

Brown Foreman (BF.B)

Earnings Update

Hold | Underperform

Justin, Ryker, Logan, Jaiden, Jenna | March 16, 2025



Overview (Justin)

- Brown Foreman manufactures and distributes premium spirits both nationally and internationally, selling through governments and international retailers, respectively.
- It is virtually impossible to replicate the unique taste of Jack Daniel's, which is not only Brown Foreman's flagship brand but also the largest American whiskey brand worldwide.
- Brown Foreman also profits from a portfolio of high margin products, a regulated market, global market share, inelastic demand, and owned production and distribution networks.

Results (Ryker)

- **Revenue declined by 3% to \$1B**, primarily due to divestitures of Finlandia and Sonoma-Cutrer, as well as foreign exchange headwinds. However, organic net sales grew 6%, reflecting true company growth beyond accounting adjustments.
- **EPS decreased by 5% from \$0.57 to \$0.60**, largely driven by the 25% drop in reported operating income (More on this below).
- **Operating income declined by 25%**, impacted by \$33M in higher restructuring costs (12% workforce reduction, Louisville-based Brown-Forman Cooperage facility closure, special one-time early retirement benefit offered) and weaker gross margins (Higher costs due to inflation, logistics, and production expenses; Unfavorable currency exchange rates; Product mix and price adjustments).

Key Performance Indicators (Logan)

- Net sales decreased 4%.
- Organic net sales up 2% in FY 2025, primarily due to Jack Daniel's Tennessee Whiskey and Woodford Reserve.
- Operating income increased by 5%.
- Organic net sales for Jack Daniel's Tennessee Whiskey increased 2% for the YTD period.
- Management believes inflation is the key factor of a rough spirits market rather than cannabis and gen z.

Guidance (Jaiden)

- Brown-Forman anticipates organic net sales and operating income growth of 2% to 4% in fiscal 2025
- The company has authorized a \$400 million share repurchase program, effective from October 2, 2023, through October 1, 2024
- In response to global economic and political challenges, Brown-Forman is implementing cost-cutting measures, including workforce reductions, to maintain profitability

IOFS (Jaiden)

