

BUSINESS

Corona Brewer Constellation Struggles With Supply Chain

Recent recall traced to Anheuser-Busch InBev supplier



The recent recall of Corona beer in the U.S. isn't expected to affect Constellation Brands' earnings next week because the fourth quarter ended before the recall was issued. *PHOTO: CHRISTOPHE MORIN/BLOOMBERG NEWS*

By **TRIPP MICKLE**

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With Mexican beer sales soaring in the U.S., the biggest hurdle facing Corona brewer Constellation Brands Inc. is its own supply chain.

The company, which reports fourth-quarter earnings Wednesday, issued a recall of Corona in March, its second in the last two years. Distributors scrambled to pull select 12-packs and 18-packs of the top-selling Mexican beer from U.S. stores before consumers drank from bottles containing glass particles.

The recall isn't expected to affect earnings next week because the fourth quarter ended Feb. 29, but it will raise questions from analysts about the cause, cost and possibility of

future recalls.

Constellation's ability to avoid another incident hinges in part on ramping up production at its brewery in Nava, Mexico, so it can reduce its dependency on Anheuser-Busch InBev NV. That is because the recently recalled Corona came from AB InBev breweries in Mexico.

Constellation has been relying on AB InBev for beer production since the brewers struck an agreement in 2013 with the U.S. Justice Department, allowing AB InBev to close its acquisition of Mexican brewer Grupo Modelo by selling Constellation the U.S. rights to Modelo beers and the Nava brewery.

AB InBev said it discovered the glass defect and traced it back to a glass manufacturing plant owned by a third-party supplier, Fevisa.

An AB InBev spokeswoman said the brewer had since reviewed Fevisa's compliance and control measures to make sure it meets AB InBev's "strictest internal quality standards." She added, "We always aim to respect the highest production and safety standards."

But as long as Constellation isn't controlling its supply, CLSA analyst Caroline Levy said "there's a small risk" of another recall happening.

Constellation planned to double production capacity at the Nava brewery to 17 million barrels this year, but sales of Modelo and Corona have been so strong they have outpaced the expansion. The company's beer shipments have increased 23% to 16 million barrels from 13 million barrels in 2013, according to industry tracker Beer Marketer's Insights.

To meet demand, Constellation said earlier this year that it extended its supply agreement with AB InBev through mid-2017. It also plans to increase the Nava brewery capacity by 4.2 million barrels, bringing total annual production to 21 million barrels.

Analyst Ms. Levy projects Constellation will be handling 90% of its production by next year.

Until then, Constellation will continue to rely on AB InBev to supply Corona, a situation that is awkward at best since Constellation's beers are competing with Budweiser and Bud Light in the U.S. Last month, AB InBev introduced a Mexican beer of its own—Estrella Jalisco—to compete with Constellation.

On Wednesday, Constellation Chief Executive Rob Sands will seek to assure investors the company's brewery expansion is proceeding as planned. A spokeswoman said Mr. Sands would address the recall on Wednesday but what he plans to say remains unclear.

Analysts currently expect the company to report fourth-quarter earnings of \$1.14 a share, according to Thomson Reuters, compared with last year's \$1.06 a share.

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