



Constellation Brands Inc. (STZ)

Updated October 18th, 2022 by Quinn Mohammed

Key Metrics

Current Price:	\$226	5 Year CAGR Estimate:	5.9%	Market Cap:	\$42 B
Fair Value Price:	\$217	5 Year Growth Estimate:	5.5%	Ex-Dividend Date:	11/03/22
% Fair Value:	105%	5 Year Valuation Multiple Estimate:	-0.9%	Dividend Payment Date:	11/18/22
Dividend Yield:	1.4%	5 Year Price Target	\$283	Years Of Dividend Growth:	7
Dividend Risk Score:	C	Retirement Suitability Score:	F	Rating:	Hold

Overview & Current Events

Constellation Brands was founded in 1945. The \$42 billion market cap company produces and distributes alcoholic beverages including beer, wine, and spirits. With over 100 brands in its portfolio, it is the third largest beer company in the U.S. importing and selling 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 and Kim Crawford, 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 October 6th, 2022, Constellation Brands reported Q2 FY 2023 results for the period ending August 31st, 2022. (Constellation Brands' fiscal year ends the last day of February). For the second quarter, the company recorded \$2.66 billion in net sales, a 12% increase compared to the same prior year period. This result was driven by a 15% year-over-year increase in beer sales, and a 1% increase in wine and spirits sales. Adjusted earnings-per-share (excluding Canopy EIE) equaled \$3.33 compared to \$2.52 in Q2 2022.

Constellation Brands upgraded its fiscal 2023 outlook. The company expects \$11.20 to \$11.60 in adjusted EPS. In addition, beer sales are anticipated to increase 8% to 10% and wine and spirit sales are expected to be down 0% to -2%.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$2.19	\$3.25	\$4.44	\$5.43	\$6.76	\$8.72	\$9.28	\$9.12	\$9.97	\$10.20	\$11.40	\$14.90
DPS	---	---	---	\$1.24	\$1.60	\$2.08	\$2.96	\$3.00	\$3.00	\$3.04	\$3.20	\$4.08
Shares¹	190	196	200	199	195	191	191	195	196	191	186	180

Constellation Brands has put together a terrific record in the last decade, growing earnings-per-share by nearly 19% per year. However, it's important to underscore that this was during a time when the company's revenue tripled, and its operating margin grew from 19% to 40%. Both aspects get more difficult to improve over time. Due to this, EPS growth has slowed, but is still impressive at 9% in the trailing five years.

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. Constellation is expecting to invest \$5.0 to \$5.5 billion over fiscal 2023 to fiscal 2026 on expanding capacity in Mexico. This will support an additional 25 million to 30 million hectoliters of total capacity. It also includes construction of a new brewery in Southeast Mexico, and continued expansion and construction at existing sites in Nava and Obregon. These investments will support future growth for the company's high-end Mexican beer portfolio.

It is also expanding into new product categories to appeal to changing consumer preferences. Recent acquisitions include Funky Buddha, Four Corners Brewing and a partial stake in cannabis producer Canopy Growth.

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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Last year proved to be a solid year for Constellation Brands amid a difficult operating environment with COVID-19 lockdowns. Management is expecting strong results this year and we are forecasting 5.5% annual growth over the intermediate term.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	13.6	18.4	20.3	23.6	23.3	22.7	22.2	21.1	18.4	22.7	19.9	19.0
Avg. Yld.	---	---	1.0%	1.0%	1.1%	1.4%	1.6%	1.6%	1.3%	1.3%	1.4%	1.4%

In the 2018 through 2022 stretch, shares of Constellation Brands traded hands on average at 21.4 times earnings. We are using 19.0 times earnings as a starting place, which is closer to the security's average multiple over the past decade. With shares presently trading near 20.0 times our expectation of earnings, this implies the potential for a small valuation headwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	---	23%	24%	24%	32%	33%	30%	30%	28%	27%