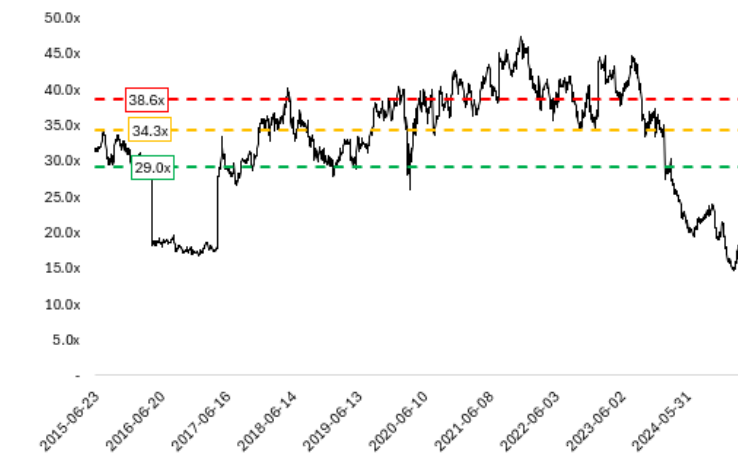
| 3/17/2025 | 2015-04 | 2016-04 | 2017-04 | 2018-04 | 2019-04 | 2020-04 | 2021-04 | 2022-04 | 2023-04 | 2024-04 | TTM |
|------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| IOFS | | | | | | | | | | | |
| Revenue | \$3,134 | \$3,089 | \$2,994 | \$3,248 | \$3,324 | \$3,363 | \$3,461 | \$3,933 | \$4,228 | \$4,178 | \$4,045 |
| YoY (%) | | (1.4)% | (3.1)% | 8.5% | 2.3% | 1.2% | 2.9% | 13.6% | 7.5% | (1.2)% | |
| Gross profit | \$2,183 | \$2,144 | \$2,021 | \$2,202 | \$2,166 | \$2,127 | \$2,094 | \$2,391 | \$2,494 | \$2,526 | \$2,399 |
| YoY (%) | | (1.8)% | (5.7)% | 9.0% | (1.6)% | (1.8)% | (1.6)% | 14.2% | 4.3% | 1.3% | |
| Operating Income | \$1,027 | \$1,048 | \$1,010 | \$1,048 | \$1,144 | \$1,091 | \$1,039 | \$1,204 | \$1,127 | \$1,147 | \$1,131 |
| YoY (%) | | 2.0% | (3.6)% | 3.8% | 9.2% | (4.6)% | (4.8)% | 15.9% | (6.4)% | 1.8% | |
| Net Income | \$684 | \$1,067 | \$669 | \$717 | \$835 | \$827 | \$903 | \$838 | \$783 | \$1,024 | \$989 |
| YoY (%) | | 56.0% | (37.3)% | 7.2% | 16.5% | (1.0)% | 9.2% | (7.2)% | (6.6)% | 30.8% | |
| Earnings Per Share | \$1.28 | \$2.09 | \$1.37 | \$1.48 | \$1.73 | \$1.72 | \$1.88 | \$1.74 | \$1.63 | \$2.14 | \$2.09 |
| YoY (%) | | 63.3% | (34.4)% | 8.0% | 16.9% | (0.6)% | 9.3% | (7.4)% | (6.3)% | 31.3% | |
| Shares Outstanding | 533 | 511 | 488 | 484 | 482 | 480 | 481 | 481 | 480 | 477 | 473 |
| YoY (%) | | (4.1)% | (4.4)% | (0.8)% | (0.5)% | (0.3)% | 0.1% | (0.0)% | (0.0)% | (0.7)% | |
| Free Cash Flow | \$483 | \$414 | \$541 | \$525 | \$679 | \$611 | \$755 | \$798 | \$457 | \$419 | \$534 |
| YoY (%) | | (14.3)% | 30.7% | (3.0)% | 29.3% | (10.0)% | 23.6% | 5.7% | (42.7)% | (8.3)% | |
| Cash Flow From Operations | \$608 | \$524 | \$656 | \$653 | \$800 | \$724 | \$817 | \$936 | \$640 | \$647 | \$731 |
| YoY (%) | | (13.8)% | 25.2% | (0.5)% | 22.5% | (9.5)% | 12.8% | 14.6% | (31.6)% | 1.1% | |
| Capital Expenditures | \$125 | \$110 | \$115 | \$128 | \$121 | \$113 | \$62 | \$138 | \$183 | \$228 | \$197 |
| YoY (%) | | (12.0)% | 4.5% | 11.3% | (5.5)% | (6.6)% | (45.1)% | 122.6% | 32.6% | 24.6% | |
| Margins % | | | | | | | | | | | |
| Gross Margin: | 69.7% | 69.4% | 67.5% | 67.8% | 65.2% | 63.2% | 60.5% | 60.8% | 59.0% | 60.5% | 59.3% |
| Operating Margin: | 32.8% | 33.9% | 33.7% | 32.3% | 34.4% | 32.4% | 30.0% | 30.6% | 26.7% | 27.5% | 28.0% |
| Net Margin: | 21.8% | 34.5% | 22.3% | 22.1% | 25.1% | 24.6% | 26.1% | 21.3% | 18.5% | 24.5% | 24.4% |
| Free Cash Flow Margin: | 15.4% | 13.4% | 18.1% | 16.2% | 20.4% | 18.2% | 21.8% | 20.3% | 10.8% | 10.0% | 13.2% |
