



Brown-Forman (BF.B)

Updated September 10th, 2020 by Jonathan Weber

Key Metrics

Current Price:	\$81	5 Year CAGR Estimate:	-4.4%	Market Cap:	\$37B
Fair Value Price:	\$43	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	12/03/20
% Fair Value:	188%	5 Year Valuation Multiple Estimate:	-11.8%	Dividend Payment Date:	01/01/21
Dividend Yield:	0.9%	5 Year Price Target	\$61	Years Of Dividend Growth:	30
Dividend Risk Score:	A	Retirement Suitability Score:	D	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 first quarter (fiscal 2021) earnings results on September 2. The company announced that it generated revenues of \$750 million, which was down 2% 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 \$62 million. Sales declines were attributed to currency rate headwinds primarily, and it should be noted that underlying net sales, or organic sales, were actually up 3% year over year, a surprisingly strong performance for the quarter.

Brown-Forman's earnings-per-share totaled \$0.67 during the first quarter, which was easily ahead of the consensus analyst estimate, beating the consensus by \$0.37. The quarter's profits were up substantially year-over-year, rising by 73% compared to the previous year's quarter. Adjusted for one-time items, earnings-per-share came in at \$0.40, up marginally year over year, which was still a better result compared to what analysts had expected.

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	\$1.80	\$2.52
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. As showcased by the surprisingly strong results during Q1, net profits could still increase slightly during the current year, despite the crisis impact. 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	45.0	24.0
Avg. Yld.	1.8%	1.5%	1.4%	1.3%	1.3%	1.5%	1.1%	1.1%	1.2%	1.1%	0.9%	1.5%

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 45 times this year's forecasted earnings right now. This is a huge premium over the long-term median and our fair value estimate of a 24 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 at a more meaningful level of 2.1%.

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%	38.9%	37.1%

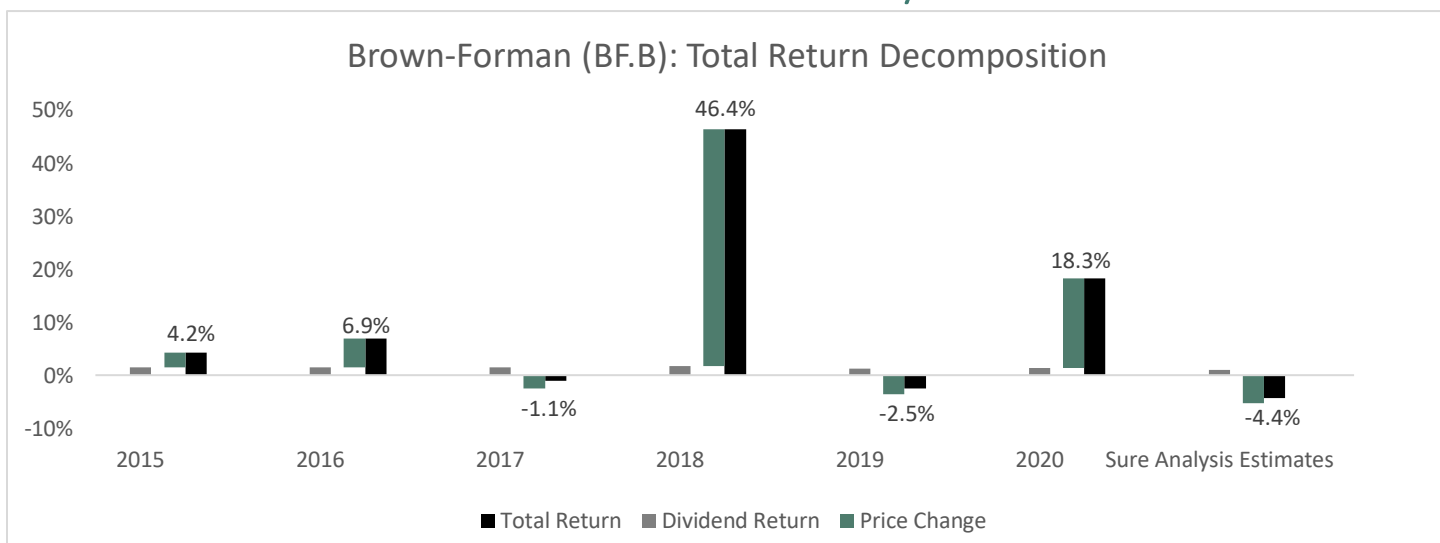
Brown-Forman's dividend payout ratio has been extremely stable over the last decade, as the company paid out between 35% and 40% of its net profits during almost every year. The reliable dividend growth track record and the low payout ratio mean that Brown-Forman's dividend looks highly sustainable and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