



BROWN-FORMAN

Layman Siblings

March 1, 2019

Background



BROWN-FORMAN

Manufactures and distributes premium and super premium spirits both nationally and internationally

Sells through governments and international retailers

Stock Price: \$49.85

Market Cap: \$23.74 Billion

DIAGEO

GRUPPO

CAMPARI

Jose Cuervo



Pernod Ricard

Beam **SUNTORY**



RÉMY COINTREAU



History



BROWN-FORMAN

BROWN FORMAN & CO.

1870: Brown Forman is formed (JTS Brown and Bro.)

1920: Prohibition adopted, receives license

1933: First public stock issue

JACK DANIEL'S

1864: Jasper Newton Daniel (Jack) learns to make whiskey

1866: JD Distillery established, and Cave Spring Hollow purchased

1904: Old No.7 takes gold medal at World's Fair



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1956: Jack Daniel's purchased by BF

1988: Release JD Gentleman Jack

2014: BF awarded 100% for Corporate Quality Index



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Products

Overview

Whiskey

Tequila

Scotch

Vodka



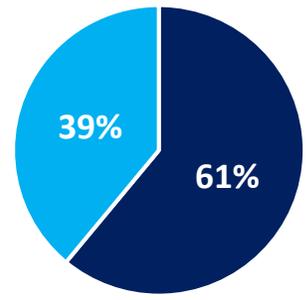
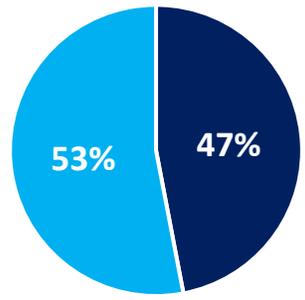
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Emphasis on a focused portfolio in premium & super-premium products in the fastest growing markets in the spirit industry

10 trademarks consisting of 30+ brands

% of Total Sales



■ US ■ Non-US ■ Jack Daniel's ■ Others

5-yr Growth

Total Brands

New Brands

Premium

Super-Premium

6% to 12%

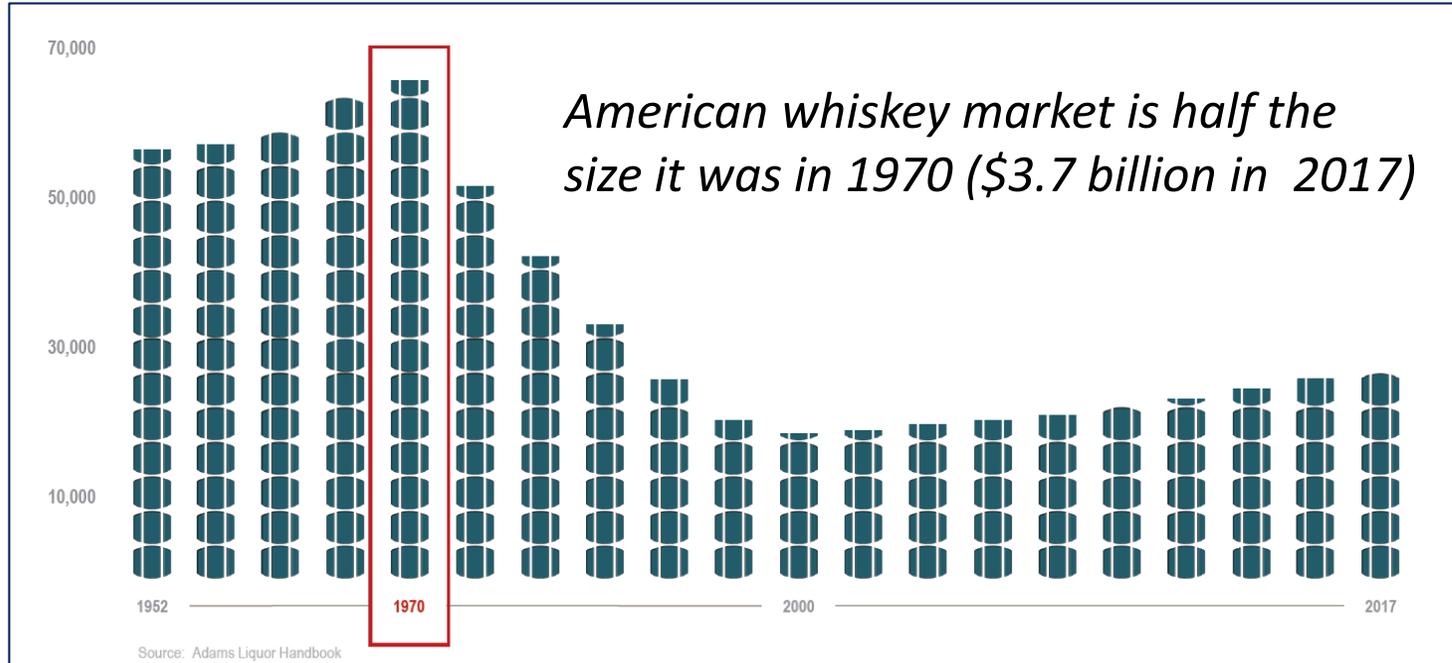
10% to 27%

18

19

3

3



Drivers

- US shifting from beer
- Global shift from scotch to American whiskey
- Taking global share from Johnnie Walker
- Rising demand can lift all of BF's whiskey brands

