



Brown-Forman (BF.B)

Updated June 10th, 2020 by Jonathan Weber

Key Metrics

| | | | | | |
|-----------------------------|------|--|--------|----------------------------------|----------|
| Current Price: | \$68 | 5 Year CAGR Estimate: | -3.1% | Market Cap: | \$32B |
| Fair Value Price: | \$39 | 5 Year Growth Estimate: | 7.0% | Ex-Dividend Date: | 06/08/20 |
| % Fair Value: | 177% | 5 Year Valuation Multiple Estimate: | -10.8% | Dividend Payment Date: | 07/01/20 |
| Dividend Yield: | 1.0% | 5 Year Price Target | \$54 | Years Of Dividend Growth: | 30 |
| Dividend Risk Score: | A | Retirement Suitability Score: | C | Last Dividend Increase: | 5.0% |

Overview & Current Events

Brown-Forman is an alcoholic beverage company that is based in Louisville. The company was founded in 1870. Brown-Forman produces and sells whiskey, vodka, tequila, champagne and wine. Its portfolio includes a range of mostly premium brands, such as Jack Daniel's, Finlandia Vodka, Old Forester, and many others.

Brown-Forman reported its fourth quarter (fiscal 2020) earnings results on June 9. The company announced that it generated revenues of \$709 million, which was down 5% from the revenues the company generated during the previous year's quarter. Brown-Forman's revenues came in well above the analyst consensus, beating it by \$28 million. Sales declines were attributed to headwinds from the global coronavirus pandemic, which impacted sales in a variety of regions, due to lockdowns and other measures.

Brown-Forman's earnings-per-share totaled \$0.27 during the fourth quarter, which was marginally below the consensus analyst estimate, missing the consensus by \$0.01. The quarter's profits were down substantially year-over-year, due to lower revenues and operating leverage headwinds. Brown-Forman did not announce any guidance for fiscal 2021, the current fiscal year, due to large uncertainties regarding the impact of the pandemic, but it seems very likely that profits will be down. We calculate Brown-Forman's fair value using an earnings power estimate of \$1.75 for 2021.

Growth on a Per-Share Basis

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2026 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| EPS | \$0.95 | \$1.07 | \$1.22 | \$1.28 | \$1.38 | \$1.37 | \$1.65 | \$1.67 | \$1.73 | \$1.73 | \$1.60 | \$2.45 |
| DPS | \$0.36 | \$0.39 | \$0.44 | \$0.48 | \$0.52 | \$0.56 | \$0.59 | \$0.63 | \$0.65 | \$0.70 | \$0.70 | \$0.94 |
| Shares¹ | 544 | 533 | 534 | 534 | 522 | 494 | 480 | 481 | 480 | 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, which can be explained by the fact that demand for alcohol is not very cyclical. During the 2010 to 2019 time frame, Brown-Forman grew its earnings-per-share by a solid pace of 7%. 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 years. 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 during that time frame. 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 in the long run. This has been the most important growth factor for Brown-Forman's earnings-per-share in the past. Brown-Forman's Jack Daniels brand, as well as its American super-premium whiskeys, continue to gain market share around the globe. In the near term, results will be slowed down by the coronavirus headwind, which makes people go out less often, which is why they consume less alcohol. In many countries, restaurants, bars, and clubs are not allowed to open at all, which hurts Brown-Forman's outlook for the current fiscal year. In the long run, however, we believe that these headwinds will cease to exist, and that Brown-Forman will get back on its growth track eventually.

¹ 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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Valuation Analysis

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Now | 2026 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E | 21.4 | 24.1 | 24.7 | 28.4 | 28.8 | 27.6 | 33.2 | 32.0 | 30.6 | 35.8 | 38.9 | 22.0 |
| Avg. Yld. | 1.8% | 1.5% | 1.4% | 1.3% | 1.3% | 1.5% | 1.1% | 1.1% | 1.2% | 1.1% | 1.0% | 1.7% |

