



ELEVATION CAPITAL®



MOLSON COORS BREWING COMPANY – VALUE ON TAP

Molson Coors Brewing Company (TAP.US - Market Capitalisation \$12.16B)¹ is the 5th largest brewer in the world by volume following its transformational acquisition of Miller Coors in 2016. Market sentiment is negative towards the business due to the leverage it took on to fund that transaction coupled with its concentration in markets with stagnating standard-beer consumption. We believe both of those concerns can be qualified and consider a price below book value with a +10% free cash flow yield to be an unfair discount to this company's intrinsic value.

TRANSFORMATIONAL MILLER COORS ACQUISITION IN 2016

In 2016 the company acquired the 58% share of Miller Coors owned by its partner in the joint venture, SAB Miller, which was required to divest the subsidiary as part of its acquisition by AB InBev. This was a transformational transaction for Molson Coors which nearly doubled the size of the company.



US BEER MARKET HEADWINDS

Conventional beer sales growth has stagnated in the US market. According to the 2018 *Barth Report* the US beer production declined by -2.6% compared to 2017.² The Miller Coors acquisition increased the company's US exposure from 48% in 2015 before the merger to 67% in 2018. Molson Coors geographical concentration is more pronounced when considering that US and Canada combined accounted for 80% of revenue in 2018. This is the primary driver of negative market sentiment in light of falling beer consumption in many developed markets, particularly the US.

DELEVERAGING

The second driver of negative market sentiment is the short-term debt the company took on to finance the Miller Coors transaction. The 2016 MillerCoors transaction significantly changed the size of the Company's balance sheet and increased its financial leverage. The company has been vigilant in its subsequent debt reduction. Management recognised it is imperative to achieve a swift balance sheet deleveraging to restore market confidence after the Miller Coors transaction. The strong free cash flow generation (\$1.4B in 2018) has been utilised to bring the Debt to EBITDA ratio down from over 5x in 2016 to ~3.75x by mid-2019.

¹ As at 01/06/2019, when Share Price was \$54.96.

² *The Barth Report 2018*, published by Barth-Haas Group:
<https://www.barthhaasgroup.com/en/>



COMMITTED TO INCREASING DIVIDEND PAYMENTS

The company has also committed to increase the dividend for the first time in fifteen quarters, to ~20%-25% annual trailing EBITDA, when this target is reached which we believe the market is not taking into account and expect to see the stock re-rate when the dividend lift occurs in the second half of CY'19.

COST SAVINGS

While the market has identified the geographic concentration and debt levels as a direct result of the Miller Coors transaction, it is failing to recognise the significant cost savings resulting from the transaction. Originally, Management targeted its 2017-2019 cost savings program to deliver \$550M in total cost reduction. As visibility improved, this number was revised up to \$600M in February 2018, and then again to approximately \$700M in November 2018. This highlights the compelling fundamentals of the Miller Coors transaction which the Company is getting little or no credit for at present.

GROWTH OPTIONS DO EXIST

Despite market saturation and declining beer consumption in the US, Molson Coors is not a business that lacks growth opportunities. While conventional beer is stagnating in some developed markets Molson Coors is strategically positioned to benefit from growing categories. This is most prominent in its exposure to the parallel growth of craft beer having the leading craft beer brand in the US and a host of regional champion brands. Molson Coor's management also employs a sound strategy of positioning the company to capture consumer shifts into non-core product segments.

#1
Craft Brewer in US



#1
Craft Brand in US
- Blue Moon



#1
Craft Brand in Spain
- La Sagra



#1
Craft Brand in Ireland
- Franciscan Well



"As long as we continue to expand our portfolio to cover the majority of occasions in the marketplace ... we'll be competing effectively in this market" -Mark Hunter, CEO³

FREE CASH FLOW MACHINE

Molson Coors is a tremendous free cash flow generator. The company reported an FY2018 underlying free cash flow of \$1.4B and its stock is trading at a +10% free cash flow yield which, alongside trading below book value, we believe is a strong indicator the company is priced well below its intrinsic value.

POTENTIAL ACQUISITION TARGET

Molson Coors is the 5th largest brewer in the world by volume. With a market capitalisation of \$12.16B, it is relatively small when compared to larger global alcoholic beverage peers; for example AB Inbev's market capitalisation is over ten times that of Molson Coors at ~\$137B.⁴ We believe Molson Coors remains a potential M&A target once its financial leverage is restored. The beer industry is a scale business and likely to continue its consolidation trend in the face of the headwinds. We do not rest our thesis on an expectation of such a transaction occurring but consider the average 14x EBITDA multiple of industry acquisitions lends insight to what Molson Coors could be worth in such a scenario.

³ Mark Hunter's statements in an appearance on CNBC on 7th June 2017:

<https://www.cnbc.com/video/2017/06/07/whats-on-tap-for-coors.html>

⁴ As at 22/05/2019



SUMMARY

Through successive rounds of M&A, Molson Coors has become one of the largest brewers in the world. In recent years, beer consumption has been declining in some developed countries. This coupled with Molson Coors' higher leverage in the wake of the Miller Coors transaction are the main reasons why Molson Coors is one of the worst performing publicly listed global brewers recently, and is currently trading below Book Value with a +10% FCF Yield. We believe the stock will re-rate in 2019/2020 due to a continuation of the deleveraging process, an increase in quarterly dividends, and successful delivery of its cost saving target of \$700M for the 2017 – 2019 period.

We have constructed an intrinsic valuation range using scenarios for EV/EBITDA multiples informed by our analysis.⁵ Utilising the price at the time of writing of \$54.96 per share⁶ we anticipate a return between:

- ~+67% (using a 12.0x EV/EBITDA) multiple assuming the cost savings and deleveraging targets are met.
- ~+108% (using a 14x EV/EBITDA) multiple assuming the company is acquired by another global brewer.

We would like to highlight that Molson Coors is a company we have successfully invested in Molson Coors in the past and the sell-off in 2018 and 2019 has presented us an opportunity to re-invest. Our previous investment in Molson Coors held from 2011 to 2015 generated an annualised return of +29.8% over a span of 4.7 years.

Molson Coors (TAP) Share Price (USD) – 2011-2019



This summary report was written in June 2019.

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Past performance is not an indication of future results.

⁵ We utilised the company's reported underlying EBITDA for our calculations.

⁶ As at 01/06/2019