thanks again, everybody, and have a safe and healthy summer.

Operator

Thank you. That does conclude today's teleconference and webcast. You may disconnect your line at this time, and have a wonderful day. We thank you for your participation today.

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