



Brown-Forman (BF.B)

Updated June 19th, 2024 by Jonathan Weber

Key Metrics

Current Price:	\$44	5 Year CAGR Estimate:	10.4%	Market Cap:	\$21B
Fair Value Price:	\$46	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	06/07/24
% Fair Value:	96%	5 Year Valuation Multiple Estimate:	0.7%	Dividend Payment Date:	07/01/24
Dividend Yield:	2.0%	5 Year Price Target	\$67	Years Of Dividend Growth:	40
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Buy

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 revenues of \$960 million for its fourth quarter (fiscal 2024) earnings results. The company's revenues were down by 8% compared to the previous year's quarter. Brown-Forman's revenues came in below the analyst consensus, which caused a negative market reaction. The sales performance during the quarter was also weaker compared to the previous quarter, when Brown-Forman's year-over-year performance had been stronger. In constant currencies, Brown-Forman experienced a revenue decline of 5% compared to the previous year's quarter.

Brown-Forman's earnings-per-share have performed well, thanks to margin increases primarily. The company was able to grow its operating profit by 26% during the quarter, despite revenues being down on a year-to-date basis. Thanks to operating leverage and tight cost controls, earnings-per-share jumping up by 31%. Brown-Forman guides for revenues to grow by 2% to 4% during the current year, fiscal 2025, but profits are expected to decline again this year.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$1.38	\$1.37	\$1.65	\$1.67	\$1.73	\$1.73	\$1.88	\$1.74	\$1.63	\$2.14	\$1.90	\$2.79
DPS	\$0.52	\$0.56	\$0.59	\$0.63	\$0.65	\$0.70	\$0.72	\$0.75	\$0.81	\$0.85	\$0.87	\$1.16
Shares¹	522	494	480	481	480	480	479	479	479	477	475	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 at a high single digit rate. Earnings-per-share were driven by a combination of several factors, including revenue growth, rising margins, and buybacks.

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 many countries, restaurants, bars, and clubs were not allowed to open during the pandemic, which hurt Brown-Forman in the recent past. In the long run, we believe that Brown-Forman will continue on its growth track and that earnings-per-share will rise meaningfully through the 2020s, with share repurchases likely playing a role in rising earnings-per-share as well.

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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	28.8	27.6	33.2	32.0	30.6	35.8	40.4	38.5	39.9	22.4	23.2	24.0
Avg. Yld.	1.3%	1.5%	1.1%	1.1%	1.2%	1.1%	0.9%	1.1%	1.2%	1.8%	2.0%	1.7%

Shares of Brown-Forman never were especially cheap, but shares got even more expensive in 2020-2023, with shares trading at as much as 40x net profits. Following a significant share price pullback over the last couple of months, the company is now valued at around 23x this year's expected net profits. This represents a small discount compared to our fair value target. Without special dividends, the dividend yield is solid but not overly attractive, at around 2.0%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	37.7%	40.9%	35.8%	37.7%	37.6%	40.5%	38.3%	38.3%	49.7%	39.7%	45.8%	41.7%

