



Does Ontario's New Buck-a-Beer Law Threaten to Hurt Brewers' Bottom Lines?

Description

Today, the Ontario government, led by newly elected premier Doug Ford, announced that it will be bringing back the provinces "buck-a-beer" program starting on August 27 — just in time for the Canadian Labour Day long weekend.

But is the latest move by Ford — clearly an unabashed attempt to win the favour of his beer-drinking constituents — going to have an undesirable impact on the bottom lines of brewers like **Molson Coors Canada** ([TSX:TPX.B](#))([NYSE:TAP](#)), **Boston Beer Company**, **Anheuser Busch**, and others?

However, Ford says that "nobody is being forced to lower their prices."

The PC government doesn't plan to enact any forced price reductions on provincially sold beer, nor does the government plan to provide subsidies to brewers, nor will provincial taxpayers be required to foot the bill.

Rather, the government plans to offer "non-financial incentives" to brewers who are willing to drop their selling price to \$1 per bottle or can of beer containing less than 5.6% alcohol volume.

These non-financial incentives could include placing promotional displays near store fronts or supplying paid-for advertisements in print publications available for free in the province's beer and liquor stores.

So, if the government isn't going to force brewers to artificially lower their prices, it shouldn't have an impact on their bottoms lines, right?

Not necessarily.

While the new program won't impact beer prices directly, there do appear to be some very obvious indirect impacts on the province's beer market, which could end up affecting the reported earnings of companies like Molson Coors when they report results later this year.

North American beer markets were already struggling to start 2018, as overall beer sales have

declined, and mass market brewers like Molson Coors are facing increased competition from threats like craft beers, wines, spirits, and, more recently, [impending marijuana legalization](#).

As a result, and almost without question, brewers will choose to take advantage of the buck-a-beer rollback, which was eliminated by Kathleen Wynne's Liberal government back in 2008, by taking on a more promotional approach to generating increased sales.

What could very well ensue is a "race to the bottom," where brewers like Molson end up sacrificing short-term profits in exchange for a greater share of the province's beer market.

Keep in mind that mass-market mega-brewers like Molson, Anheuser Busch, and others have far greater financial resources as compared to smaller craft brewers — many of which struggle to generate profits and positive cash flows on a quarterly basis.

In theory, the sheer size of Molson and others could allow them to take advantage of Ford's latest program by engaging in a long and drawn-out price war with smaller competitors.

While this could end up negatively impacting Molson's earnings over the next several quarters — and potentially disappointing shareholders in the process — it could also drain the financial resources of some of those smaller craft brewers and end up playing to the financial strength of Molson over the long run.

Bottom line

Those owning shares in Molson Coors may want to brace themselves for what's ahead, particularly following what's been, for the most part, a rough start to 2018.

However, it could end up turning out that Ford's plan to promote beer sales across the province — along with his recently announced plan to accelerate beer sales across grocery and convenience stores — ends up being [a positive catalyst](#) for the company's share price over the long-run.

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