Premium

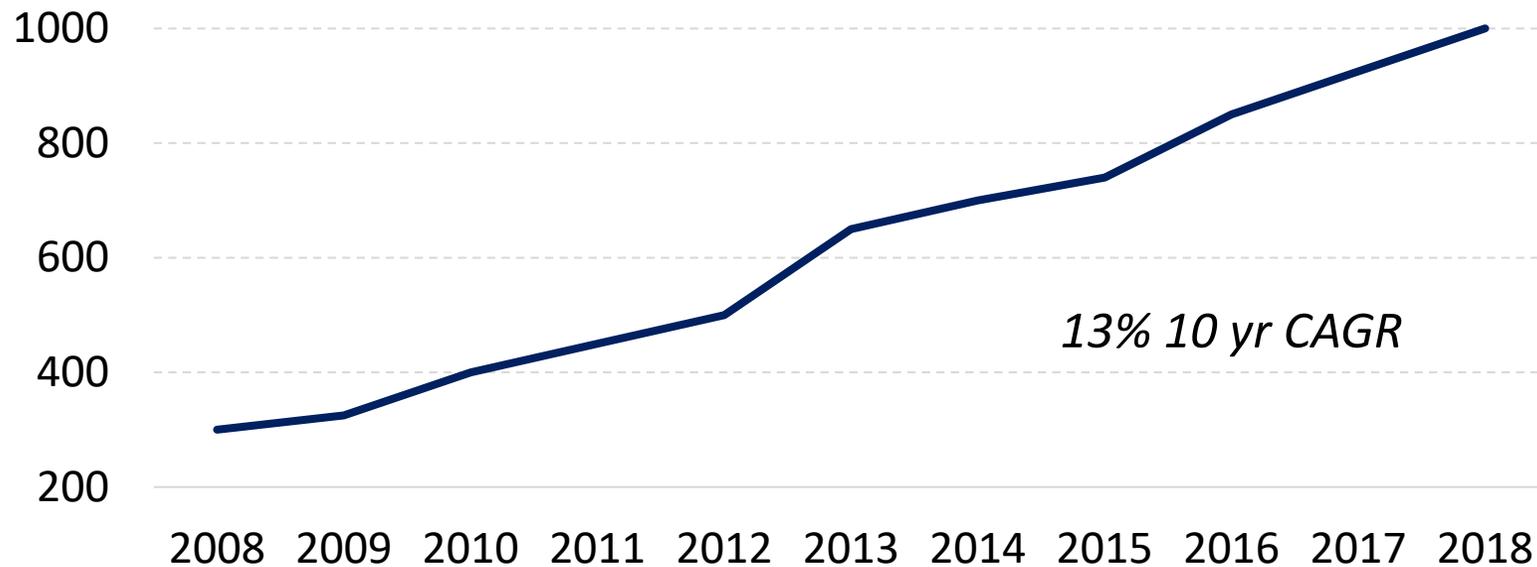


- Acquired in 1956
- Developed the JD family
- Continued growth
- Distilled in Lynchburg, TN
- Historical 5% 30-yr CAGR
- 10% 5-yr CAGR Target

Super-Premium



- Developed in 1988
- Louisville & Woodford, KY
- Historical 22% 10-yr CAGR
- 27% 5-yr CAGR Target

Global Cases Sold Ex-Mexico (*in thousands*)

Drivers

- Increasing US & global awareness of tequila
- Continued growth in strong Mexican economy
- Global distribution opportunities

Premium & Super-Premium

el Jimador®



TEQUILA
HERRADURA

- Acquired in 2007
- Distilled in Amatitan, Mexico
- Historical 13% 10-yr CAGR
- 12% 5-yr CAGR Target
- 8 million cases sold in MEX in 2018



Premium & Super-Premium

- Acquired in 2016 for \$285 million
- 3 distilleries in Scotland: Benriach, Glendronach, & Glenglassaugh
- 40% last 12 months growth
- 5% 5-yr CAGR target

Drivers

- Opportunity for increased awareness since acquisition
- Growing faster than the scotch market
- Scotch is most consistent & stable global whiskey market



Premium



- *Acquired in 2004*
- *World's tenth-largest-selling vodka*
- *Enables further diversity in both spirit products & geographical exposure*
- *Largest market in Poland, where Finlandia accounts for one out of every two bottles of imported vodka sold.*
- *3% 5-yr CAGR*



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Value Chain



Value Chain

- *Near 100% controlled process*
- *Transparency, quality & savings*
- *Value is added at every step*
- *Increases the firm's moat*



Barrel Cooperage

- *Kentucky & Alabama*
- *Only distiller to manufacture its own barrels*
- *“Barrel Raisers” make 40 barrels per hour*
- *\$45 million in CapEx over the last 12 months for efficiency improvements*