Shares of Brown-Forman never were especially cheap, but in recent years, the company's multiple has risen to an even higher level. Shares have recovered their losses since our last update, and they are valued at close to 40 times this year's forecasted earnings power. This is a huge 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 2.5%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2026 |
|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Payout | 37.9% | 36.4% | 36.1% | 37.5% | 37.7% | 40.9% | 35.8% | 37.7% | 37.6% | 40.5% | 40.0% | 38.2% |

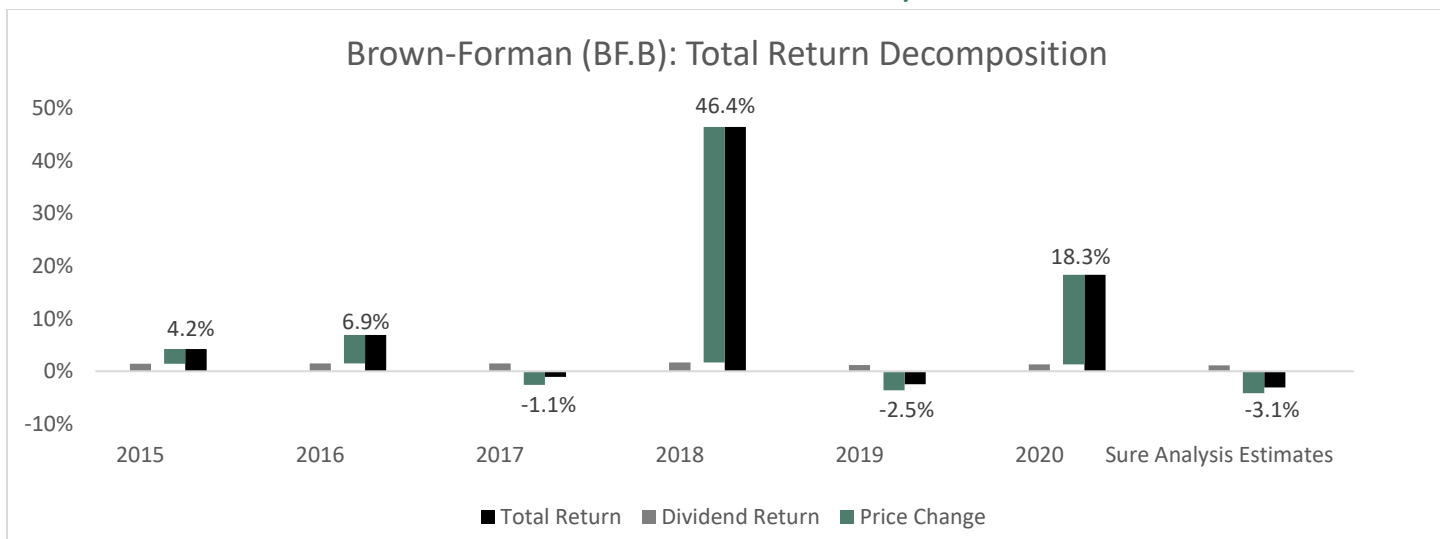
Brown-Forman's dividend payout ratio has been extremely stable over the last decade, as the company paid out between 35% and 40% of its net profits during almost every year. The reliable dividend growth track record and the low payout ratio mean that Brown-Forman's dividend looks highly sustainable and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

Brown-Forman's strong brands and the tendency of customers to stick with the brands they like is a huge competitive advantage. This, along with the fact that Brown-Forman is one of the largest players in its industry, which allows for better economies of scale and a wider geographic reach, makes the company 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. The impact from the coronavirus crisis will likely also not be very large.

Final Thoughts & Recommendation

Brown-Forman is active in an attractive, relatively non-cyclical industry. Brown-Forman also is a high-quality company that has achieved compelling earnings and dividend growth rates for long periods of time. Unfortunately, shares continue to trade at a very high valuation, which is why we do not forecast attractive total returns over the coming five years. We rate Brown-Forman a sell given the high valuation and the company's weak total return prospects.

