Molson Coors Brewing Company's (TAP) CEO Gavin Hattersley on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-30-19 Earnings Summary

Press Release *10-Q* *Slides*

EPS of $1.48 misses by $-0.03 | Revenue of $2.84B (-3.16% Y/Y) misses by $-32.55M

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Molson Coors Brewing Company (NYSE:TAP) Q3 2019 Earnings Conference Call
October 30, 2019 11:00 AM ET

Company Participants

Mark Swartzberg – Vice President of Investor Relations

Gavin Hattersley – President and Chief Executive Officer

Tracey Joubert – Chief Financial Officer

Conference Call Participants

Drew Levine – BMO Capital Markets

Bryan Spillane – Bank of America

Steve Powers – Deutsche Bank

Robert Ottenstein – Evercore

Kevin Grundy – Jefferies

Sean King – UBS

Andrea Teixeira – J.P. Morgan

Kaumil Gajrawala – Credit Suisse

Vivien Azer – Cowen and Company

Lauren Lieberman – Barclays

Operator

Good day, and welcome to the Molson Coors' Third Quarter 2019 Earnings Conference Call. Participants can find related slides on the Investor Relations page of the Molson Coors' website. Our speakers today are Gavin Hattersley, President and Chief Executive Officer; Tracey Joubert, Chief Financial Officer.

With that I will hand it over to Mark Swartzberg, Vice President of Investor Relations. Please go ahead.

Mark Swartzberg

Thank you, Steven. Hello, everyone. Following prepared remarks from Gavin and Tracey, we will take your questions. Please limit yourself to one question. If you have more than one question, please ask your most pressing question first, and then reenter the queue to follow-up. We expect you will have various questions on the revitalization plan we announced this morning to the extent that you have technical questions on the quarter, we ask that you pick them up with me in the days and weeks that follow.

Today's discussion includes forward-looking statements within the meaning of applicable securities laws. Important factors that could cause actual results to differ materially from the expectations and projections contained in such statements are disclosed in the Company's filings with the SEC. The Company does not undertake to update forward-looking statements, whether as a result of new information, future events or otherwise. GAAP reconciliations for any non-U.S. GAAP measures are included in our news release or otherwise available on the Company's website at molsoncoors.com. Also unless otherwise indicated, all financial results the Company discusses are versus the comparable prior year period and in U.S. dollars.

So with that, over to you Gavin.

Gavin Hattersley

Thank you, Mark, and hello and welcome everybody. I'd like to first frame the revitalization plan we included in the slides we filed with the SEC and announced to our employees earlier this morning, and which I will review in more depth after Tracey's remarks. We are one of the world's leading brewers and own a tremendous portfolio of brands, but we're over-indexed in declining segments. Our core brands have seen years of volume losses and our marketing spend and innovation capabilities haven't kept up with the competition.

Our business is at an inflection point. We can continue down the path we've been on for several years, or we can make the significant and difficult changes necessary to get back on track. Our revitalization plan is designed to streamline the company, to move faster, and to free up resources to invest in our brands and our capabilities. And through it, we will create a brighter future for Molson Coors. The plan aims to revitalize Molson Coors, achieving consistent topline growth by enabling us to invest in iconic brands as well as opportunities to grow in the above premium space, expand beyond beer without having to sacrifice support for larger brands in the company's portfolio, and to create new digital competencies for commercial functions, system capabilities for supply chain and new capabilities for employees.

To make this possible, we plan to unlock resources by eliminating duplication, shedding what's not working and restructuring the organization to better succeed in today's competitive, fast-paced environment. And I will review this plan with you shortly. But first, over to you Tracey for Q3 results.

Tracey Joubert

Thank you, Gavin, and hello everyone. I will speak first to the quarter on a consolidated and regional basis then to our 2019 outlook. So, to recap the quarter, our net sales revenue decreased 2% in constant currency. We delivered strong pricing in each business unit and positive global mix, but this was more than offset by volume declines. Net sales per hectoliter, on a brand-volume basis, increased 3% in constant currency and worldwide brand volume decreased 2.4% and financial volume decreased 5.5%. Global priority brand volume decreased 2.2%.

Underlying COGS per hectoliter increased 5.9% on a constant currency basis driven by inflation and volume de-leverage, partially offset by cost savings. Underlying MG&A decreased 2.2% on a constant currency basis, driven by slightly lower marketing spend and lower incentive compensation, partially offset by cycling a net benefit from the amicable resolution of a vendor dispute. However, marketing spend per hectoliter was up in the quarter and year-to-date. As a result, underlying EBITDA decreased 5.6% on a constant currency basis. Our year-to-date underlying free cash flow was $884.8 million, 13.7% below the prior year, driven by lower underlying EBITDA and higher cash tax payments, partially offset by lower capital expenditures and lower cash interest payments.

Moving to our business units. In the U.S., net sales revenue decreased 2.3%, driven by a 6.2% decline in shipments to wholesalers, excluding contract brewing, this was partially offset by positive net pricing and mix. The shipment decrease was driven by two factors. First, we cycled last year's network-wide inventory builds to support our Trenton and Fort Worth brewery go-lives, which resulted in very strong STWs in the third quarter of prior year. Second, brand volumes declined 3.9% on a trading-day adjusted basis in the quarter. COGS per hectoliter increased 6.6%, driven by inflation, volume deleverage, and other factors, including a substantial unanticipated increase in property tax at our Golden brewery, partially offset by cost savings.

