



Brown-Forman (BF.B)

Updated June 6th, 2019 by Jonathan Weber

Key Metrics

Current Price:	\$54	5 Year CAGR Estimate:	4.0%	Volatility Percentile:	78.5%
Fair Value Price:	\$40	5 Year Growth Estimate:	8.8%	Momentum Percentile:	60.4%
% Fair Value:	135%	5 Year Valuation Multiple Estimate:	-6.0%	Growth Percentile:	87.0%
Dividend Yield:	1.2%	5 Year Price Target	\$60	Valuation Percentile:	4.9%
Dividend Risk Score:	A	Retirement Suitability Score:	C	Total Return Percentile:	8.3%

Overview & Current Events

Brown-Forman is an alcoholic beverage company that is based in Louisville. The company was founded in 1870 and has a market capitalization of \$26 billion. Brown-Forman produces and sells whiskey, vodka, tequila, champagne and wine. Its brands include Jack Daniel's, Finlandia Vodka, and Old Forester among others.

Brown-Forman reported its fourth quarter (fiscal 2019) earnings results on June 5. The company announced that it generated revenues of \$744 million, which was 1.5% more than the revenues it produced during the previous year's fourth quarter. Brown-Forman's revenues came in below the analyst consensus. Brown-Forman's management points out that the underlying net sales growth rate was higher than that, as adverse currency rate movements lopped off 200 basis points from Brown-Forman's organic sales growth rate, while tariffs also represented a 100 basis point headwind. Brown-Forman was able to grow its operating income by 9% during fiscal 2019, while its earnings-per-share grew to \$1.73 during fiscal 2019. This means that earnings-per-share came in at the upper end of management's guidance, as Brown-Forman's management guided for earnings-per-share of \$1.65 to \$1.75 during fiscal 2019.

Brown-Forman announced that it expects revenues of \$3.49 billion to \$3.56 billion during fiscal 2020, which compares favorably to the \$3.3 billion in revenues that Brown-Forman generated during fiscal 2019. The company also forecasts that its earnings-per-share should come in around \$1.75 to \$1.85 this year.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$0.95	\$0.95	\$1.07	\$1.22	\$1.28	\$1.38	\$1.37	\$1.65	\$1.67	\$1.73	\$1.80	\$2.74
DPS	\$0.33	\$0.36	\$0.39	\$0.44	\$0.48	\$0.52	\$0.56	\$0.59	\$0.63	\$0.65	\$0.66	\$0.97
Shares	551	544	533	534	534	522	494	480	481	480	478	468

Brown-Forman has a strong growth track record; the company was even able to increase its earnings-per-share during the last financial crisis. Demand for alcohol is not cyclical. During the 2010 to 2019 time frame, Brown-Forman grew its earnings-per-share by a solid pace of 7% a year. Earnings-per-share were driven by a combination of several factors, including revenue growth, rising margins, and the impact of a declining share count.

Underlying sales growth has been solid during the last couple of quarters. Due to currency headwinds – the strong dollar results in lower reported sales when sales in other currencies are translated back to USD – the reported revenue growth rate was not as strong. 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. This has been the most important growth factor for Brown-Forman in the past.

Brown-Forman's Jack Daniels brand, as well as its American super-premium whiskeys, continue to grow around the globe, although tariffs are a short-term headwind according to management. International operations were the main growth driver during the last couple of quarters and will likely remain an important growth factor going forward. Higher overall sales allow for margin increases due to better economics of scale, which makes the company more efficient overall, which positively impacts the net earnings growth rate. Brown-Forman has bought back a considerable number of shares throughout the last decade, which has been a tailwind for its earnings-per-share growth rate.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	17.9	21.4	24.1	24.7	28.4	28.8	27.6	33.2	32.0	30.6	30.0	22.0
Avg. Yld.	1.9%	1.8%	1.5%	1.4%	1.3%	1.3%	1.5%	1.1%	1.1%	1.2%	1.2%	1.6%

Shares of Brown-Forman never were especially cheap, but in recent years, the company's multiple has risen to an even higher level. Shares became slightly less expensive since the valuation peaked in 2017, but they still trade at a premium valuation of 30 times net profits. This is a premium over the long-term median and our fair value estimate of a 22 times earnings multiple. The company makes special dividend payments regularly, when we include its most recent special dividend payment of \$1.00 per share, its dividend yield is quite solid at 3.1%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	34.7%	37.9%	36.4%	36.1%	37.5%	37.7%	40.9%	35.8%	37.7%	37.6%	36.7%	35.4%