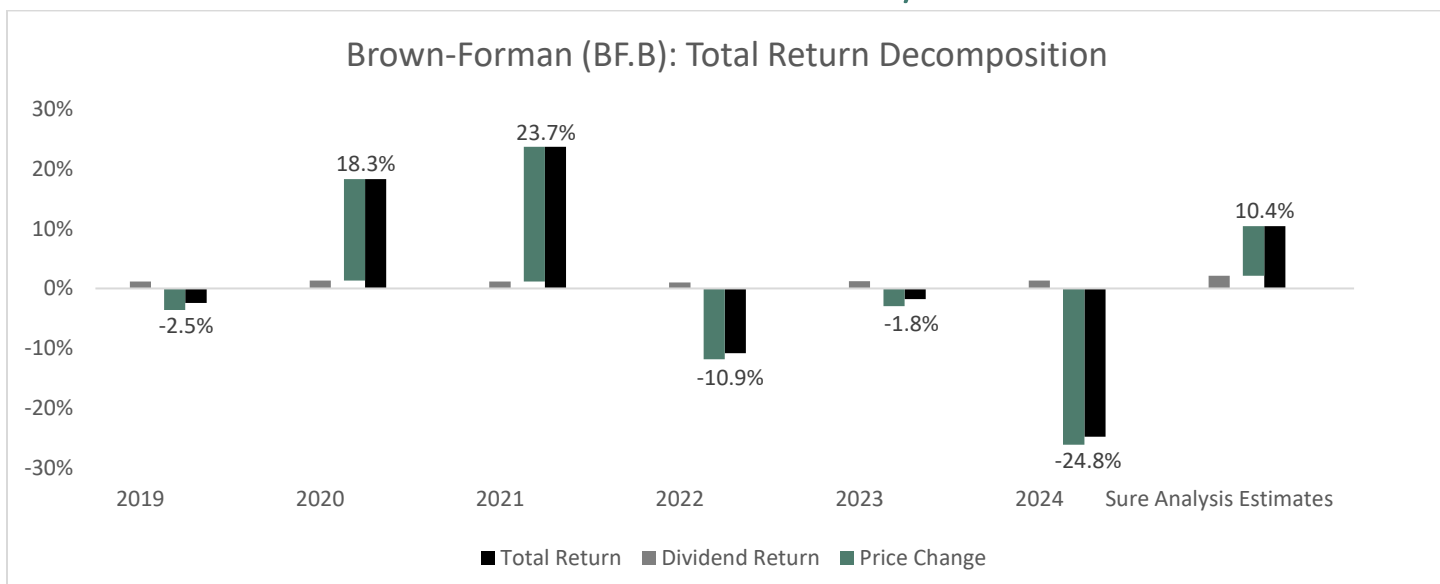
Brown-Forman's dividend payout ratio has been extremely stable over the last decade, as the company paid out between 35% and 40% of its net profits during almost every year. The reliable dividend growth track record and the low payout ratio mean that Brown-Forman's dividend looks highly sustainable and 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 was 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. Following the recent share price decline, Brown-Forman is now trading at a very reasonable valuation, with total returns being forecasted in the low double digits. We rate Brown-Forman a buy given the company's total return prospects and high quality.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	3,134	3,089	2,994	3,248	3,324	3,363	3,461	3,933	4,228	4,178
Gross Profit	2,183	2,144	2,021	2,202	2,166	2,127	2,094	2,391	2,494	2,526
Gross Margin	69.7%	69.4%	67.5%	67.8%	65.2%	63.2%	60.5%	60.8%	59.0%	60.5%
SG&A Exp.	1,134	1,105	1,029	1,170	1,037	1,025	1,070	1,128	1,248	1,355
D&A Exp.	51	56	58	64	72	74	77	79	80	87
Operating Profit	1,027	1,048	1,010	1,048	1,144	1,091	1,039	1,204	1,127	1,147
Operating Margin	32.8%	33.9%	33.7%	32.3%	34.4%	32.4%	30.0%	30.6%	26.7%	27.5%
Net Profit	684	1,067	669	717	835	827	903	838	783	1,024
Net Margin	21.8%	34.5%	22.3%	22.1%	25.1%	24.6%	26.1%	21.3%	18.5%	24.5%
Free Cash Flow	483	414	541	525	679	611	755	798	457	419
Income Tax	318	422	264	260	207	182	178	276	234	274

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	4,188	4,183	4,625	4,976	5,139	5,766	6,522	6,373	7,777	8,166
Cash & Equivalents	370	263	182	239	307	675	1,150	868	374	446
Accounts Receivable	583	559	557	639	609	570	753	813	855	769
Inventories	953	1,054	1,270	1,379	1,520	1,685	1,751	1,818	2,283	2,556
Goodwill & Int. Ass.	1,218	1,185	1,394	1,433	1,398	1,391	1,455	1,347	2,621	2,445
Total Liabilities	2,283	2,621	3,255	3,660	3,492	3,791	3,866	3,636	4,509	4,649
Accounts Payable	123	121	137	154	150	131	172	218	308	267
Long-Term Debt	1,183	1,501	2,149	2,556	2,440	2,602	2,559	2,269	2,913	3,100
Shareholder's Equity	1,905	1,562	1,370	1,316	1,647	1,975	2,656	2,737	3,268	3,517
LTD/E Ratio	0.62	0.96	1.57	1.94	1.48	1.32	0.96	0.83	0.89	0.88

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	16.5%	25.5%	15.2%	14.9%	16.5%	15.2%	14.7%	13.0%	11.1%	12.8%
Return on Equity	34.7%	61.6%	45.6%	53.4%	56.4%	45.7%	39.0%	31.1%	26.1%	30.2%
ROIC	22.3%	34.7%	20.3%	19.4%	21.0%	19.1%	18.4%	16.4%	14.0%	16.0%
Shares Out.	522	494	480	481	480	480	479	479	479	477
Revenue/Share	5.88	6.05	6.13	6.71	6.90	7.00	7.20	8.18	8.80	8.75
FCF/Share	0.91	0.81	1.11	1.08	1.41	1.27	1.57	1.66	0.95	0.88

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

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