



Brown-Forman (BF.B)

Updated June 19th, 2021 by Jonathan Weber

Key Metrics

| | | | | | |
|-----------------------------|------|--|--------|----------------------------------|----------|
| Current Price: | \$73 | 5 Year CAGR Estimate: | -2.8% | Market Cap: | \$34 B |
| Fair Value Price: | \$42 | 5 Year Growth Estimate: | 7.0% | Ex-Dividend Date: | 09/05/21 |
| % Fair Value: | 174% | 5 Year Valuation Multiple Estimate: | -10.5% | Dividend Payment Date: | 10/01/21 |
| Dividend Yield: | 1.0% | 5 Year Price Target | \$59 | Years Of Dividend Growth: | 31 |
| Dividend Risk Score: | A | Retirement Suitability Score: | C | Last Dividend Increase: | 3.0% |

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 2021) earnings results on June 9. The company announced that it generated revenues of \$810 million in the period, which was up 15% from the revenues the company generated during the previous year's quarter. Brown-Forman's revenues came in ahead of the analyst consensus, beating it by \$40 million. Sales were positively impacted by an easy comparison to the previous year's relatively weak Q4. During all of 2021, Brown-Forman grew its revenues by a still very solid 6% on an organic basis.

Brown-Forman's earnings-per-share totaled \$0.25 during the fourth quarter, which was below the consensus analyst estimate, missing the consensus by \$0.07. Earnings-per-share were also down 6% compared to the previous year's quarter, despite higher revenue, on the back of some margin pressure. During fiscal 2021, Brown-Forman grew its earnings-per-share compared to the previous year, to \$1.88.

Growth on a Per-Share Basis

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| EPS | \$1.07 | \$1.22 | \$1.28 | \$1.38 | \$1.37 | \$1.65 | \$1.67 | \$1.73 | \$1.73 | \$1.88 | \$1.75 | \$2.45 |
| DPS | \$0.39 | \$0.44 | \$0.48 | \$0.52 | \$0.56 | \$0.59 | \$0.63 | \$0.65 | \$0.70 | \$0.72 | \$0.72 | \$0.96 |
| Shares¹ | 533 | 534 | 534 | 522 | 494 | 480 | 481 | 480 | 480 | 479 | 478 | 470 |

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-2020 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. Net profits did increase considerably during fiscal 2021 compared to the previous year, despite the crisis impact, although quarterly results throughout the year were relatively uneven. In the long run, we believe that Brown-Forman will get back on its growth track and that earnings-per-share will rise meaningfully through 2027.

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 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Now | 2027 |
|-----------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| Avg. P/E | 24.1 | 24.7 | 28.4 | 28.8 | 27.6 | 33.2 | 32.0 | 30.6 | 35.8 | 40.4 | 41.7 | 24.0 |
| Avg. Yld. | 1.5% | 1.4% | 1.3% | 1.3% | 1.5% | 1.1% | 1.1% | 1.2% | 1.1% | 0.9% | 1.0% | 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. Brown-Forman's shares are valued at 42 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 from time to time, the most recent one was a \$1.00 per share special payout made a couple of years ago. When special dividends are backed out, Brown-Forman's dividend yield is not attractive.

Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 |
|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------------|--------------|
| Payout | 36.4% | 36.1% | 37.5% | 37.7% | 40.9% | 35.8% | 37.7% | 37.6% | 40.5% | 38.3% | 41.1% | 39.3% |

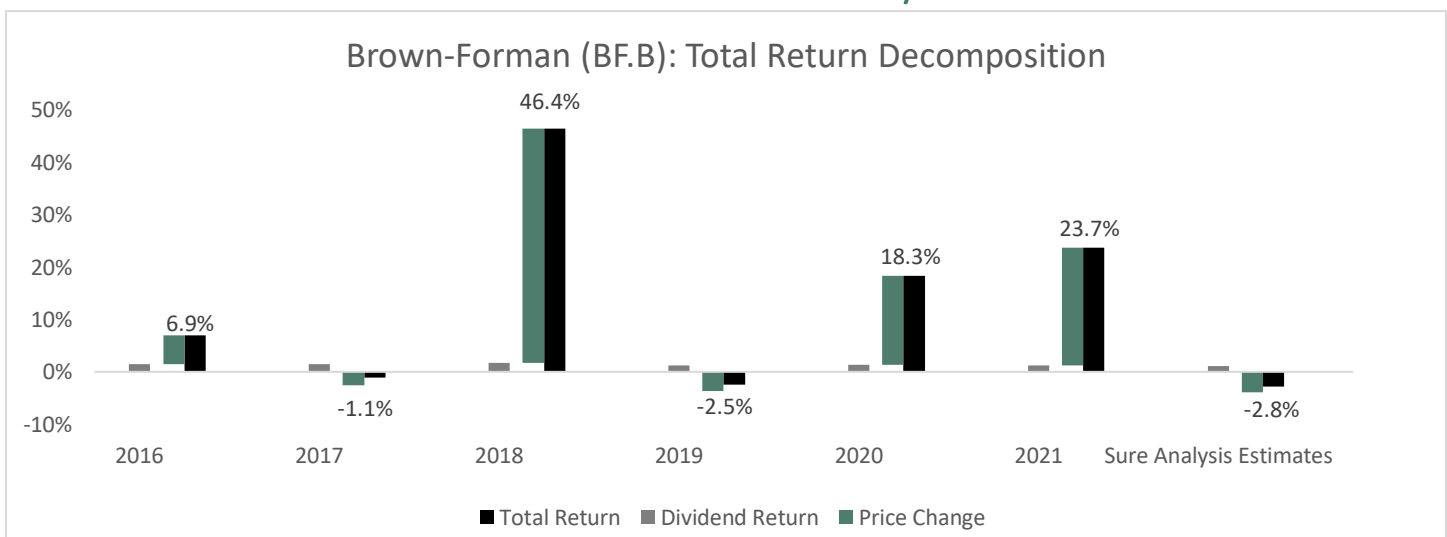
Brown-Forman's dividend payout ratio has been extremely stable over the last decade, as the company paid out between 35% and 40% of its net profits during almost every year. The reliable dividend growth track record and the low payout ratio mean that Brown-Forman's dividend looks highly sustainable and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