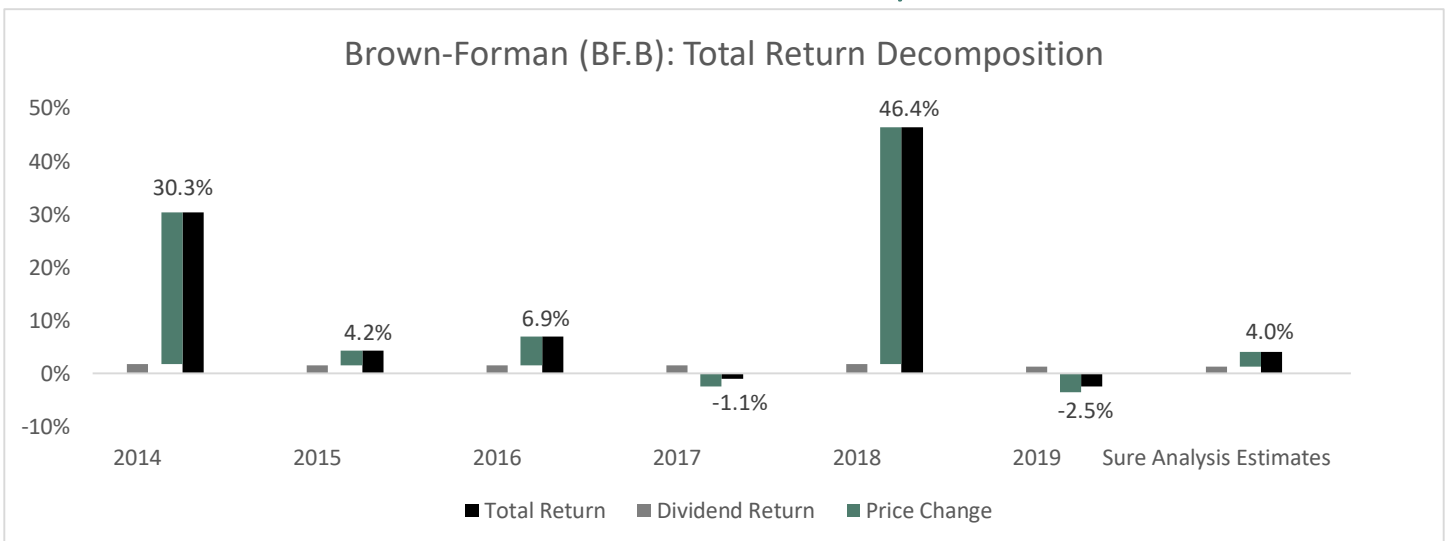
Brown-Forman's dividend payout ratio has been extremely stable over the last decade, the company paid out between 35% and 40% of its net profits during almost every year in that time frame. The reliable dividend growth track record and the low payout ratio mean that Brown-Forman's dividend looks highly sustainable and very safe.

Brown-Forman's strong brands and the tendency of customers to stick with the brands they like is a tremendous competitive advantage. This, 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, makes Brown-Forman highly competitive. During the last financial crisis Brown-Forman remained highly profitable and actually increased its earnings, which is unsurprising, as demand for alcohol tends to be quite consistent. Brown-Forman should be able to weather future recessions well.

Final Thoughts & Recommendation

Brown-Forman is active in an attractive, non-cyclical industry. Brown-Forman is a high-quality company that has achieved compelling earnings and dividend growth rates in the past. Unfortunately shares trade at a high valuation right now, which is why we only forecast mid-single digits total returns over the coming five years. We rate Brown-Forman a sell given the high valuation and relatively low total return prospects.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue										
Gross Profit										
Gross Margin										
SG&A Exp.										
D&A Exp.										
Operating Profit										
Operating Margin										
Net Profit										
Net Margin										
Free Cash Flow										
Income Tax										

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets										
Cash & Equivalents										
Accounts Receivable										
Inventories										
Goodwill & Int. Ass.										
Total Liabilities										
Accounts Payable										
Long-Term Debt										
Shareholder's Equity										
D/E Ratio										

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets										
Return on Equity										
ROIC										
Shares Out.										
Revenue/Share										
FCF/Share										

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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