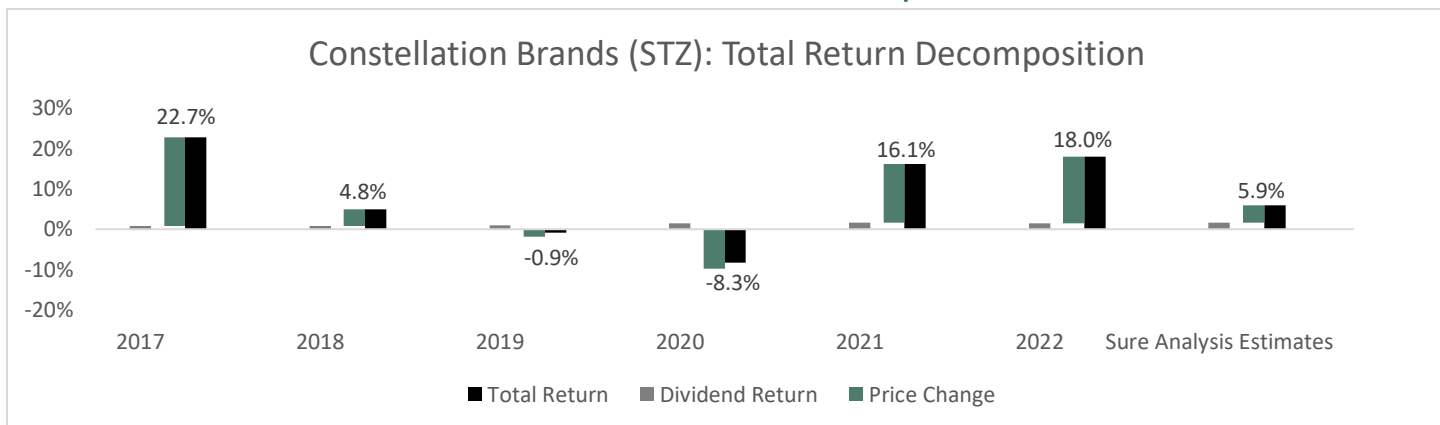
Constellation Brands has several competitive advantages. Its long list of strong brands gives the company pricing power. Its strong distributor network provides an effective route-to-market for the company's strategy in premium categories. Another benefit of Constellation Brands' business is that it can withstand downturns very well. Alcoholic beverages are generally resistant to recessions. During the Great Recession, Constellation Brands reported earnings-per-share of \$1.68, \$1.44, \$1.60, and \$1.91 during the 2006 through 2009 stretch. Results improved in 2021 as well following the COVID pandemic.

As of the most recent report, Constellation Brands held \$165 million in cash and cash equivalents, \$3.5 billion in current assets (47% of which was inventory) and \$24.3 billion in total assets against \$2.5 billion in current liabilities and \$14.6 billion in total liabilities. Long-term debt stood at \$10.3 billion.

Final Thoughts & Recommendation

Shares are up 5% in the last one year period, and 7% in the last five years. Constellation Brands has generated incredible returns for shareholders since 2011. A significant portion of the returns were fueled by an expanding valuation and earnings growth, both of which are less certain today. We are forecasting 5.9% total return potential stemming from 5.5% growth and a 1.4% starting dividend yield offset by an expected valuation headwind. Shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	2,796	4,868	6,028	6,548	7,321	7,580	8,116	8,344	8,615	8,821
Gross Profit	1,108	1,992	2,579	2,942	3,519	3,813	4,080	4,152	4,466	4,707
Gross Margin	39.6%	40.9%	42.8%	44.9%	48.1%	50.3%	50.3%	49.8%	51.8%	53.4%
SG&A Exp.	585	895	1,078	1,177	1,392	1,533	1,668	1,622	1,665	1,711
D&A Exp.	115	155	202	180	238	294	333	327	294	337
Operating Profit	523	1,097	1,500	1,765	2,127	2,280	2,412	2,530	2,801	2,996
Operating Margin	18.7%	22.5%	24.9%	27.0%	29.0%	30.1%	29.7%	30.3%	32.5%	34.0%
Net Profit	388	1,943	839	1,055	1,529	2,303	3,436	-12	1,998	-40
Net Margin	13.9%	39.9%	13.9%	16.1%	20.9%	30.4%	42.3%	-0.1%	23.2%	-0.5%
Free Cash Flow	494	603	362	522	789	874	1,360	1,825	1,942	1,679
Income Tax	129	259	343	441	550	23	686	-967	511	309

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	7,638	14,302	15,093	16,965	18,602	20,539	29,232	27,323	27,105	25,856
Cash & Equivalents	332	64	110	83	177	90	94	81	461	199
Accounts Receivable	472	626	599	733	737	776	847	865	785	899
Inventories	1,481	1,744	1,827	1,852	1,955	2,084	2,130	1,374	1,291	1,573
Goodwill & Int. Ass.	3,594	9,378	9,389	10,542	11,298	11,388	11,287	10,476	10,526	10,618
Total Liabilities	4,778	9,321	9,212	10,273	11,718	12,547	16,394	14,849	13,176	13,808
Accounts Payable	209	295	286	429	560	592	617	558	460	899
Long-Term Debt	3,305	7,021	7,297	8,081	9,238	10,187	13,617	12,185	10,442	10,417
Shareholder's Equity	2,860	4,981	5,771	6,560	6,891	7,975	12,551	12,132	13,599	11,732
LTD/E Ratio	1.16	1.41	1.26	1.23	1.34	1.28	1.08	1.00	0.77	0.89

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	5.3%	17.7%	5.7%	6.6%	8.6%	11.8%	13.8%	0.0%	7.3%	-0.2%
Return on Equity	14.0%	49.6%	15.6%	17.1%	22.7%	31.0%	33.5%	-0.1%	15.5%	-0.3%
ROIC	6.5%	21.4%	6.7%	7.5%	9.9%	13.4%	15.4%	0.0%	8.2%	-0.2%
Shares Out.	190	196	200	199	195	191	191	195	196	191
Revenue/Share	14.69	24.64	29.96	32.13	35.87	37.76	41.51	43.54	44.11	46.27
FCF/Share	2.60	3.05	1.80	2.56	3.86	4.35	6.96	9.52	9.94	8.80

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

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