Brown-Forman (BF-B)

Updated April 17th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$56	**5 Year CAGR Estimate:**	5.3%	**Quality Percentile:**	N/A
Fair Value Price:	$44	**5 Year Growth Estimate:**	8.8%	**Momentum Percentile:**	N/A
% Fair Value:	126%	**5 Year Valuation Multiple Estimate:**	-4.6%	**Total Return Percentile:**	N/A
Dividend Yield:	1.1%	**5 Year Price Target**	$68	**Valuation Percentile:**	

Overview & Current Events

Brown-Forman is an alcoholic beverages company that is based in Louisville. The company was founded in 1870 and has a market capitalization of $27 billion. Brown-Forman produces and sells whiskeys, vodka, tequila, champagne and wine. Its brands include Jack Daniel's, Finlandia Vodka, Old Forester and many more.

During its most recent earnings announcement Brown-Forman reported earnings per share of $0.44 and revenues of $880 million (up nine percent year over year).

Going forward Brown-Forman will benefit considerably from lower taxes, as the company's tax rate is forecasted to drop to 21% from ~30% in FY 2018.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$0.77	$0.82	$0.95	$0.95	$1.07	$1.22	$1.28	$1.38	$1.37	$1.65	***$1.80***	***$2.75***
DPS	$0.30	$0.31	$0.33	$0.36	$0.39	$0.44	$0.48	$0.52	$0.56	$0.59	***$0.63***	***$0.97***

Brown-Forman has a strong growth track record. The company has been able to increase its profits even during the last financial crisis. In 2016 and 2018 profitability declined slightly, but during the 2012 to 2017 time frame Brown-Forman still grew its profits per share by an attractive nine percent annually.

Brown-Forman's earnings growth has been based on revenue growth and some margin increases in the past. Thanks to the fact that Brown-Forman owns strong brands and is active in the super-and ultra-premium alcoholic beverages markets (which see consistent market growth), Brown-Forman should be able to keep its revenues growing going forward.

Higher overall sales allow for margin increases due to better economics of scale, which makes the company more efficient overall. Share repurchases, which have lowered Brown-Forman's share count considerably over the last decade, have had a positive impact on the company's earnings per share growth as well.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	17.8	16.1	17.9	21.4	24.1	24.7	28.4	28.8	27.6	33.2	***31.1***	***24.6***
Avg. Yld.	2.2%	2.4%	1.9%	1.8%	1.5%	1.4%	1.3%	1.3%	1.5%	1.1%	***1.1%***	***1.4%***

Brown-Forman is a high-quality company that produces consistent growth rates, has raised its dividend annually for more than 30 consecutive years, and is relatively recession-proof. The market has rewarded Brown-Forman with a well-deserved high valuation.

With that said, the current valuation is substantially higher than the historic average over the last decade. There is substantial potential for valuation declines going forward. Brown-Forman's dividend yield is not high, but the company does, in addition to its regular dividends, make special dividend payments occasionally. Recently Brown-Forman announced a $1.00 per share special dividend (which lifts this year's yield to roughly 3.0%).

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	50.1%	45.4%	47.6%	46.4%	51.7%	54.0%	50.7%	52.0%	51.2%	43.6%	***45.0%***	***45.0%***
Debt/A	49.3%	47.7%	44.1%	44.5%	40.5%	55.1%	50.5%	54.4%	62.7%	70.4%	***75.0%***	***80.0%***
Int. Cov.	16.9	21.5	25.5	33.0	28.3	27.3	40.5	41.1	34.9	17.7	***17.0***	***15.0***
Payout	39.0%	37.8%	34.7%	37.9%	36.4%	36.1%	37.5%	37.7%	40.9%	35.8%	***35.0%***	***35.3%***
Std. Dev.	40.2%	29.5%	20.5%	26.2%	16.6%	16.6%	16.5%	18.1%	18.6%	20.1%	***21.0%***	***19.0%***

Brown-Forman does not have a very expansive asset base, thus the company is able to generate a high amount of gross profits relative to the assets it owns. Brown-Forman has leveraged up over the last decade, financing close to three quarters of its assets with debt. The company is in no way overleveraged, though, as the interest coverage ratio remains very high. Brown-Forman has taken advantage of the very low interest rates over the last couple of years, which is an intelligent and opportunistic move.

Brown-Forman's strong brands and the tendency of customers to stick with the brands they like is a big competitive advantage, along with the fact that Brown-Forman is one of the largest players in its industry, which allows for better economics of scale and a wider geographic reach.

During the last financial crisis Brown-Forman remained highly profitable and actually increased its earnings, which is not a big surprise as demand for alcoholic beverages tends to not be volatile. Brown-Forman should be able to weather future economic downturns well, too.

Final Thoughts & Recommendation

Brown-Forman is a very high-quality company that produces high returns on the capital that it invests, is recession-resistant, and that has provided a strong earnings growth record. On top of that Brown-Forman is a Dividend Aristocrat with more than 30 years of annual dividend increases.

Going forward the stock's high current valuation will be a negative, though, as multiple normalization will pressure total returns going forward. Despite the strong growth rates Brown-Forman has been generating, shares will likely only produce annual returns in the mid-single digit range over the next five years.

Brown-Forman is an excellent business, but it isn't a good stock purchase today due solely to its overvaluation. When Brown-Forman is trading at or below its historical average valuation multiple it will make a compelling buy for investors interested in safety as well as EPS and dividend growth.

Total Return Breakdown by Year