| D&A/ Gross Profit: | 2.3% | 2.6% | 2.9% | 2.9% | 3.3% | 3.5% | 3.7% | 3.3% | 3.2% | 3.4% | 3.6% |
| SG&A/ Gross Profit: | 51.9% | 51.5% | 50.9% | 53.1% | 47.9% | 48.2% | 51.1% | 47.2% | 50.0% | 53.6% | 53.2% |
| Interest Expense/ Operating Income | 2.6% | 4.4% | 5.8% | 6.5% | 7.7% | 7.5% | 7.8% | 6.8% | 8.0% | 11.1% | 11.4% |
| Capital Expenditures/ Net Income | 18.3% | 10.3% | 17.2% | 17.9% | 14.5% | 13.7% | 6.9% | 16.5% | 23.4% | 22.3% | 19.9% |
| Returns % | | | | | | | | | | | |
| Return on Equity: | 35.9% | 68.3% | 48.8% | 54.5% | 50.7% | 41.9% | 34.0% | 30.6% | 24.0% | 29.1% | 25.9% |
| Return on Capital: | 22.2% | 34.8% | 19.0% | 18.5% | 20.4% | 18.1% | 17.3% | 16.7% | 12.7% | 15.5% | 14.8% |
| Dividend Yield % | 1.3% | 1.3% | 1.5% | 1.1% | 1.2% | 1.2% | 1.0% | 1.2% | 1.2% | 1.7% | 2.5% |
| Dividend Payout Ratio: | 37.8% | 37.9% | 41.0% | 41.1% | 37.5% | 39.6% | 42.6% | 42.3% | 48.3% | 49.8% | 47.0% |
| Leverage & Liquidity | | | | | | | | | | | |
| Long Term Debt: | \$743 | \$1,230 | \$1,689 | \$2,341 | \$2,290 | \$2,269 | \$2,354 | \$2,019 | \$2,678 | \$2,372 | \$2,361 |
| Short Term Debt: | \$440 | \$271 | \$460 | \$215 | \$150 | \$333 | \$205 | \$250 | \$235 | \$728 | \$502 |
| Preferred Stock: | - | - | - | - | - | - | - | - | - | - | - |
| Leases: | - | - | - | - | \$112 | - | - | - | - | - | - |
| Pension Funding Shortfall: | \$311 | \$353 | \$314 | \$191 | \$197 | \$297 | \$219 | \$183 | \$171 | \$160 | \$161 |
| Cash and Equivalents: | \$370 | \$263 | \$182 | \$239 | \$307 | \$675 | \$1,150 | \$868 | \$374 | \$446 | \$599 |
| Marketable Securities | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Obligation Ratio | 1.2x | 1.2x | 2.9x | 3.2x | 2.7x | 2.3x | 1.6x | 1.7x | 3.2x | 2.6x | 2.3x |
| Per Share Data | | | | | | | | | | | |
| Revenue | \$5.88 | \$6.05 | \$6.13 | \$6.71 | \$6.90 | \$7.00 | \$7.20 | \$8.18 | \$8.80 | \$8.76 | \$8.55 |
| Owners Earnings | \$0.99 | \$1.95 | \$1.12 | \$1.05 | \$1.37 | \$1.09 | \$1.66 | \$1.40 | \$0.84 | \$1.60 | \$1.68 |
| Diluted Earnings | \$1.28 | \$2.09 | \$1.37 | \$1.48 | \$1.73 | \$1.72 | \$1.88 | \$1.74 | \$1.63 | \$2.14 | \$2.09 |
| Operating Cash Flow | \$1.14 | \$1.03 | \$1.34 | \$1.35 | \$1.66 | \$1.51 | \$1.70 | \$1.95 | \$1.33 | \$1.36 | \$1.54 |
| Free Cash Flow | \$0.91 | \$0.81 | \$1.11 | \$1.08 | \$1.41 | \$1.27 | \$1.57 | \$1.66 | \$0.95 | \$0.88 | \$1.13 |
| Dividends | \$0.48 | \$0.52 | \$0.56 | \$0.61 | \$0.65 | \$0.68 | \$0.71 | \$0.74 | \$0.79 | \$0.85 | \$0.88 |
| Book Value | \$3.65 | \$3.16 | \$2.85 | \$2.74 | \$3.45 | \$4.13 | \$5.55 | \$5.71 | \$6.82 | \$7.44 | \$8.10 |