MG&A increased 3.3%, driven by cycling a net benefit from the amicable resolution of a vendor dispute in the prior year, partially offset by the incremental cost reductions related to the restructuring program initiated in the third quarter of 2018. Marketing investment per hectoliter remains higher year-to-date compared to prior year. As a result, underlying EBITDA decreased 8.6%. In Europe, net sales revenue increased 1.7% on a constant currency basis, driven by positive pricing and mix offsetting a slight decline in brand volumes. COGS per hectoliter increased 3.5% in constant currency, due to inflation. MG&A decreased 1.7% in constant currency, driven by lower incentive compensation expense, offsetting higher marketing investment focused on our national champion brands and premiumization initiatives. Marketing spend per hectoliter was up in the quarter and year-to-date. As a result, underlying EBITDA increased 0.6% in constant currency.

In Canada, net sales revenue decreased 4.9% on a constant currency basis, driven by a 5.1% decline in brand volume partly due to industry softness, partially offset by positive pricing. COGS per hectoliter increased 9.7% in constant currency, primarily driven by volume deleverage, cycling prior year distribution gains, brewery start-up costs and inflation, with a partial offset from cost savings. MG&A decreased 7.7% in constant currency, driven by timing shifts of higher marketing investment in Q2 as well as lower incentive compensation, partially offset by Truss joint venture start-up costs. As a result, underlying EBITDA decreased 12.3% in constant currency.

In addition, during the quarter, we identified a goodwill impairment triggering event due to prolonged weakness in industry performance impacting our long-range expected cash flows. Consequently, a charge of $668.3 million was recorded to specials in the Canada U.S. GAAP results. Also note we estimate Truss related startup costs of 10 to 15 million Canadian dollars in 2019. In our International business, net sales revenue decreased 15.5% on a constant currency basis driven by an 8.6% decline in brand volume and negative geographic mix, partially offset by price increases. COGS per hectoliter increased 6.1% in constant currency, driven by geographic mix and inflation. MG&A decreased 29% in constant currency, driven by lower marketing spend and incentive compensation expense. As a result, we delivered $7.7 million of underlying EBITDA, resulting in a 190% increase on a constant currency basis.

Moving to our 2019 outlook, our earnings release details our guidance. In terms of cost savings, we continue to expect a total of $700 million of savings for the three years ending 2019, and Gavin will speak to upsizing of our previously communicated $450 million to $600 million for the period 2020 through 2022, to be spread evenly over that period. The additional $150 million of savings is before one-time costs to achieve and will help fund additional investment. We continue to expect 2019 consolidated underlying COGS per hectoliter to increase at a mid-single digit rate on a constant currency basis.

We now expect 2019 consolidated interest expense of $275 million plus or minus 5%. We expect 2019 capital spending of $700 million plus or minus 10%. We expect 2019 underlying D&A of approximately $850 million. We continue to estimate underlying free cash flow of $1.4 billion plus or minus 10% this year. And finally, before I hand the call back to Gavin, a comment regarding the remainder of the year. We continue to expect to ship to consumption in the U.S. on a full-year basis and therefore expect fourth quarter year-on-year change in shipments to exceed fourth quarter year-on-year change in brand volume.

With that, back to you, Gavin.

Gavin Hattersley

Thanks, Tracey. I look forward to speaking with you quarterly to discuss our financial results, but today I want to focus on our revitalization plan to deliver better results than we have in recent years. Our company makes some of the world's greatest beers and our iconic brands have withstood the test of time. But as the world around us rapidly changes and the nature of competition intensifies, our business performance is lagging. I'm sure all of you are well aware of that. And that is why we are implementing a revitalization plan that includes meaningful change for Molson Coors to unlock significant resources that we can invest back into the company, putting more resources behind our brands, premiumizing and modernizing our portfolio and building new capabilities.

The good news is that as a major brewer with a rich portfolio of iconic brands across key categories, we have the scale and cash flow to improve topline growth. We have the capabilities to succeed. And while the market joins us in our attention to the topline, our financial performance demonstrates our commitment to strong financial discipline through robust cash flow, balance sheet strength and returning cash to shareholders.

So why do we need a revitalization plan? All of you know the dynamics we face, and we recognize where we have the opportunity to improve, increase our exposure to growth segments, bigger and faster innovations, and a more simplified and streamlined organization. And what's more, in the past few years our competitors have significantly stepped up their marketing spend and innovation capabilities relative to ours, to keep pace with the changing marketplace, and as such, we must invest more if we expect to drive long-term sustainable success.

There are five components in our plan to revitalize Molson Coors. We are going to invest in our iconic brands. We are going to aggressively grow our above premium business. We are going to expand in adjacencies and beyond beer. We will increase our investment in marketing and commercial capabilities. And all of that will be enabled by streamlining our company, resulting in a more effective organization, with additional fuel to fund our investments. As I walk through the plan, I will also highlight how things will be different than before.

We have shown we can improve the performance of our iconic brands and can stabilize brand performance and position for sustainable growth by accelerating investment behind our largest brands, by focusing on recruitment especially of new legal age drinking consumers, by driving relevance with breakthrough marketing, and by innovating on core brands to attract new legal age drinkers. We're seeing what's possible right now with Coors Light in the United States. Now, I understand it's still very early, but the highly acclaimed Coors Light "Made to Chill" campaign that launched in the U.S. is already showing positive results.