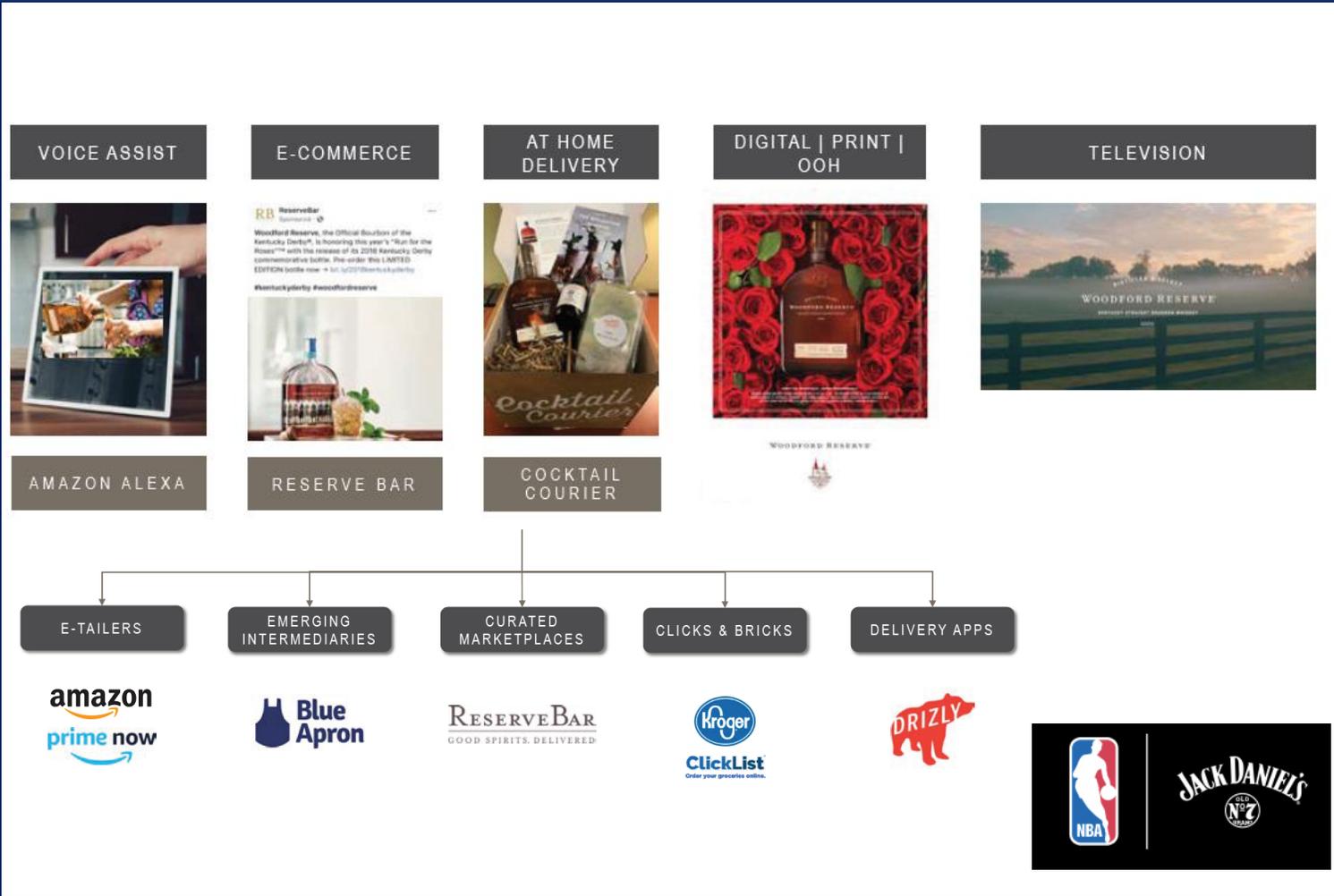


2500 barrels per day are made using white oak – after use barrels are sold or recycled



Distilleries

- *Purchased Cave Spring Hollow for \$2,418 in 1866*
- *Limestone filters out iron*
- *Charcoal mellowing differentiates Tennessee whiskey from bourbon*
- *Chemists & brew masters ensure the quality of each barrel*
- *Aged over 4 to 6 years*
- *10 distilleries spanning the USA, Canada, Mexico, Scotland & France*

