



Brown-Forman (BF.B)

Updated December 15th, 2021 by Jonathan Weber

Key Metrics

Current Price:	\$71	5 Year CAGR Estimate:	-2.2%	Market Cap:	\$33B
Fair Value Price:	\$42	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	12/02/21
% Fair Value:	169%	5 Year Valuation Multiple Estimate:	-10.0%	Dividend Payment Date:	12/29/21
Dividend Yield:	1.1%	5 Year Price Target	\$59	Years Of Dividend Growth:	32
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 second quarter (fiscal 2022) earnings results on December 8. The company announced that it generated revenues of \$990 million in the period, which was up 1% from the revenues the company generated during the previous year's quarter. Brown-Forman's revenues came in below the analyst consensus, missing it by \$50 million, or around 5%. The sales growth rate had been stronger during previous quarters, when the recovery effect had been larger. Supply chain issues, e.g. in glasses, played a role in the quarter's revenue miss as well.

Brown-Forman's earnings-per-share totaled \$0.49 during second first quarter, which was below the consensus analyst estimate, missing the consensus by \$0.03. Earnings-per-share were still down compared to the previous year's quarter, dropping by 2% year over year. During fiscal 2022, Brown-Forman is forecasted to generate somewhat lower earnings-per-share compared to fiscal 2021, despite the fact that the company forecasts a high-single-digit revenue growth rate.

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	\$0.75	\$1.00
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	40.6	24.0
Avg. Yld.	1.5%	1.4%	1.3%	1.3%	1.5%	1.1%	1.1%	1.2%	1.1%	0.9%	1.1%	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. Brown-Forman's shares are valued at 41 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 in early December. When the somewhat irregular special dividends are backed out, the 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%	42.9%	40.9%

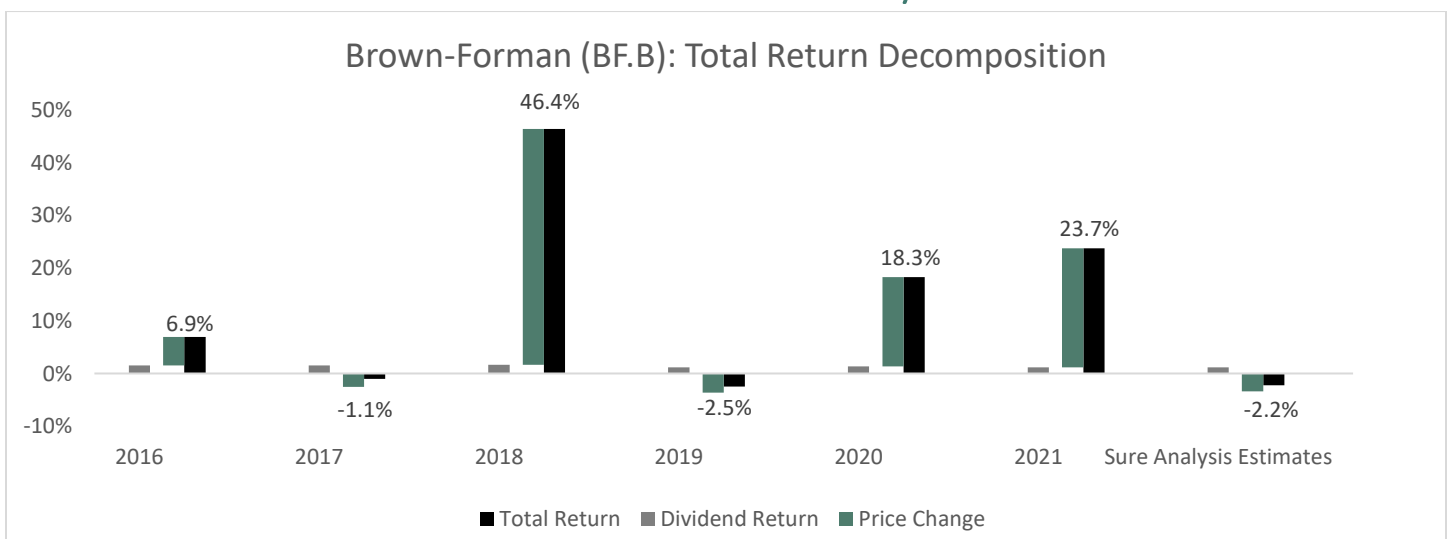
Brown-Forman's dividend payout ratio has been extremely stable over the last decade, as the company paid out between 35% and 40% of its net profits during almost every year. The reliable dividend growth track record and the low payout ratio mean that Brown-Forman's dividend looks highly sustainable and 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 excessively 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	0.68	1.23	1.02	1.20	1.68	2.38	2.78	2.12	1.92	1.46

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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