The brand is suddenly part of pop culture again with new partnerships, as a topic on late night TV shows and even as a favorite of the Jonas brothers. So much so that in the past few months the brand has generated more than 2 billion PR impressions. Today, after struggling for years in the U.S., Coors Light is finally gaining segment share and seeing volume improvement under the new campaign. Our plan is to put more resources behind breakthrough marketing like this. It's a model for breaking through the noise of your usual big beer ads that we hope to replicate with the new Miller Lite campaign in the U.S. that just launched during the World Series last week. The brand is redefining the iconic Miller Time slogan for a new generation of legal age drinkers, connecting them to Miller Lite in a fresh way that we haven't done before.

These are very different new campaigns for two of our biggest brands. And under our revitalization plan, we can execute big campaigns for our iconic brands without having to sacrifice our efforts to premiumize and modernize our portfolio. Now you know we are not happy with our above premium performance, but we are not without our successes. In Europe, we have successfully transformed our portfolio over the last few years and are now sourcing more than 30% of our volume from above premium brands, including increasing strength for Staropramen. In the U.S., this quarter represented Blue Moon's best quarter since 2017, and Peroni is growing strongly on the strength of the brand and its first national media campaign of the year. And in Canada Belgian Moon is continuing its great run, up forty percent year to date.

Our revitalization plan is intended to give us the resources we need to aggressively build on those above premium success stories with our existing brands, with new innovations and potentially through new bolt-on acquisitions and investments for our portfolio. This means more money to market big ideas like Saint Archer Gold, Blue Moon Light Sky and Coors Peak in the U.S. and Coors Slice and Molson Ultra in Canada. It also means enhancing our ability to bring new beverages to the market more quickly and with more precision. We will expand the model that has reduced the time it takes to bring our innovations to market to as little as four months in the U.S. We will also expand a test and learn approach that lets us determine market potential for products and then quickly scale up like we are with Movo and Saint Archer Gold in the United States. Going forward, we plan to innovate, test, and scale products faster than we ever have before.

We also expect to be able to invest more in whitespace and beyond beer opportunities. This will give us the ability to invest in the continued growth of recent successes like Carling Black Fruits draught in Europe or taking Movo wine spritzers, our first ever canned wine national in the U.S. We also expect it will allow us to fuel an even stronger second year of Cape Line and a stronger third year of Arnold Palmer Spiked in the U.S., which we plan to rapidly scale.

And we need to do more. Our pipeline includes the recent introductions of La Colombe hard coffee in the U.S., Pip & Wild premium ciders in the U.K., Vizzy hard seltzer in the U.S. which we plan to launch early next year, and Truss's new line of Cannabis-infused non-alcoholic beverages in Canada, including the recently announced Flow Glow CBD-infused spring water. You will see us push into these whitespaces faster than we ever have in the past.

Our revitalization plan depends upon our competing and winning on the foundation of our great beers. It also means we must extend beyond the beer aisle, and so beginning January 1, 2020 our corporate name will be Molson Coors Beverage Company. While this is a simple change, the name speaks volumes about who we are and what is possible for our business.

We will also invest in expanding in key capabilities. That will mean improving our digital competencies, expanding our data resources and building out our innovation systems. It will also mean investing in tangible plans to build a more diverse and inclusive organization and to support growth opportunities for our people. We also plan to invest several hundred million dollars to modernize our brewery in Golden, Colorado. This previously planned investment will modernize the brewery to allow for more flexibility, enable us to move with pace and deliver new products to meet changing consumer preferences. The company is not using the cost savings generated from this revitalization plan to make this brewery investment possible.

Those of you keeping models will see we are upping our three-year cost savings plan to $600 million from $450 million. But the reorganization driving that is much more than a new cost-savings program: It comes with the difficult decision to consolidate and reorganize office locations and eliminate a number of positions. It means a streamlined organization, as we are moving from a corporate center and four business units to two business units: North America and Europe. Our North America business unit will combine the United States, Canada and our corporate center, giving us consolidated leadership teams and enabling us to move much more quickly with an integrated portfolio strategy. The Europe business unit will be structured to allow for standalone operations, developed and supported by a European-based team, including a regional leadership team and commercial and support functions.

Our International business provides important growth opportunities, but the existing Molson Coors International team will be reconstituted to more effectively grow our global brands. The international business in the Americas will become part of the North America business unit, while the international business in Africa and Asia will become part of the Europe business unit. It also means a revised leadership team, including Tracey as CFO; Simon Cox as President and CEO of Molson Coors Europe; and Michelle St Jacques as Chief Marketing Officer. We won't have a President of the U.S. business; rather a significant portion of my job will be dedicated to ensuring our success in our North America business unit. We currently estimate the costs of all these changes will result in total one-time costs in the range of approximately $120 million to $180 million over the balance of this year 2020 and 2021. Once the transition is complete our organization will look and act dramatically different than it has in the past and we fully expect to be better positioned to compete in today's fast-paced, competitive market.

Which takes me to our financial outlook. We expect 2020 to be a transition year and anticipate net sales revenue to be flat-to-down low single-digits on a constant currency basis. We expect EBITDA to be down mid-single digits off the base of the last 12 months trailing underlying EBITDA of $2.289 billion on a constant currency basis. We estimate underlying free cash flow of $1.1 billion plus or minus 10%, including higher cash taxes than in 2019 and additional capital spending to support growth. And we are upsizing our expected cost savings from $450 million to $600 million for the period 2020 through 2022, to be spread more or less evenly over that period.

We expect 2021 and thereafter to deliver net sales revenue and EBITDA growth versus 2020, while delivering the remainder of the $150 million in added cost savings. We intend to maintain our investment grade credit rating, and there is no change to our dividend payout objective. The change in structure to two business units will not be effective until January 2020, and therefore the resulting financial reporting changes will not be reflected until our first quarter 2020 results.