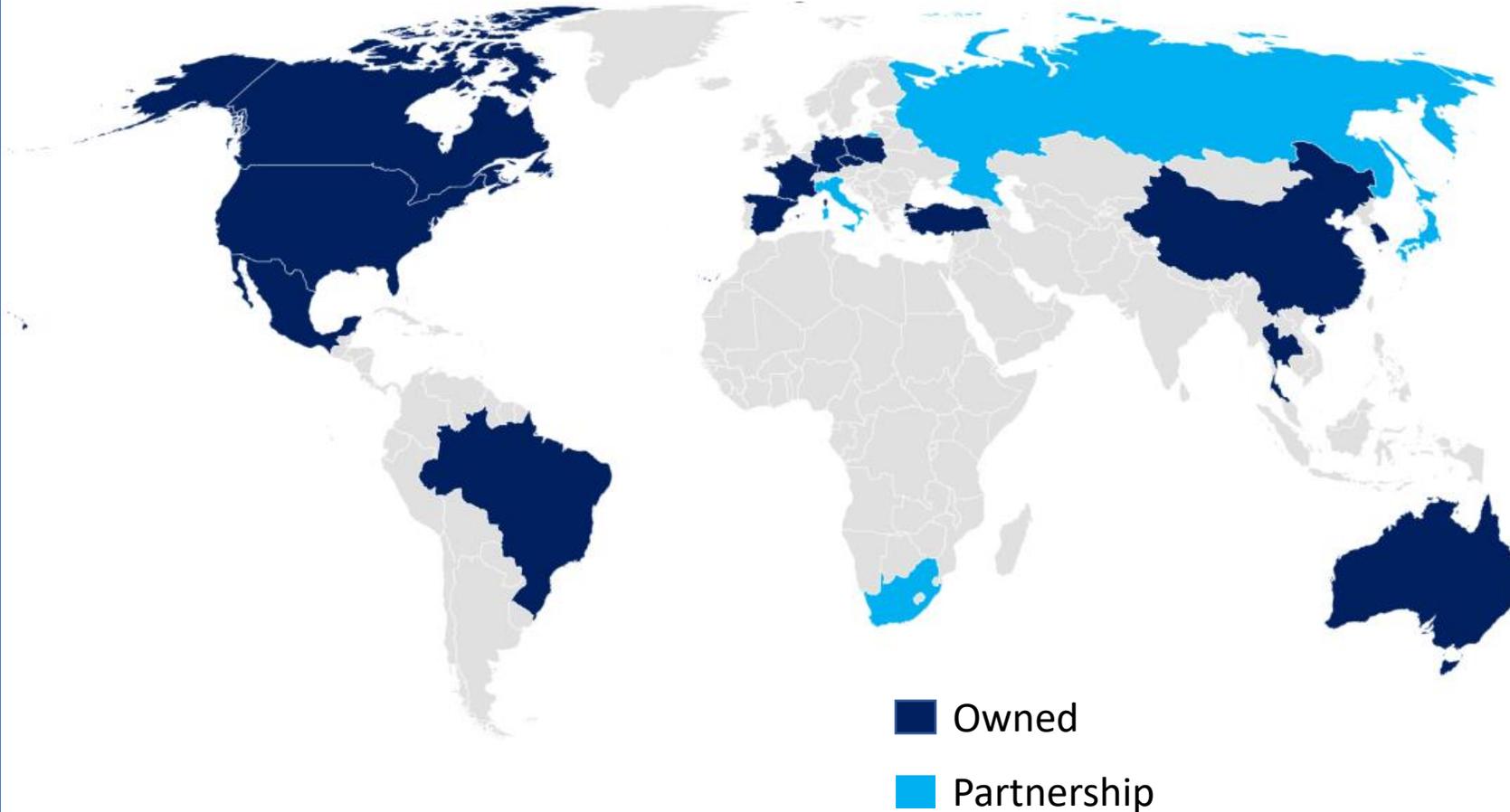


Marketing

- Emphasis on mental & physical availability
- Digital media emphasis (13% of sales)
- NBA inclusive marketing directly reaches 30% of the US population

Sales

- Sells to state governments in North America & via retailers elsewhere
- Sales teams long standing relationships offer a competitive advantage



Networks

- *Owned in 14 countries*
- *Enables cost advantages, better feedback & ability to lease unused resources*
- *Converted to a centralized network in 2015*
- *Strategic partnership with Bacardi for distributing products in the UK*



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Management & Strategy

Management



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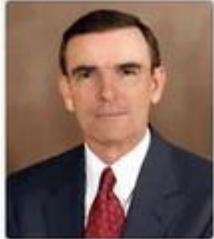
Paul Varga
Executive Committee

Former CEO who took control in 2005 when the American Whiskey market was in doubt. By refocusing BF's strategy on a focused premium & super-premium portfolio offering while enhancing every aspect of the value chain he was able to turn the firm and Jack Daniel's trademark into one of the most recognizable across the globe.



Lawson Whiting
President & CEO

Former COO, began career at Brown-Forman in 1997. Prior to being appointed incoming CEO, Whiting served as executive vice president and chief operating officer. He was responsible for re-shaping Brown-Forman's portfolio, including the acquisition of BenRiach, the launch of Slane, and investments in Woodford & Old Forester.



Mark I. McCallum
Chief Brands Officer

McCallum joined Brown Forman in 2003 as chief marketing officer. He serves as co-executive sponsor for the women's employee resource group as well as the global talent development council.



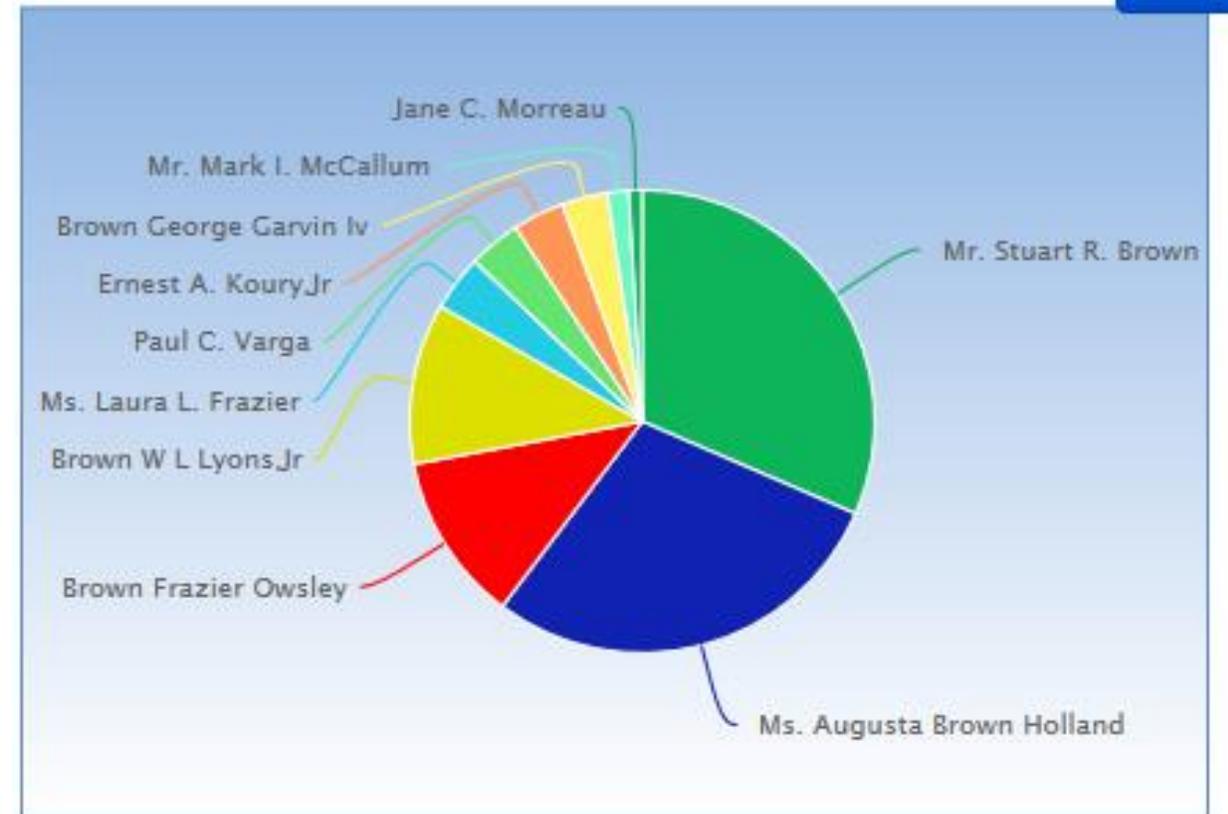
Thomas Hinrichs
*President International
Division*

Hinrichs began his career at Brown-Forman in 1996 as marketing manager for Germany, and in 1999, he was promoted to the position of vice president, director for Germany, Austria, Switzerland, and Denmark.