- Return on Capital is only barely below our 15% threshold at 14.7%
- SG&A as a percentage of gross profit might look high, but it shows Brown-Forman's investments in brand development, international expansion, and long-term growth. If these costs lead revenue growth, it could make a big impact on margins and profitability.
- Obligation ration is lowered from the year before
- Only in 2 metrics do they underperform

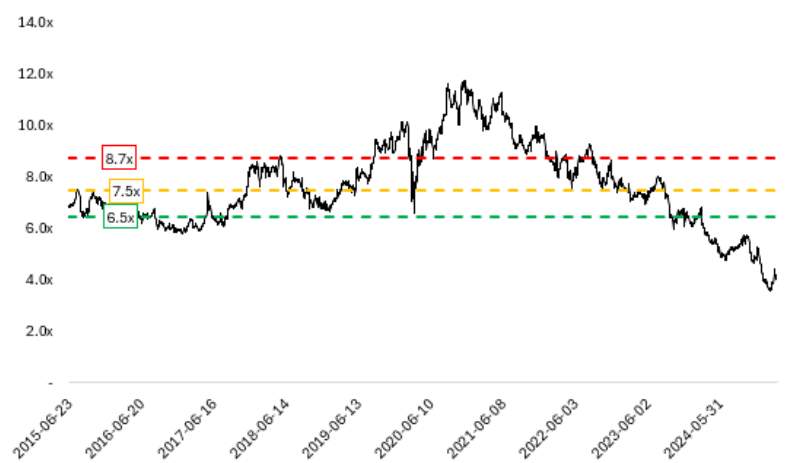
Valuation (Jenna)