This is a lot of change, but we will execute it efficiently because we cannot wait and risk allowing the competition to continue passing us by, to outspend us, to out innovate us, and to outmaneuver us. We will move faster and free up resources. We will invest in our brands and in our capabilities. We will regain the success of our past, and we will create a brighter future for the Molson Coors Beverage Company.

Thank you for your time and attention, and with that, I'll turn it back to Steven for Q&A.

Question-and-Answer Session

Operator

Thank you. We will now begin the question-and-answer session. [Operator Instructions] And our first question comes from Amit Sharma with BMO Capital Markets. Please go ahead.

Drew Levine

Hi, good morning. This is Drew Levine on for Amit. Thanks for taking the question. Just to start on the revitalization plan, I'm calling for a mid-single-digit decrease in EBITDA next year in addition to cost savings. So can you just maybe walk us through what, gives you confidence that the level of investment that you're planning for next year is the right amount and sort of what work was done to arrive at that number? Thank you.

Gavin Hattersley

Well, thanks and good morning, Drew. Look, I mean we've made a lot of progress in the last several years deleveraging and generating cash and delivering on our financial commitments. But I think it’s safe to start investments in innovation capabilities haven't kept pace with our competitors, as I said, what is required in this rapidly changing industry. So under the plan that I've outlined: we're going take more calculated risks, we're going to move faster, we're going to diversify our portfolio. And the revitalization plan that I've laid out just now generates $150 million in cost savings.

But obviously we're not going to get that whole $150 million on day one and we want to start investing behind the ideas that we've got behind the innovations and behind some of the very successful breakthrough marketing that we've generated as well. And so taking the EBITDA guidance down for next year will allow us to invest behind our core brands, behind our new innovations in our above premium portfolio earlier than we would otherwise if we had to wait for the $450 million.

Next question, Steven.

Operator

Our next question comes from Bryan Spillane with Bank of America. Please go ahead.

Bryan Spillane

Hey, good morning everybody. And first I just wanted to thank you for giving some EBITDA guidance. I think it just makes it a lot easier for us to have a little bit of clarity on that as we're trying to evaluate the plan. So thanks for making that change. I guess my question, Gavin, is if we look at the current incentive comp I think on an annual basis, 25% is volume, 25% is revenue per hectoliter, and if I remember correctly that was sort of designed to make sure that the industry – the company was focused on both growing volume and doing it without – doing it irresponsibly. So I guess as you're looking forward now, and especially with a bigger focused on above premium, which implies maybe some brands that are higher value, less volume. Is volume less of a sort of important driver going forward versus just growing revenue? And will that be reflected maybe in the way you change contemplate changing incentive comp?

Gavin Hattersley

Thanks, Bryan for that question and good morning to you. Look, I mean from an incentive comp point of view, we actually going into those conversations now with our compensation committee. This is the cycle of time period when we said that, and I can assure you that the comp committee will want to make sure that our incentive plan is aligned absolutely with what we're trying to do. So next year will be a transition year as I said, as we reshape our portfolio and put the emphasis and focus on where we believe it needs to be and where we have a right to win. And then beyond that as I said, we would expect a growth in both the top-line and the bottom-line. So more to come on that front as we – as we design the incentive with our comp committee, but I can assure you it will be aligned.

Bryan Spillane

But would it be fair to say that volume maybe less important going forward given the focus on some of the smaller, maybe just revenue per unit brands?

Gavin Hattersley

But as we make decisions on our portfolio and make decisions around what we are going to focus on and what we're not going to focus on, obviously that will be reflected in our volume plan for the year ahead. So if there are skews that we believe are unproductive for us to be focusing on and we eliminated them and that would be reflected in the goals for volume. Obviously the emphasis for us is on our core brands and our innovation and our above premium portfolio. And Bryan, we really excited about the innovation portfolio, which we've got coming. The feedback we've got from our distributor network and from our retail partners around brands like Blue Moon Light Sky and Saint Archer Gold and Arnold Palmer Spiked, Cape Line and Peroni I can go on and on and on and is palpable. So obviously the focus will be there for us.

Bryan Spillane

All right. Thanks, Gavin. I'll leave it there.

Operator

Our next question comes from Steve Powers with Deutsche Bank. Please go ahead.

Steve Powers

Hey, thanks. So Gavin, that the plans you laid it out calls for you to invest in brands and invest in above premium, invest more in beyond beer, do it all with increased marketing and funded with accelerated productivity, which I think makes sense. But to what extent is that really a change or just an acceleration of what I think you were really already doing?

And to the earlier question between the incremental savings benefits and the lowered EBITDA outlook, it looks like we're talking about is maybe a couple of hundred million dollars maybe a couple hundred basis points of incremental investment in revitalize marketing and innovation over the life of the plan. Is that right? And if so, why are we sure that that's, that's enough to overcome the headwinds your portfolio has been facing, and as you say, it continues to face? Thanks.

Gavin Hattersley

Yes, we look under the plan that I've outlined, Steve, thanks. What's going to be different? Well, I think you're going to see us take more calculated risks. Hopefully you've already started to see that with some of the breakthrough marketing campaigns that we've gotten. And you'll see that in some of the innovation which we're going to come forward with. I would like to hope that you've already seen a change in how quickly we are coming to market. We've been too slow in the past and we're going to move even quicker than we have in the last sort of six months or so.