Insider Ownership

Brown Forman is a “controlled company” because the Brown family owns more than 50% of our voting stock. Additionally, taking into account ownership of shares of our non-voting stock, the Brown family controls more than 50% of the economic ownership in Brown-Forman.



What Brown Forman Says



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Brown Forman pitches the Family's role in the board as a competitive advantage due largely to, "the long-term ownership perspectives that Brown family members bring to the Board."

Some of the family members tenure in the business approaches a decade or more



What Others Say



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MORNINGSTAR®

“Despite the firm’s status as a controlled company, the Brown family’s interests have historically been aligned with those of shareholders, and we expect the firm to continue to reward its Class B shareholders through sustained dividend growth.”



YAHOO!
FINANCE

"Brown-Forman Corporation’s ISS Governance QualityScore as of February 1, 2019 is 10. The pillar scores are Audit: 2; Board: 10; Shareholder Rights: 10; Compensation 5.”

High values represent higher risk and vice versa.



M&A Activity

- **November 2004** - Brown-Forman Acquiring Remaining Interest in Finlandia Vodka
- **Jan 2007** - Brown-Forman Completes Casa Herradura Acquisition for \$776 Million
- **June 2015**- Acquired all shares of Slane Irish Whiskey
- **March 2016** – Divested Southern Comfort Brands for \$544 million
- **June 2016** - Brown-Forman Completes Acquisition of the GlenDronach, BenRiach, and Glenglassaugh Single Malt Scotch Whiskies, £281 million





US Strategy

- **Emerging Brands Focus:** Herradura Tequila, Slane Irish Whiskey, Glenglassaugh Scotch Whiskey, Benriach Scotch Whiskey, Cooper's Craft, etc.
- **e-Premise Channels:** Amazon Prime, Blue Apron, Reserve Bar, Kroger Click List, and Drizly



City Center
Influencer City Focus



Hand Selling
Field-Focused Skew More
Than Distributor Management



Retail Focus
On-Premise / Whiskey
Shops / High End Retailers

Global Strategy



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Globalization & Increased Focus

Developed Markets

Emerging Markets

Product Focus



Investments

Route to consumer & digital advertising

Seed investments in local organizations through Cap Ex & culture

Opportunity

Super-premium as BF only has 8% of the market & pairing demand with efficiency investments

Instilling Jack Daniel's (17%) as a lead brand vs Johnnie Walker (56%)

Example

***Spain** – 2018 owned distribution, 4th largest whiskey market & demanding super-premium*

***Brazil** – focused portfolio gave 24% 5-yr CAGR in cases delivered*

Stewardship



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Strategic M&A

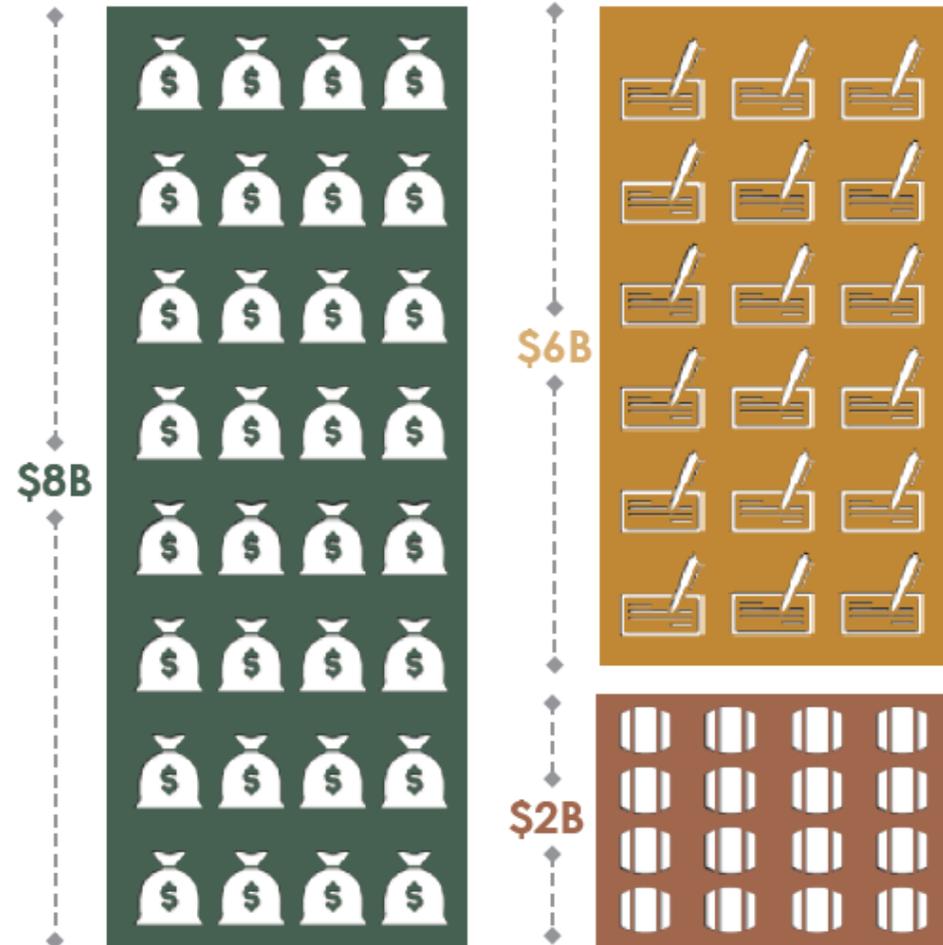
- will acquire brands that add long term value creation (Scotch acquisitions)
- Divest brands that don't fit strategy (divesting Southern Comfort)