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 an exceedingly high valuation, which is why we do not forecast attractive total returns over the coming 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 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue | 2,723 | 2,849 | 2,991 | 3,134 | 3,089 | 2,994 | 3,248 | 3,324 | 3,363 | 3,461 |
| Gross Profit | 1,795 | 1,955 | 2,078 | 2,183 | 2,144 | 2,021 | 2,202 | 2,166 | 2,127 | 2,094 |
| Gross Margin | 65.9% | 68.6% | 69.5% | 69.7% | 69.4% | 67.5% | 67.8% | 65.2% | 63.2% | 60.5% |
| SG&A Exp. | 1,005 | 1,058 | 1,122 | 1,134 | 1,105 | 1,029 | 1,170 | 1,037 | 1,025 | 1,070 |
| D&A Exp. | 49 | 51 | 50 | 51 | 56 | 58 | 64 | 72 | 74 | |
| Operating Profit | 788 | 898 | 971 | 1,027 | 1,048 | 1,010 | 1,048 | 1,144 | 1,091 | 1,039 |
| Operating Margin | 28.9% | 31.5% | 32.5% | 32.8% | 33.9% | 33.7% | 32.3% | 34.4% | 32.4% | 30.0% |
| Net Profit | 513 | 591 | 659 | 684 | 1,067 | 669 | 717 | 835 | 827 | 903 |
| Net Margin | 18.8% | 20.7% | 22.0% | 21.8% | 34.5% | 22.3% | 22.1% | 25.1% | 24.6% | 26.1% |
| Free Cash Flow | 448 | 440 | 520 | 483 | 414 | 541 | 525 | 679 | 605 | 755 |
| Income Tax | 247 | 274 | 288 | 318 | 422 | 264 | 260 | 207 | 182 | 178 |

Balance Sheet Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Total Assets | 3,477 | 3,626 | 4,103 | 4,188 | 4,183 | 4,625 | 4,976 | 5,139 | 5,766 | 6,522 |
| Cash & Equivalents | 338 | 204 | 437 | 370 | 263 | 182 | 239 | 307 | 675 | 1,150 |
| Accounts Receivable | 475 | 548 | 569 | 583 | 559 | 557 | 639 | 609 | 570 | 753 |
| Inventories | 712 | 827 | 882 | 953 | 1,054 | 1,270 | 1,379 | 1,520 | 1,685 | 1,751 |
| Goodwill & Int. Ass. | 1,285 | 1,285 | 1,297 | 1,218 | 1,185 | 1,394 | 1,433 | 1,398 | 1,391 | 1,455 |
| Total Liabilities | 1,408 | 1,998 | 2,071 | 2,283 | 2,621 | 3,255 | 3,660 | 3,492 | 3,791 | 3,866 |
| Accounts Payable | 120 | 133 | 134 | 123 | 121 | 137 | 154 | 150 | 131 | 679 |
| Long-Term Debt | 510 | 1,002 | 1,005 | 1,183 | 1,501 | 2,149 | 2,556 | 2,440 | 2,602 | 2,559 |
| Shareholder's Equity | 2,069 | 1,628 | 2,032 | 1,905 | 1,562 | 1,370 | 1,316 | 1,647 | 1,975 | 2,656 |
| D/E Ratio | 0.25 | 0.62 | 0.49 | 0.62 | 0.96 | 1.57 | 1.94 | 1.48 | 1.32 | 0.96 |

Profitability & Per Share Metrics

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 14.3% | 16.6% | 17.1% | 16.5% | 25.5% | 15.2% | 14.9% | 16.5% | 15.2% | 14.7% |
| Return on Equity | 24.8% | 32.0% | 36.0% | 34.7% | 61.6% | 45.6% | 53.4% | 56.4% | 45.7% | 39.0% |
| ROIC | 19.0% | 22.7% | 23.3% | 22.3% | 34.7% | 20.3% | 19.4% | 21.0% | 19.1% | 18.4% |
| Shares Out. | 533 | 534 | 534 | 522 | 494 | 480 | 481 | 480 | 480 | 479 |
| Revenue/Share | 5.04 | 5.30 | 5.56 | 5.88 | 6.05 | 6.13 | 6.71 | 6.90 | 7.00 | 7.20 |
| FCF/Share | 0.83 | 0.82 | 0.97 | 0.91 | 0.81 | 1.11 | 1.08 | 1.41 | 1.26 | 1.57 |

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

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