



Constellation Brands Inc. (STZ)

Updated April 3rd, 2020 by Eli Inkrot

Key Metrics

Current Price:	\$134	5 Year CAGR Estimate:	9.7%	Market Cap:	\$25.5 B
Fair Value Price:	\$153	5 Year Growth Estimate:	5.0%	Ex-Dividend Date¹:	5/4/20
% Fair Value:	88%	5 Year Valuation Multiple Estimate:	2.7%	Dividend Payment Date¹:	5/19/20
Dividend Yield:	2.3%	5 Year Price Target	\$195	Years Of Dividend Growth:	4
Dividend Risk Score:	B	Retirement Suitability Score:	D	Last Dividend Increase:	1.4%

Overview & Current Events

Constellation Brands was founded in 1945. The \$25 billion market cap company produces and distributes alcoholic beverages including beer, wine and spirits. With over 100 brands in its portfolio, it is the No. 3 beer company in the U.S. as it imports and sells beer brands such as Corona, Modelo Especial, Modelo Negra, and Pacifico, along with craft beer brands including Funky Buddha Brewery. In addition, Constellation has many wine brands including Robert Mondavi, Clos du Bois, Kim Crawford, Mark West, and Black Box, as well as spirits brands including SVEDKA Vodka, Casa Noble Tequila, and High West Whiskey. The company also has a stake in cannabis company Canopy Growth.

On April 3rd, 2020 Constellation Brands reported Q4 and fiscal year 2020 results for the period ending February 29th, 2020. For the quarter Constellation Brands recorded \$1.903 billion in net sales, representing a 6% improvement compared to Q4 of last year, led by a 7.2% increase in beer shipping volumes and an 8.9% increase in net beer sales. Reported earnings-per-share equaled \$2.06, however this included losses attributable to Canopy Growth. Adjusted earnings equaled \$2.18 compared to \$1.90 previously. For the year Constellation Brands generated revenue of \$8.344 billion, representing 3% year-over-year improvement, led by a 6.1% increase in beer shipment volumes and an 8.1% increase in net beer sales. Earnings-per-share equaled \$9.12 or \$9.89 excluding Canopy versus \$9.34 previously.

Prior to the COVID-19 pandemic, Constellation Brands had expected 7% to 8% growth in beer sales, a -30% to -35% decline in wine as a result of divestitures, \$2.3 billion to \$2.5 billion in operating cash flow and \$385 million to \$395 million in interest expense. However, the company is not providing guidance at this time due to uncertainty.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$1.91	\$2.35	\$2.19	\$3.25	\$4.44	\$5.43	\$6.76	\$8.72	\$9.34	\$9.89	\$8.50	\$10.85
DPS	---	---	---	---	---	\$1.24	\$1.60	\$2.08	\$2.96	\$3.00	\$3.04	\$3.88
Shares²	210	194	190	196	200	199	195	191	191	195	195	195

Note: Constellation Brands completed fiscal 2020, but we are displaying earnings closer to the actual calendar year.

Constellation Brands has put together a terrific record in the last decade, growing earnings-per-share by over 19% per year. However, it's important to underscore that this was during a time when the company's revenue more than doubled and its net profit margin went from under 10% to over 22%. Both of these aspects get more difficult to improve.

In a highly competitive U.S. beer, wine, and spirits market, Constellation Brands has differentiated itself with a focus on what the company describes as "premiumization" trends. This means the company is pursuing growth in the high-end of the beer, wine, and spirits categories. It is also expanding into new product categories to appeal to changing consumer preferences. An example of this is the August 2017 acquisition of Funky Buddha, which included a portfolio of craft beers to add exposure to the high-growth craft beer segment of the U.S. beer market. In 2018, Constellation Brands acquired Four Corners Brewing, and recently Constellation Brands invested \$4 billion in cannabis producer Canopy Growth, giving

¹ Estimate

² In millions.

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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it a 38% ownership stake. Taking into consideration the strong history and growth avenues available to the company, paired with short-term uncertainty related to demand during the coronavirus pandemic, we expect 5% earnings growth.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Avg. P/E	9.5	8.7	13.6	18.4	20.3	23.6	23.3	22.7	22.2	19.9	15.8	18.0
Avg. Yld.	---	---	---	---	---	1.0%	1.0%	1.1%	1.4%	1.5%	2.3%	2.0%

In the last six years, shares of Constellation Brands have routinely traded hands at or above 20 times earnings. However, recently the share price has fallen significantly, and the valuation is under 16 times earnings amid the unknowns related to the coronavirus. If shares were to revert to their historical average – 18 times earnings – this would imply a moderate valuation tailwind from this point.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	---	---	---	23%	24%	24%	32%	30%	36%	36%