Dividends

- Special dividend in 2018
- 9% 10-yr CAGR

Buybacks

- Excess cash flow used to repurchase stock
- Repurchased 4% of shares in 2018





News

- 1 **5/7/18** – CEO Paul Varga warns of potential for retaliation following Trumps EU steel tariffs

- 2 **6/8/18** - EU & Mexico place 25% tariff on whiskey imports

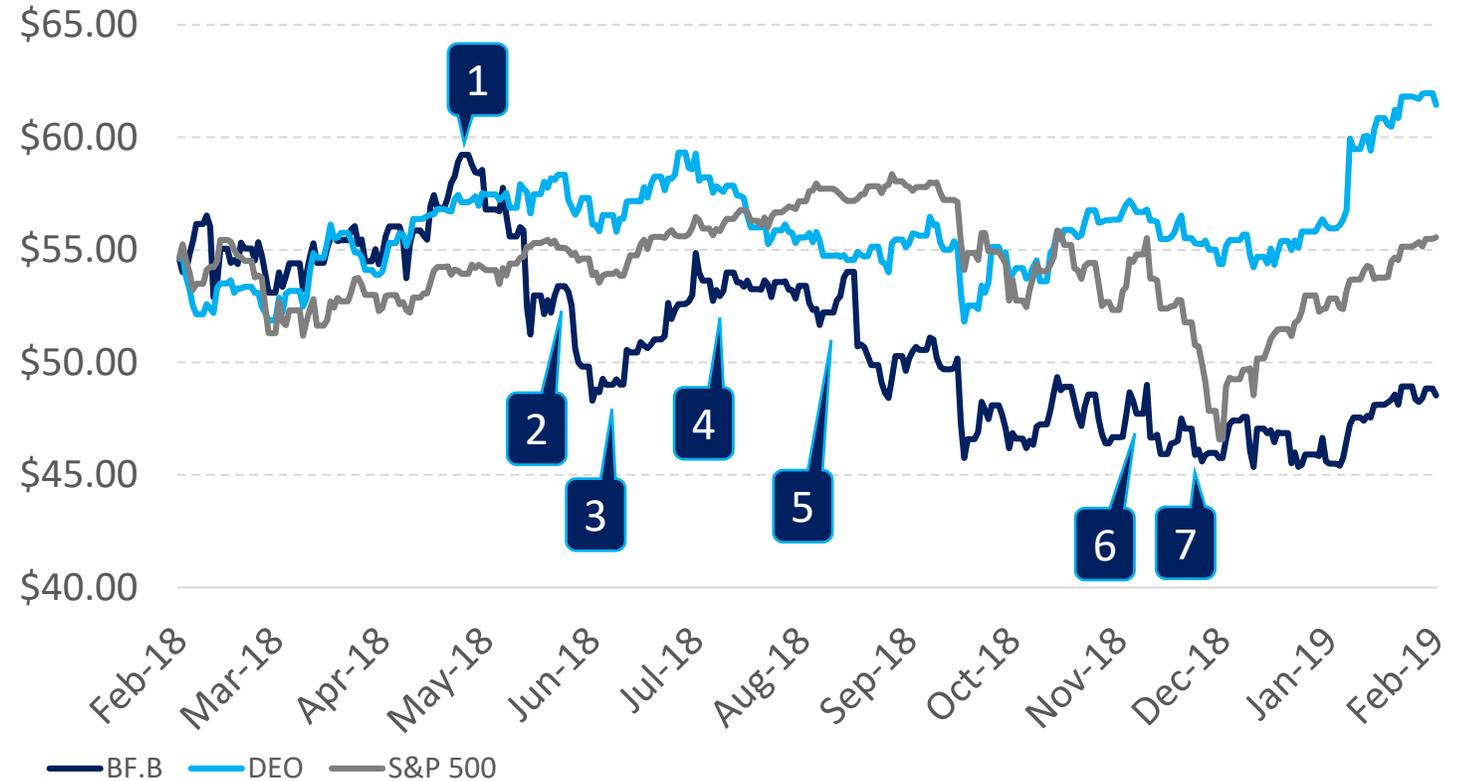
- 3 **6/29/18** – Canada places 10% tariff on whiskey imports

- 4 **7/13/18** – Board approves share repurchase of \$200 million

- 5 **8/29/18** – Lowered FY 2019 guidance due to OI & FX

- 6 **11/13/18** – Trumps announces tariffs on French wine

- 7 **12/5/18** – Earnings in-line with estimates



Moat



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Intangible Assets

- Jack Daniel's brand
- #4 spirits brand and largest American whiskey brand worldwide
- Strong brand loyalty
- Virtually impossible to replicate taste



Cost Advantages

- Portfolio of high margin products
- Owned value chain enables cost savings



Wide Moat

- Jack Daniel's brand
- Impossible to replicate
- High margin products
- Owned production & distribution networks
- Regulated market
- Global market share
- Inelastic demand



Qualitative Criteria

Qualitative Analysis	
Criteria	Yes/No
Competitive Advantage?	Yes
Easily Explainable?	Yes
Heavily Unionized?	No
Heavy Capital Infusion?	No
Heavy R&D?	No
Obsolete Inventory?	No
Chronic one-time write offs?	No
Raise prices to offset inflation?	Yes
Sell more in the future?	Yes
Billion dollar competitor?	No
Total	100.0% 10 out of 10