And we are going to diversify our portfolio. Changing the name of the company to Molson Coors Brewing Company, it might seem like a small change but it's a very deliberate reflection of where we see potential future growth for us, which is in beyond beer. So we're going to be able to fund the good ideas without making the tradeoffs that we've had to make potentially in the past behind our bigger brands.

So if you're looking for what's different, moderate more calculated risks, moving much quicker and being able to invest behind our core brands, behind breakthrough marketing, behind those core brands, but more particularly behind our both premium and in innovations and beyond beer that's coming. I think that's quite a meaningful difference to what's happened in the past.

Steve Powers

Okay. So just to clarify, so let's say, the changes you can do, it's an endgame, as opposed to having to make a choice between iconic core brands and new and improved initiatives. And then I think you can do – we can do both with the increased level of investment?

Gavin Hattersley

Yes. That's part of it, Steve. That's correct.

Steve Powers

Okay. Thank you very much.

Operator

Our next question comes from Robert Ottenstein with Evercore. Please go ahead.

Robert Ottenstein

Great. Thank you very much. So Gavin, as you look forward, could you kind of give us a sense of, to what extent if any – the firm's capital allocation priorities may change? Where do you see leverage going and it's specifically where I'm coming from is as you talk about going beyond beer so to speak. Does this mean that M&A is going to be a larger focus going forward? And can you give us a sense of order of magnitude and how big and what kind of targets you're giving to the firm for non-beer to be longer term, three, four, five years out? Thank you.

Gavin Hattersley

Thanks, Robert. So a lot of questions there let me try and capture all of them.

So first and foremost, let me reiterate that our investment grade ratings important to us and anything we do in the world of M&A is going to take that into account. I see this as more of a bolt-on strategy, much like we've done in the UK with brands like Sharp’s and breweries like Franciscan Wells and in the United States with the cross companies like Hop Valley and Terrapin. And we're going to build when we can, we'll borrow when we don't have the capabilities like Arnold Palmer Spiked as an example. All the credentials and we'll buy when it's necessary are compelling, but it remains very much a bolt-on strategy.

As far as beyond beer is concerned I'm obviously not going to tip my hand to our competitors just yet, but we've already started moving in that direction and we plan to accelerate that movement. You know, just a few examples of that would be movo wine spritzers, La Colombe hard coffees, Cannabis joint venture in Canada. As I said to Steve on the previous question, changing our name to Molson Coors Beverages actually recognizes what's possible for our business, not only in beer but in beverage, it points to the way forward. And our M&A strategy in this regard would be the same as what I've just said from a bolt-on strategy point of view.

Robert Ottenstein

And the beyond beer would report into Marino?

Gavin Hattersley

It would report into our present and emerging brands that Pete Marino, yes.

Robert Ottenstein

All right. All right. Thank you.

Operator

And our next question comes from Kevin Grundy with Jefferies. Please go ahead.

Kevin Grundy

Thanks, good morning everyone. A brief sort of maintenance one on the prior question. Can you touch on buyback? You did not – stocks obviously underperformed. I am sure you're just pleased about that. Where does share buyback fit in, if at all with respect to capital allocation?

The other question though, the more strategic question, not a big hit on this call so far, but certainly has been in others and that would be Spike Seltzers which obviously continued to do really, really well, didn't really see anything in the release with respect to that. Your key competitors are leaning in here pretty hard both with existing and new brands. ABI obviously coming in with Bud Light, Constellation with Corona, but haven't really heard anything on that front. Update on the Spike Seltzer category whether this is just more investment behind Henry's which has a couple of points of share, but it's been bleeding a bit as of late. Any plans to extend the Coors Light brand? Any update there would be helpful? Thank you very much.

Gavin Hattersley

Cool, okay. I'll take your second question and then Tracey, if you wouldn't mind taking the capital allocation share buyback question. So Kevin, yes, for sure we believe the seltzer category is here to stay. We don't believe it's going to continue to grow at the meteoric rate, which has done forever, but it's a category that we need to do a much better job competing in and we need to do that in a meaningful way and we plan to do that.

Although it's off a small base at the moment, we're excited to see Henry's Spark is growing triple digits and we've got plans to revamp that brand in 2020. In the early next year we're coming out with Vizzy, which is a hard seltzer that we think can effectively compete in the segment in the long-term? It's a brand that's got 5% ABV, 100 calories, but it's got distinguishing characteristics to make it standout from the competition in which we believe can leapfrog them. So stay tuned on that because we'll announce more about Vizzy along with a few other interesting ideas that we've got soon. Tracey?

Tracey Joubert

Okay. So let me pick-up the buyback, Kevin. So we look at our capital allocation model in three buckets. We look at returning cash to shareholders. We just have increased our dividend this last quarter. We announced that earlier this year, so increased it to the 20% to 25% trailing EBITDA. And we look at back – of strengthening our balance sheet, and as Gavin said, maintaining our investment grade rating is really important, but continuing to pay down our debt. And then the third bucket is investing behind growth and the revitalization plan that Gavin has laid-off has got the incremental investment behind our brands and our business. When we look at our capital allocation, we obviously run all of the investments through our PET model. We have discussions with our finance committee around capital allocation and but at this point in time we are focusing on those three buckets as I've mentioned.

Gavin Hattersley

I hope that helps, Kevin. Next question, Steven.

Operator

Our next question comes from Sean King with UBS. Please go ahead.

Sean King

Hi. Thank you. Can you talk about how inputs play into your initial 2020 EBITDA outlook? Are you modeling any benefit from using aluminum or logistics headwinds?