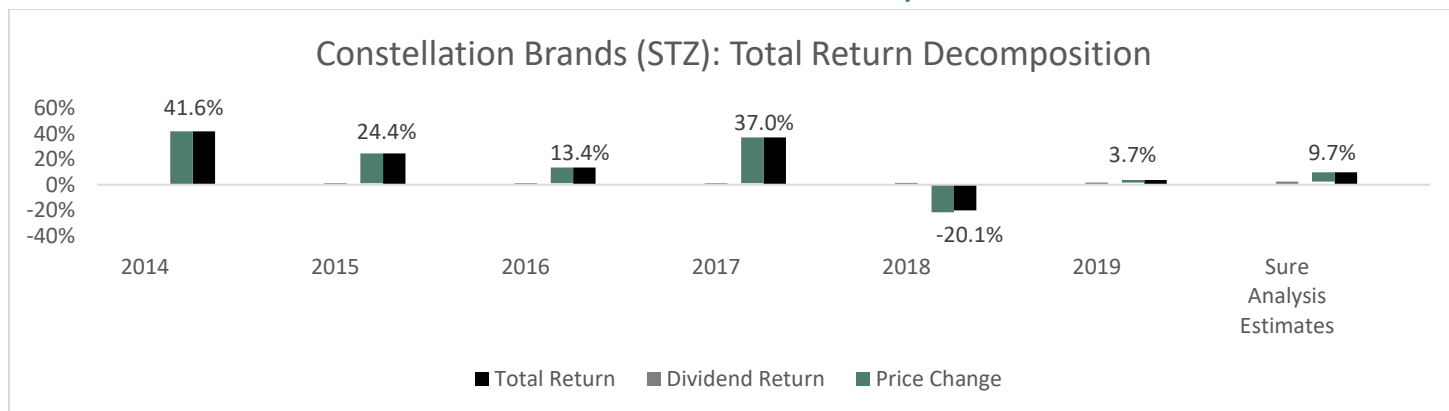
Constellation Brands has a number of competitive advantages. Its long list of strong brands gives the company pricing power. It has six of the top 15 imported U.S. beer brands, and 19 of the 100 top-selling wine brands. Its strong distributor network provides an effective route-to-market for the company's strategy in premium categories. Another benefit of Constellation Brands' business is that it can withstand downturns very well. Alcoholic beverages are generally resistant to recessions. During the last recession, Constellation Brands reported earnings-per-share of \$1.68, \$1.44, \$1.60 and \$1.91 during the 2006 through 2009 stretch.

As of the most recent report, Constellation Brands held \$81 million in cash, \$3.5 billion in current assets (39% of which was inventory) and \$27.3 billion in total assets (38% of which was goodwill and intangible assets) against \$2.3 billion in current liabilities and \$14.8 billion in total liabilities. Long-term debt stood at \$11.2 billion against underlying annual earnings power of roughly \$1.7 billion.

Final Thoughts & Recommendation

Shares are down -29% since our last update, with our earnings expectations declining as well. Constellation Brands has generated incredible returns for shareholders since 2011. Much of the returns were fueled by an expanding valuation and earnings growth, both of which are in question today. Still, we are forecasting 9.7% total return potential stemming from 5% growth, a 2.3% starting dividend yield and a moderate valuation tailwind. Shares continue to earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	3332	2654	2796	4868	6028	6548	7332	7585	8116	8344
Gross Profit	1190	1062	1108	1992	2579	2942	3529	3817	4080	4152
Gross Margin	35.7%	40.0%	39.6%	40.9%	42.8%	44.9%	48.1%	50.3%	50.3%	49.8%
SG&A Exp.	641	538	585	895	1078	1177	1392	1533	1668	1622
D&A Exp.	125	104	115	155	162	180	238	294	333	327
Operating Profit	549	525	523	1097	1500	1765	2137	2285	2412	2530
Operating Margin	16.5%	19.8%	18.7%	22.5%	24.9%	27.0%	29.1%	30.1%	29.7%	30.3%
Net Profit	560	445	388	1943	839	1055	1535	2319	3436	-12
Net Margin	16.8%	16.8%	13.9%	39.9%	13.9%	16.1%	20.9%	30.6%	42.3%	-0.1%
Free Cash Flow	531	716	494	603	362	522	789	874	1360	1825
Income Tax	-9	89	129	259	343	441	554	12	686	-967

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	7168	7110	7638	14302	15093	16965	18602	20539	29232	27323
Cash & Equivalents	9	86	332	64	110	83	177	90	94	81
Accounts Receivable	417	438	472	626	599	733	737	776	847	865
Inventories	1369	1375	1481	1744	1827	1852	1955	2084	2130	1374
Goodwill & Int. Ass.	3506	3499	3594	9378	9389	10542	11298	11388	11287	10476
Total Liabilities	4616	4434	4778	9321	9212	10273	11718	12476	16394	14849
Accounts Payable	129	131	209	295	286	429	560	592	617	558
Long-Term Debt	3236	3130	3305	7021	7297	8081	9238	10187	13617	12185
Shareholder's Equity	2552	2676	2860	4981	5771	6560	6891	8046	12551	12132
D/E Ratio	1.27	1.17	1.16	1.41	1.26	1.23	1.34	1.27	1.08	1.00

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	7.3%	6.2%	5.3%	17.7%	5.7%	6.6%	8.6%	11.8%	13.8%	0.0%
Return on Equity	21.8%	17.0%	14.0%	49.6%	15.6%	17.1%	22.8%	31.0%	33.4%	-0.1%
ROIC	9.2%	7.7%	6.5%	21.4%	6.7%	7.5%	9.9%	13.5%	15.4%	0.0%
Shares Out.	210	194	190	196	200	199	195	191	196	195
Revenue/Share	15.59	12.72	14.69	24.64	29.96	32.13	35.92	37.78	41.51	43.54
FCF/Share	2.48	3.43	2.60	3.05	1.80	2.56	3.86	4.35	6.96	9.52

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

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