Quantitative Criteria

Quantitative Analysis			
LTM	Value	Threshold	Pass/Fail
Gross Profit Margin	67.3%	Above 20%	Pass
SGA to Gross Profit	53.5%	Below 80%	Pass
R&D to Gross Profit	0.0%	Below 10%	Pass
Depreciation	2.0%	Below 10%	Pass
Interest to Operating Income	6.1%	Below 15%	Pass
Net Profit Margin	22.1%	Above 10%	Pass
Current Ratio	3.1	Above 1	Pass
Obligation Ratio	3.4	Below 5	Pass
Adjusted Debt to SE	1.5	Below 0.8	Fail
ROE	53.3%	Above 15%	Pass
ROIC	20.1%	Above 15%	Pass
Payout Ratio	41.6%	Below 60%	Pass
Preferred Stock	None	None	Pass
Capital Expenditures	3.9%	Below 25%	Pass
Net Earnings Trend	Increasing	Increasing	Pass
Retained Earnings Trend	Decreasing	Increasing	Fail
Total	87.5%	14 out of 16	

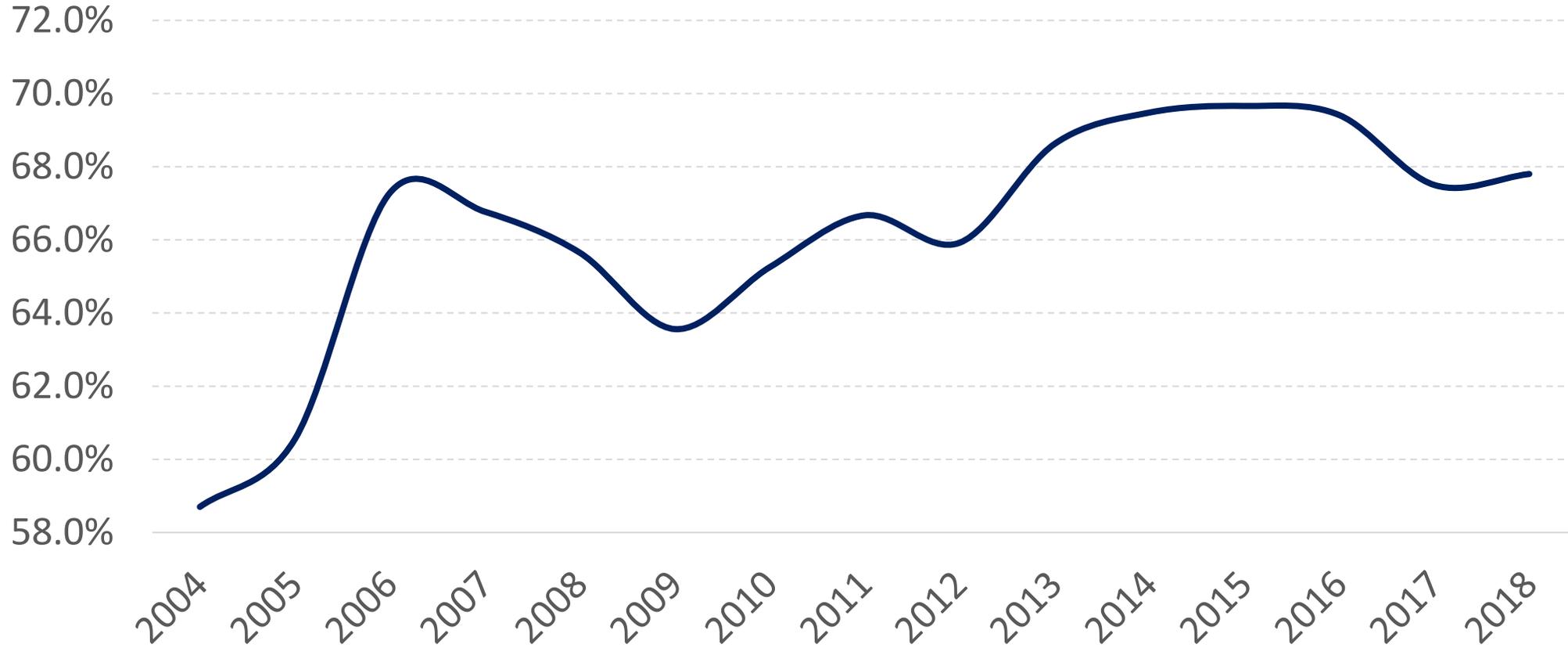


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Interpretation of Financial Statements