Gavin Hattersley

Thanks, Sean. Look I think the commodity environment is pretty well understood from a public point of view we're expecting freight to come down and then that's demonstrated in the fact that we've reduced our freight surcharge to our distributors over the prior year.

Tracey, do you want to give any additional comments on that?

Tracey Joubert

Yes certainly and soon we will give more guidance in Q4 around our COGS for next year. But certainly we've had a look at number of inputs commodities. We've continued to see inflation this year. So we'll build that into our plans for next year and we have full setting to our plans for next year, but – and if I can ask if you can wait until our Q4 call, we'll give you more details on our COGS guidance for next year.

Sean King

Okay, thank you…

Gavin Hattersley

That'd be on edge that Sean, is obviously that which we know about and we do hedge and we do have freight programs that which we know about is built into our EBITDA guidance that which we don't control like tariffs and it’s not built into guidance.

Sean King

Understood. Thank you.

Operator

Our next question comes from Andrea Teixeira with J.P. Morgan. Please go ahead.

Andrea Teixeira

Hi, good morning. I was just trying to understand what kind of category of growth you’re implying in this guide for 2020, and also your commentary about coming back to growth in 2021 for both top-line and EBITDA? So basically, I mean, number one is that a soft guidance or aspiration?

And number two, if you can give us again the category performance that is embedded in your algorithm. Is that the premium lights in economy, can get to flat and that the growth will be driven by above premium or you're still embedding some decline into premium lights and economy and then getting all the growth with innovation? Thank you.

Gavin Hattersley

Thanks, Andrea and good morning. So let me go maybe category-by-category. From an economy portfolio segment point of view, we're not expecting the economy segment to grow. We're expecting it to decline. As we expect the Premium Light category to decline as well. Our goal within Premium Light with our iconic Miller Lite and Coors Light brands through the breakthrough marketing, which we've developed and we continue to build on along with the additional firepower that we've got, is that we believe we can continue to grow a meaningful share in what is a declining segment. But let's not forget that it's around 100 million hectoliters of volume declining at a sort of 1% to 2% rate. So lot of volume out of there and there's a lot of shade that we can go after. Certainly our forecast saw that the above premium segment will continue to grow, it will grow strongly and we intend to accelerate our share there as we go forward.

Andrea Teixeira

Gavin, I think you – I think another, I think Steve have had asked the question, how much you are aspiring within this and still have your volumes in the U.S. – think your volumes in the U.S. and the above premium is only about 10%, do you think you can – you can get that 10% of how much in the next two years?

Gavin Hattersley

Andrea, so I'm not going to put a specific number to that but I would say to you that we expect to have a meaningfully greater percentage in our both premium portfolio in the years ahead, that's where our investment is going to be, that's where our focus is going to be. Our innovation pipeline is focused there. So just to cover them again, brands like Blue Moon Light Sky and our investment behind Peroni has proven that when we've got marketing that works and we've got the marketing spend to put behind it that we can drive significant growth in our above premium brands. Peroni is up strong-double digits in the first three quarters of 2019 and is more than tripled its growth rate for the first nine months. That's what's different in this plan. When we've got the money and we've got the ideas we can make the brands work.

Andrea Teixeira

Thank you, Gavin.

Operator

And our next question comes from Kaumil Gajrawala with Credit Suisse. Please go ahead.

Kaumil Gajrawala

Everybody, good afternoon. When we think about the – hey Gavin, when I think about the revitalization plan, it sounds, it sounds familiar. You've got a good history of cost savings, achieving the savings, reinvesting it in the business. I think you had outlook some years ago of getting to flat by 2018. It sounds like more money is just – more cost saving is more money getting invested; again I'm expecting a bit of a different outcome. So can you maybe discuss a bit in a bit more detail, what's different this time or how you're approaching it differently and how do you know that the issue is not, it's not just money and investment, but maybe something more broader?

Gavin Hattersley

Yes, that's a great question, Kaumil. So let me try and take that. We've got fine examples of when we have great ideas and we spend more money that we can drive a better performance and we've got green shoots popping up all over the place. From a – what's different point of view, I'll go back to the comments I made earlier on. We are going to take different point of view, I'll go back to the comments I made earlier on. We are going to take more risks than we have in the past. We're going to move much more quickly and we're not going to have to make the trade-off decisions that we may have had to make in the past between where we would put our investment dollars because we were being choiceful and that doesn't mean that we're – that we're going to become irresponsible or reckless and how we spend our money. But we're going to be, we're going to be careful but not as to make the tradeoffs we've had to make up in the past.

What's going to be different is we extend much more beyond beer without having to sacrifice for the larger brands, which I just talked about. We're going to invest a meaningfully bigger amount behind new capabilities, particularly in the world of digital and data management and systems capabilities for our supply chain and resources behind capabilities for our employees. We're going to invest in above premium. Again, we just gave the Peroni example; Blue Moon Belgian White also had its best trends since Q4 2017. Cape Line is a Top 10 growth brand, but allowed 20 consecutive quarters of segment share growth and Coors Light had segment share acceleration of volume improvement following the new creative. So we've got the green shoots, we've got the proof that when we have the firepower we put it behind our brands that we can make a difference.

Kaumil Gajrawala

Okay. If I could just ask you about beyond beer or a little bit more on beyond beer as part of the portfolio, the bulk of the business is still Miller Lite or Coors Light that there is still the two most important by far as you mentioned they're showing some improving trends and you're in at the beginning of a new revitalization plan. How do you prevent beyond beer from being a distraction because if you can get those other two working, the overall business will look much better and you'll be able to invest more in beyond beer at a faster pace. But ideally you'd need to get the core in better condition first. So how do you – changing the company name, all of this happening at the same time, how do you prevent it from being a distraction?

