



Constellation Brands Inc. (STZ)

Updated January 14th, 2025 by Quinn Mohammed

Key Metrics

Current Price:	\$181	5 Year CAGR Estimate:	18.5%	Market Cap:	\$34 B
Fair Value Price:	\$272	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	02/07/25
% Fair Value:	67%	5 Year Valuation Multiple Estimate:	8.5%	Dividend Payment Date:	02/21/25
Dividend Yield:	2.2%	5 Year Price Target	\$400	Years Of Dividend Growth:	9
Dividend Risk Score:	C	Retirement Suitability Score:	D	Rating:	Buy

Overview & Current Events

Constellation Brands was founded in 1945. The \$34 billion market cap company produces and distributes alcoholic beverages including beer, wine, and spirits. It is the third largest beer company in the U.S., and imports and sells beer brands such as Corona, Modelo Especial (the #1 Beer in U.S.), Modelo Negra, and Pacifico. In addition, Constellation has many wine brands including Robert Mondavi and Kim Crawford, as well as spirits brands including Casa Noble Tequila, and High West Whiskey. The company also has a stake in cannabis company Canopy Growth.

Constellation Brands declared a \$1.01 quarterly dividend on April 10th, 2024, which represented a 13% increase.

On January 10th, 2025, Constellation Brands reported third quarter fiscal 2025 results for the period ending November 30th, 2024. (Constellation Brands' fiscal year ends on the last day of February). For the quarter, the company recorded \$2.46 billion in net sales, flat compared to the same prior year period. Beer sales improved by 3% year-over-year, while wine and spirits sales declined by -14%. Comparable earnings-per-share equaled \$3.25 for the quarter, which was a penny higher compared to Q3 2024, but six cents behind analyst estimates.

Constellation Brands updated its fiscal 2025 outlook. The company decreased the lower end of its guidance range, now expecting adjusted earnings-per-share of \$13.40 to \$13.80 for the full fiscal year. Additionally, organic beer sales are anticipated to increase 4% to 7% and wine and spirit sales are expected to be down -5% to -8%.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$4.44	\$5.43	\$6.76	\$8.72	\$9.28	\$9.12	\$9.97	\$10.20	\$10.65	\$12.06	\$13.60	\$19.98
DPS	---	\$1.24	\$1.60	\$2.08	\$2.96	\$3.00	\$3.00	\$3.04	\$3.20	\$3.56	\$4.04	\$5.41
Shares¹	200	199	195	191	191	195	196	191	185	183	183	175

Constellation Brands has set together an impressive record in the last decade, growing earnings-per-share by 11.7% per year. However, it's important to underscore that this was during a time when the company's revenue nearly doubled, and its operating margin grew from 25% to 38%. Both aspects get more difficult to improve over time. Due to this, EPS growth has slowed, standing at 5.4% 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 \$3 billion between fiscal 2025 and fiscal 2028 on expanding capacity in Mexico. These investments will support future growth for the company's high-end Mexican beer portfolio. In FY 2024, Constellation invested \$900 million into expanding its brewery capacity, and completed a modular brewery capacity expansion at Obregon. Year-to-date, the company has invested \$932 million in capital expenditures, primarily capacity additions.

¹ In millions.

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In 2023, Constellation Brands divested its craft beers business, including Funky Buddha and Four Corners, to focus on its core portfolio. And in January 2025, it divested its SVEDKA Vodka business. It continues to hold onto its stake in cannabis producer Canopy Growth.

2020 proved to be a down year amid the COVID-19 pandemic, but the company rebounded swiftly and strongly, and it continues to achieve record results. Management is still expecting strong results this fiscal year and we are forecasting 8% annual growth over the intermediate term.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	20.3	23.6	23.3	22.7	22.2	21.1	18.4	22.7	21.2	20.0	13.3	20.0
Avg. Yld.	1.0%	1.0%	1.1%	1.4%	1.6%	1.6%	1.3%	1.3%	1.3%	1.4%	2.2%	1.4%

In the 2020 through 2024 stretch, shares of Constellation Brands traded hands on average at 20.7 times earnings. We are using 20.0 times earnings as a starting place. With shares presently trading at 13.3 times our earnings forecast, this implies the potential for a meaningful valuation tailwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	---	23%	24%	24%	32%	33%	30%	30%	30%	30%	30%	27%

