

NEW RISK ALERT: (STZ)

## Constellation Brands May Have to Stop Selling Corona Hard Seltzer

Spirits company also discloses a \$650 million impairment charge after abandoning a brewery it had already started building.

By [Nick Winkler](#)

June 29, 2021

*This alert compares the language used in the company's latest filing with the period before. [Research](#) suggests changes in language, particularly in the risk factor section, is a powerful indicator of future performance. Companies that change filing language, according to research, underperform those that don't by 30-50 basis points per month for the following year.*

### Constellation Brands May Have to Stop Selling Seltzer Under the Corona Brand Name

On February 15, 2021, Constellation Brands, beer, wine, and marijuana company, revealed a lawsuit had been filed by Cervecería Modelo de México over the licensing rights to the Modelo brand. In its latest [10-K](#), Constellation disclosed the argument revolves around whether it can use the Corona brand for drinks other than beer:

*"...alleging, among other things, that our sublicense of the trademarks for our Mexican beer brands **should not permit us to use the Corona brand name on our Corona Hard Seltzer.**"*

Constellation says the drink is the fourth best selling seltzer brand, a high end category attracting younger drinkers and taking share from some traditional beer brands. The lawsuit could force Constellation to pay up to continue using the brand name or worse:

*"While we believe this lawsuit is without merit, if we are not successful, **we may not be able to market our hard seltzer product in its current formulation under the Corona brand name** which may have an adverse effect on our business and financial condition."*

It's a lawsuit to watch as Constellation doubles and triples down on Corona Hard Seltzer: Constellation just expanded the product into new flavors and introduced a second Corona Hard Seltzer variety pack. It also plans to launch a Corona Hard Seltzer lemonade in the summer and is working to increase distribution of the seltzer in a variety of package size formats.

It's the latest in a string of problems for the company and its business endeavors in Mexico. Constellation is taking an impairment charge of \$650- \$680 million after abandoning its brewery in Mexico City following violent protests over water usage concerns that culminated in a [vote](#) halting the brewery's construction which had already begun.

## UPDATE: Grapes Tainted by Wildfire Smoke Cost Constellation \$78.6 Milion

We first flagged the impact of wildfire on Constellation's grapes in a [New Risk Alert](#) in January 2021 ater the company reported a \$26.5 million dollar grape writedown due to smoke damage. In its most recent annual report, Constellation revealed the losses continue to rise:

*"We continue to assess when to use our rights under law and our supply contracts to reject grapes that are damaged from wildfires. For the year ended February 28, 2021, we recognized a **\$78.6 million loss** in connection with the write-down of bulk wine inventory and certain grapes as a result of smoke damage sustained during the 2020 U.S. wildfires."*

Though the company did recoup \$8.2 million from its insurance coverage, Constellation disclosed more losses due to the impact wildfires had on production facilities:

*"Additionally, for the year ended February 28, 2021, we recognized \$28.6 million in unfavorable fixed cost absorption from decreased production levels at certain facilities as period costs in cost of product sold within our consolidated results of operations in the Wine and Spirits segment rather than capitalized in inventories."*