Total Return Breakdown by Year



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Income Statement Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue | 2,586 | 2,723 | 2,849 | 2,991 | 3,134 | 3,089 | 2,994 | 3,248 | 3,324 | 3,363 |
| Gross Profit | 1,724 | 1,795 | 1,955 | 2,078 | 2,183 | 2,144 | 2,021 | 2,202 | 2,166 | 2,127 |
| Gross Margin | 66.7% | 65.9% | 68.6% | 69.5% | 69.7% | 69.4% | 67.5% | 67.8% | 65.2% | 63.2% |
| SG&A Exp. | 940 | 1,005 | 1,058 | 1,122 | 1,134 | 1,105 | 1,029 | 1,170 | 1,037 | 1,025 |
| D&A Exp. | 56 | 49 | 51 | 50 | 51 | 56 | 58 | 64 | 72 | |
| Operating Profit | 855 | 788 | 898 | 971 | 1,027 | 1,048 | 1,010 | 1,048 | 1,144 | 1,091 |
| Operating Margin | 33.1% | 28.9% | 31.5% | 32.5% | 32.8% | 33.9% | 33.7% | 32.3% | 34.4% | 32.4% |
| Net Profit | 572 | 513 | 591 | 659 | 684 | 1,067 | 669 | 717 | 835 | 827 |
| Net Margin | 22.1% | 18.8% | 20.7% | 22.0% | 21.8% | 34.5% | 22.3% | 22.1% | 25.1% | 24.6% |
| Free Cash Flow | 484 | 448 | 440 | 520 | 483 | 414 | 541 | 525 | 679 | 611 |
| Income Tax | 257 | 247 | 274 | 288 | 318 | 422 | 264 | 260 | 207 | 182 |

Balance Sheet Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Total Assets | 3,712 | 3,477 | 3,626 | 4,103 | 4,188 | 4,183 | 4,625 | 4,976 | 5,139 | 5,776 |
| Cash & Equivalents | 567 | 338 | 204 | 437 | 370 | 263 | 182 | 239 | 307 | 675 |
| Accounts Receivable | 496 | 475 | 548 | 569 | 583 | 559 | 557 | 639 | 609 | 570 |
| Inventories | 647 | 712 | 827 | 882 | 953 | 1,054 | 1,270 | 1,379 | 1,520 | 1,685 |
| Goodwill & Int. Ass. | 1,295 | 1,285 | 1,285 | 1,297 | 1,218 | 1,185 | 1,394 | 1,433 | 1,398 | 1,391 |
| Total Liabilities | 1,652 | 1,408 | 1,998 | 2,071 | 2,283 | 2,621 | 3,255 | 3,660 | 3,492 | 3,801 |
| Accounts Payable | 126 | 120 | 133 | 134 | 123 | 121 | 137 | 154 | 150 | 518 |
| Long-Term Debt | 759 | 510 | 1,002 | 1,005 | 1,183 | 1,501 | 2,149 | 2,556 | 2,440 | 2,602 |
| Shareholder's Equity | 2,060 | 2,069 | 1,628 | 2,032 | 1,905 | 1,562 | 1,370 | 1,316 | 1,647 | 1,975 |
| D/E Ratio | 0.37 | 0.25 | 0.62 | 0.49 | 0.62 | 0.96 | 1.57 | 1.94 | 1.48 | 1.32 |

Profitability & Per Share Metrics

| Year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 16.1% | 14.3% | 16.6% | 17.1% | 16.5% | 25.5% | 15.2% | 14.9% | 16.5% | 15.2% |
| Return on Equity | 28.9% | 24.8% | 32.0% | 36.0% | 34.7% | 61.6% | 45.6% | 53.4% | 56.4% | 45.7% |
| ROIC | 21.1% | 19.0% | 22.7% | 23.3% | 22.3% | 34.7% | 20.3% | 19.4% | 21.0% | 19.1% |
| Shares Out. | 544 | 533 | 534 | 534 | 522 | 494 | 480 | 481 | 480 | 480 |
| Revenue/Share | 4.71 | 5.04 | 5.30 | 5.56 | 5.88 | 6.05 | 6.13 | 6.71 | 6.90 | 7.00 |
| FCF/Share | 0.88 | 0.83 | 0.82 | 0.97 | 0.91 | 0.81 | 1.11 | 1.08 | 1.41 | 1.27 |

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

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