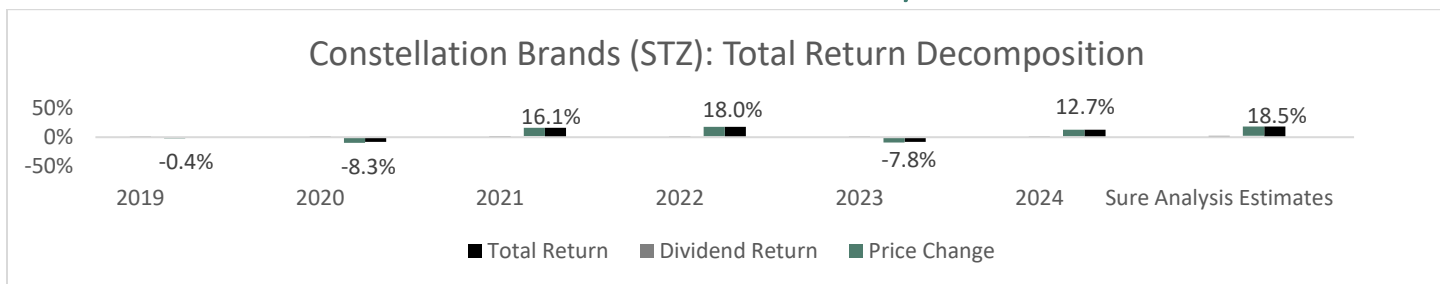
Constellation Brands has several competitive advantages. Its long list of strong brands gives the company pricing power. Its strong distributor network provides an effective route-to-market for the company's strategy in premium categories. Another benefit of Constellation Brands' business is that it 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 and 2022 as well following the COVID pandemic.

As of the most recent report, Constellation Brands held \$74 million in cash and cash equivalents, \$3.6 billion in current assets (59% of which was inventory) and \$22.8 billion in total assets against \$3.3 billion in current liabilities and \$14.7 billion in total liabilities. Long-term debt stood at \$10.2 billion. In FY 2024, Constellation reduced its net leverage ratio to 3.2X, from 3.6X. And as of the most recent quarterly report, Constellation maintained its net leverage at 2.9X, which is below its target of 3.0X.

Final Thoughts & Recommendation

Constellation Brands has generated incredible returns for shareholders since 2011. A significant portion of these returns were fueled by an expanding valuation and earnings growth. And Constellation is investing heavily in brewery expansions over the next few years to drive further growth. We are forecasting 18.5% total return potential stemming from 8.0% EPS growth, a 2.2% starting dividend yield, and a potential valuation tailwind. Constellation Brands maintains its buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	6,028	6,548	7,321	7,580	8,116	8,344	8,615	8,821	9,453	9,962
Gross Profit	2,579	2,942	3,519	3,813	4,080	4,152	4,466	4,707	4,769	5,018
Gross Margin	42.8%	44.9%	48.1%	50.3%	50.3%	49.8%	51.8%	53.4%	50.4%	50.4%
SG&A Exp.	1,078	1,177	1,392	1,533	1,668	1,622	1,665	1,711	1,926	1,848
D&A Exp.	202	180	238	294	333	327	294	337	384	428
Operating Profit	1,500	1,765	2,127	2,280	2,412	2,530	2,801	2,996	2,843	3,170
Operating Margin	24.9%	27.0%	29.0%	30.1%	29.7%	30.3%	32.5%	34.0%	30.1%	31.8%
Net Profit	839	1,055	1,529	2,303	3,436	-12	1,998	-40	-71	1,727
Net Margin	13.9%	16.1%	20.9%	30.4%	42.3%	-0.1%	23.2%	-0.5%	-0.8%	17.3%
Free Cash Flow	362	522	789	874	1,360	1,825	1,942	1,679	1,722	1,511
Income Tax	343	441	550	23	686	-967	511	309	422	457

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	15093	16965	18,602	20,539	29,232	27,323	27,105	25,856	24,660	25,690
Cash & Equivalents	110	83	177	90	94	81	461	199	134	152
Accounts Receivable	599	733	737	776	847	865	785	899	902	833
Inventories	1,827	1,852	1,955	2,084	2,130	1,374	1,291	1,573	1,899	2,078
Goodwill & Int. Ass.	9,389	10,542	11,298	11,388	11,287	10,476	10,526	10,618	10,650	10,710
Total Liabilities	9,212	10,273	11,718	12,547	16,394	14,849	13,176	13,808	15,930	15,630
Accounts Payable	286	429	560	592	617	558	460	899	942	1,107
Long-Term Debt	7,297	8,081	9,238	10,187	13,617	12,185	10,442	10,417	12,460	11,880
Shareholder's Equity	5,771	6,560	6,891	7,975	12,551	12,132	13,599	11,732	8,414	9,743
LTD/E Ratio	1.26	1.23	1.34	1.28	1.08	1.00	0.77	0.89	1.48	1.22

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	5.7%	6.6%	8.6%	11.8%	13.8%	0.0%	7.3%	-0.2%	-0.3%	6.9%
Return on Equity	15.6%	17.1%	22.7%	31.0%	33.5%	-0.1%	15.5%	-0.3%	-0.7%	18.4%
ROIC	6.7%	7.5%	9.9%	13.4%	15.4%	0.0%	8.2%	-0.2%	-0.3%	8.0%
Shares Out.	200	199	195	191	191	195	196	191	193	184
Revenue/Share	29.96	32.13	35.87	37.76	41.51	43.54	44.11	46.27	49.09	54.15
FCF/Share	3.05	1.80	2.56	3.86	4.35	6.96	9.52	9.94	8.80	8.21

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

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