Gavin Hattersley

It's a great question, Kaumil. So, I mean, that is one of the reasons why we've setup a new role in my organization, which is the president of the emerging brands and Pete Marino is going to hit that up and that's going to be focusing on beyond beer. It's going to be focusing on our craft businesses, on our cannabis area, on wine and spirits. It will also look after our license in export brands. So that will be very specifically focused in Pete's area. Michelle is Head of Marketing for North America, but actually for our global brands as well globally. We'll be primarily focused on our core heritage iconic brand.

So we will have two big leaders focusing on these two areas. The part of the plan is ensuring that that we built and funded to do both, Kaumil. I mean that's what's the different about this plan. And the other thing is different is over the last few years, we've made a lot of progress in deleveraging, generating cash and delivering on our financial commitments. But in some respects we've done that and with this plan we're now able to do both.

Kaumil Gajrawala

Okay, got it. Thank you.

Operator

Our next question comes from Vivien Azer with Cowen and Company. Please go ahead.

Vivien Azer

Hi, good afternoon. I wanted to dig in a little bit more on the underlying algorithm for the U.S. from a segment perspective. So I understand what you guys are saying about, you know, really needing to stabilize the core and then over indexing in growth in above and then extending to beyond beer. But it's – you guys aren't the only ones that are doing that. And so, what I'm struggling with a little bit is understanding how the beer category broadly in your portfolio specifically improves because I would think that beer is going to be giving up shelf space from a category perspective to accommodate all this innovation in the hard seltzer. So how are you guys thinking about managing your own shelf space to ensure that this innovation is incremental? And how do you defend against what seemingly should be a shrinking shelf space environment for beer? Thank you.

Gavin Hattersley

Gavin Hattersley

Vivien, great points, right. But I think that ideas and breakthrough marketing and breakthrough innovation will lead the charge and we intend to be at the forefront of that. We've seen what can happen when you bring breakthrough innovation. The seltzer category is a fine example of that. And under our revitalization plan, it's our intent that we are the leader in many of these new capabilities and new brands. We've got a great distribution network and we've got a tremendous chain team, which does – that does a very good job of making sure that we get our fair share of space on the shelf. And I think in combination, we will have the result that we're looking for, which has substantially improved above premium percentage of our portfolio.

Part of what I also said was we'll be making choices and choices sometimes means that we will – we won't focus on brands, which are in meaningful decline or SKUs that are in meaningful decline. And we'll put our resources and focus on the growth areas of our business, which is above premium. We think that algorithm works for us. We think 2020 will be a transition year as we move towards that with growth coming in 2021.

Vivien Azer

Okay, thank you.

Operator

Our next question comes from a Lauren Lieberman with Barclays. Please go ahead.

Lauren Lieberman

Great, thanks. Good morning. One question that I keep getting is whether or not there's actually enough flexibility like in the plan. So coupled with the fact that you've mentioned a couple times remaining investment grade is important and have highlighted the better financial position that you're in. The question is just if EBITDA's forecast to be down mid singles next year in this transition year, if revenues are down, let's say take the low end of your range and say low single digits, it doesn't feel like there is a lot of flexibility to keep the level – number one to hit 3.5, but number two for it not to kind of creep back up a little bit if revenue doesn't come through as hoped because there's greater volume de-leveraging and the category continues to be under so much pressure. So can you just talk a little bit about that element of all of us? How it fits together in terms of financial flexibility and making sure you really do have the room to do everything that you want to do and to feed those areas where you see these green shoots? Thanks.

Gavin Hattersley

Thanks Lauren. Look we've made a lot of progress, as I said, in the last few years, deleveraging and generating cash and delivering on the financial commitments that we made at the time of the acquisition of the 58% of MillerCoors that we didn't own. 2020 is a transition year for us. And we've – there's a lot of hard work to do to implement this revitalization plan. And you said that not all of our spend is going to come in on day one and not all of the cost savings are going to come in on day one. But yes, I do believe that given the work that we've done over the last few years and given the work that we've put into this plan and executing against this plan that we will have the money to put behind the breakthrough ideas and the beyond beer expansion that we want to do. You're seeing the results of that in 2021. Obviously, we'll have green shoots and we'll show them to you as we progressed over the next 12 to 15 months.

Lauren Lieberman

And I guess, Tracey, from your standpoint and the view on unlevered and the importance of the investment grade rating that feels comfortable under the confines of this plan.

Tracey Joubert

Yes. So as Gavin said and we've reiterated a number of times, investment grade rating is very important to us. And so the plan that we've laid out does take that into account.

Lauren Lieberman

Okay, great. Thank you.

Operator

Our next question comes from Bryan Spillane with Bank of America. Please go ahead.

Bryan Spillane

Hey, thanks for taking the follow-up. So just a couple of other cleanups just as we've got some questions in. First, Tracey, the $1.1 billion plus or minus free cash flow guidance for next year. I think your underlying free cash flow typically excludes like the cash costs for restructuring. So I just want to verify that that's the case. It's going to exclude the cash costs related to the restructuring program.

Tracey Joubert

Yes, Bryan, that’s correct. That does exclude that.

Bryan Spillane

Okay. And then I think – in the prepared remarks, I think, there's some discussion about additional CapEx to support growth. So I just wanted to flesh out does that imply that that CapEx rate, which I think that kind of the normalized rate we were thinking over time was about $650 million. Does it imply that it might be a little bit elevated over the course of this three year plan?