Value Bands:

Price to Earnings Ratio



Price to Sales



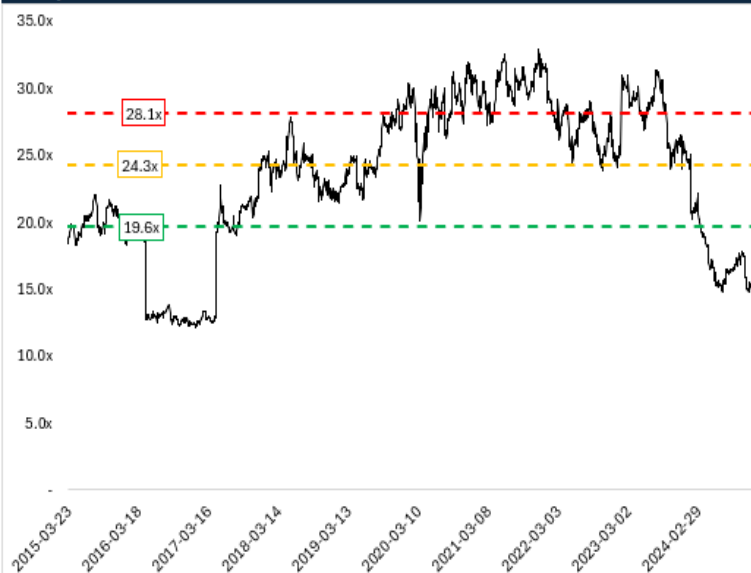
Price to Book Value



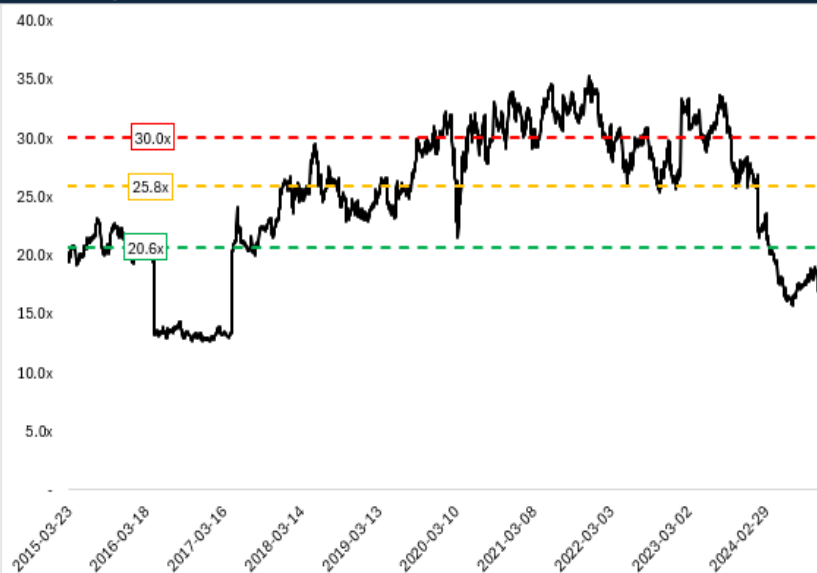
Enterprise Value to Revenue



Enterprise Value to EBITDA



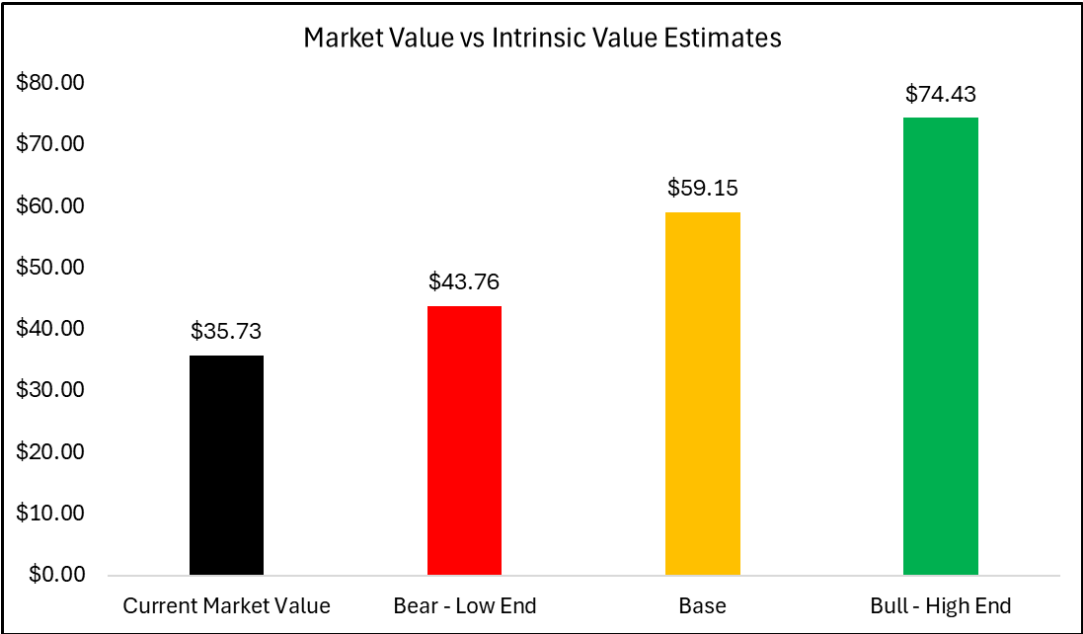
Enterprise Value to EBIT



Valuation:

| | Bear | Base | Bull |
|-------------------|------|------|------|
| Net Margin Growth | -1% | 0% | 1% |
| Revenue Growth | 5% | 6% | 7% |
| Share Buybacks | 0% | .5% | 1% |
| EPS Growth Rate | 4% | 7% | 9% |

| | | | | | | | | | | | | | |
|-----------------------|---------|-----------------------------|--------|--------|--------|--------|--------|-------|---------------|-------------|--------|--------------------|-------|
| Ticker: | BF.B | 5 Year Discounted Cash Flow | | | | | | | | | | | |
| Price: | \$35.73 | | | | | | | | | | | | |
| Discount Rate: | 11.0% | | | | | | | | | | | | |
| Method: | EPS | | | | | | | | | | | | |
| Dividend Payout Ratio | | | | | | | P/E | Price | Present Value | 5 YR Return | Return | Return + Dividends | |
| Bear | EPS | 2024-04 | 2025 | 2026 | 2027 | 2028 | 2029 | 29.0x | \$73.74 | \$43.76 | 106.4% | 15.6% | 15.6% |
| | | \$2.09 | \$2.17 | \$2.26 | \$2.35 | \$2.45 | \$2.54 | 34.0x | \$86.46 | \$51.31 | 142.0% | 19.3% | 19.3% |
| | | | 4% | 4% | 4% | 4% | 4% | 39.0x | \$99.17 | \$58.85 | 177.6% | 22.7% | 22.7% |
| Base | EPS | 2024-04 | 2025 | 2026 | 2027 | 2028 | 2029 | 29.0x | \$85.01 | \$50.45 | 138.0% | 18.9% | 18.9% |
| | | \$2.09 | \$2.24 | \$2.39 | \$2.56 | \$2.74 | \$2.93 | 34.0x | \$99.67 | \$59.15 | 179.0% | 22.8% | 22.8% |
| | | | 7% | 7% | 7% | 7% | 7% | 39.0x | \$114.32 | \$67.84 | 220.0% | 26.2% | 26.2% |
| Bull | EPS | 2024-04 | 2025 | 2026 | 2027 | 2028 | 2029 | 29.0x | \$93.26 | \$55.34 | 161.0% | 21.2% | 21.2% |
| | | \$2.09 | \$2.28 | \$2.48 | \$2.71 | \$2.95 | \$3.22 | 34.0x | \$109.33 | \$64.88 | 206.0% | 25.1% | 25.1% |
| | | | 9% | 9% | 9% | 9% | 9% | 39.0x | \$125.41 | \$74.43 | 251.1% | 28.6% | 28.6% |



| Total RoR Sensitivity | | | | |
|-----------------------|----------------------|-------|-------|-------|
| P / E | Est. EPS growth rate | | | |
| | | 4.0% | 7.0% | 9.0% |
| | 29.0x | 15.6% | 18.9% | 21.2% |
| | 34.0x | 19.3% | 22.8% | 25.1% |
| | 39.0x | 22.7% | 26.2% | 28.6% |

We will be discussing this company in the Bull/bear. They missed expectations but they meet most of our metrics still.