Tracey Joubert

Yes. So, again, we’re going to give more detailed CapEx guidance in Q4, when we give our guidance for the 2020 year. So if you don't mind waiting until then, Bryan, we can get into a bit more detail.

Bryan Spillane

Sure.

Gavin Hattersley

And it will be included in the $1.1 billion guidance that we've given, Bryan.

Bryan Spillane

Within the confines of that guidance, okay. That's helpful. And then just the last one, Gavin, the investments in the Golden brewery, is that in part to make the company like more productive or more efficient at producing a wide range of maybe smaller batch production run. So if the ambition is to sort of expand into all these different adjacencies, this sort of retooling at Golden allows you to do that in a more efficient fashion?

Gavin Hattersley

If you go back to – I mean it's part of our overall plan, Bryan, to modernize our brewery network and make us more flexible and more efficient and more able to be nimble in dealing with the changing consumer tastes and profiles that we've got. So, we just commissioned the Chilliwack brewery up in the Vancouver area where we've broken ground on the Montreal brewery and the Golden brewery – and some parts of the Golden brewery are pretty old. And so, this plan will modernize that and make it much more efficient. And again, that's also built into the guidance and its part of our capital plan that we've had for quite some time now, so nothing unusual yet.

Bryan Spillane

All right. Thanks Gavin. Thanks Tracey.

Operator

Our next question comes from Robert Ottenstein with Evercore. Please go ahead.

Robert Ottenstein

Great, thank you also for the follow up and I want to just dig a little bit deeper into the last question. So, on the free cash flow, that's substantially a lower amount or a bigger hit than what's going on the EBITDA line. Obviously, you've got increased CapEx in there. You mentioned during the call that your cash tax rate was going up. Can you give us a sense of kind of the order of magnitude on the cash tax rate? And is that something that is more than a one year item? And are there any other items between the EBITDA line and the free cash flow line please?

Tracey Joubert

Hi, Robert. Yes. So, going into that $1.1 billion as you see lower EBITDA, there is slightly higher CapEx. And again, we'll give more detailed guidance on that in Q4. It’s slightly higher than the current year that we're planning for the higher cash taxes next year. Again, I don't want to give you an absolute number. We'll talk about tax rates and that again. But we took a lot of opportunities with the tax reform last year and this year. So cash taxes, we're not going to get that benefit – going forward as bigger benefit as we got. And then the other item that I just want to mention as well is the working capital. And over the last couple of years, we've got tremendous opportunities that we've delivered around our working capital. And that's just getting more and more difficult to be able to deliver the same kind of quantum on there. So I would say that's the other missing piece for consideration on the free cash flow.

Robert Ottenstein

Great. And then Gavin, just kind of big picture looking at the whole plan, which is I think something that a lot of people have been talking about for a while. The one piece that that seems to be missing or potentially missing is any kind of rationalization of the brewery footprint. Now that you're looking at North America as a whole and you're building out some of the large breweries in Canada and you're building, you're updating Golden. Can you give us your current thoughts on the brewery footprint over the next few years and if there are opportunities there to optimize the system? Thank you.

Gavin Hattersley

Thanks, Robert. Look, I mean, as I've said before, we routinely evaluate our optimal footprint by capacity and efficiency and we're going to continue to do that as the business required. But you're right. I mean the fact that reforming one North American supply chain team under Brian's leadership is going to allow us to make decisions that are more streamlined, that are more coordinated and more effective and they're more quick.

Robert Ottenstein

Thank you.

Operator

Next question comes from Steve Powers with Deutsche Bank. Please go ahead.

Steve Powers

Thank you also for the follow-up. Just qualitatively on the restructuring and the reorganization efforts, clearly that's a funding source for you and a capability enabler longer-term. But near-term, does it actually complicate some of the revitalization efforts just by adding one more big initiative to the organization's plates? And I guess, if so, how do you manage that? You spoke to the complexity of managing sort of beyond beer initiative, but just more tactically, how do you manage the potential distraction of the restructuring and the reorganization itself? Thanks.

Tracey Joubert

Right. I mean, there's no doubt, Steve, that in the short-term it will be a little distracting. I would say that our restructuring is less focused on the front end of the business and larger on the back end of the business, which is a positive. So our objective is to make sure that our retail customers and our distributor network are as little impacted as possible. But we're going to move with great speed and hope to get this done in quite quick order. Obviously, there are some things which will take longer to do than others. Sure, it's hard, but not changing, not really an option for us because we want to make sure that we have the funding resources for the future and we believe that this plan does exactly that.

Steve Powers

Okay. Thank you very much.

Gavin Hattersley

You’re welcome.

Operator

This concludes our question-and-answer session. I'd like to turn the conference back over to Gavin Hattersley for any closing remarks.

Gavin Hattersley

Well, thanks very much Steven. And if there are any additional questions that we weren't able to answer today, Tracey and I are planning to meet with many of you over the next few weeks to answer any clarifying questions that you may have. And in the meantime, you can always contact Mark Swartzberg if there are any more technical questions that you want to ask. So just in closing, I'm very excited about the plan that we've outlined. We're going to take more calculated risks. We're going to move fast. We're going to diversify our portfolio beyond beer. We are going to put the investment behind our iconic brands and our people and our capabilities in a way that we just simply haven't done before. We think we've got the ideas. We think you're seeing the breakthrough marketing that we can come with. And we believe that this plan can get us back to consistent topline growth over the medium-term. So thanks very much for your attention today.

Operator

The conference has now concluded. Thank you for attending today's presentation and you may now disconnect.