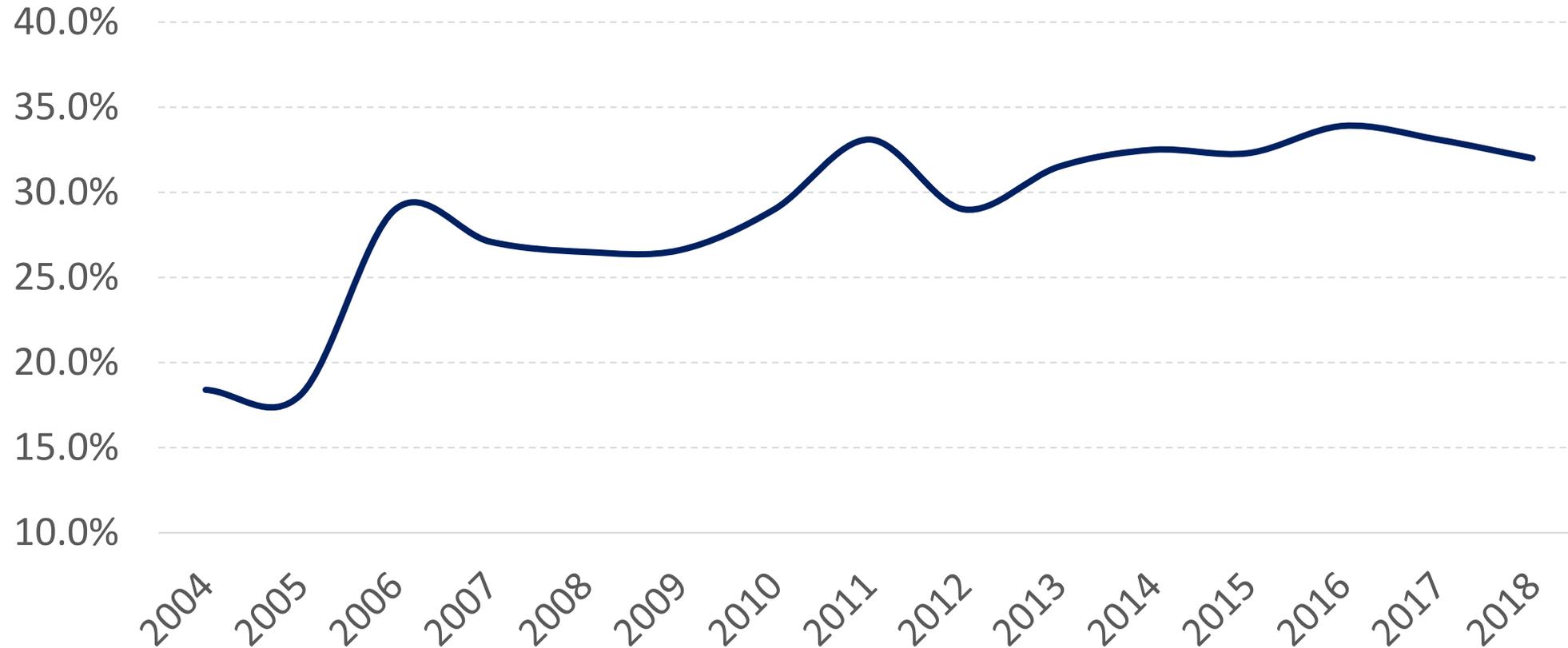
Gross Margin



CAGR's	
2-Year:	(2.3%)
5-Year:	(1.2%)
10-Year:	3.3%



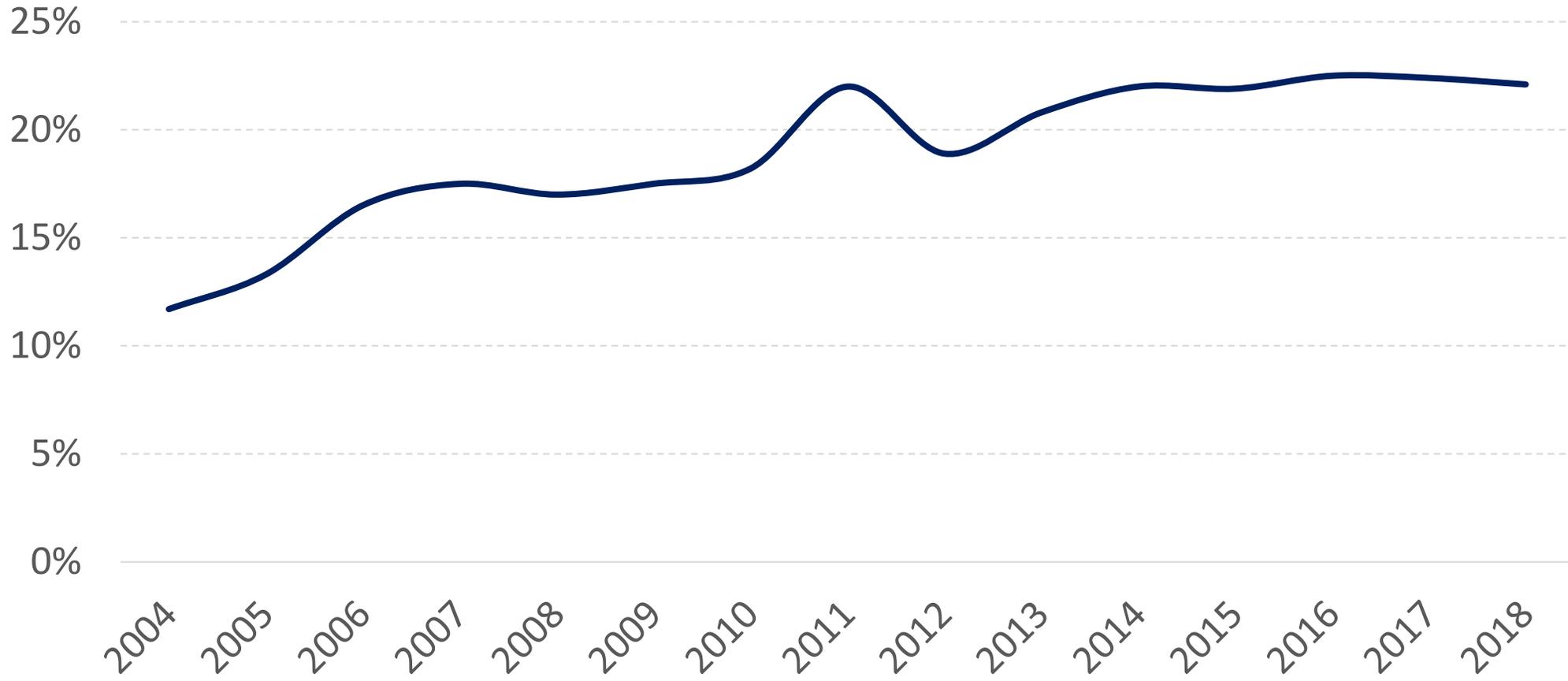
Operating Margin



CAGR's	
2-Year:	(5.6%)
5-Year:	1.6%
10-Year:	20.8%



Net Margin

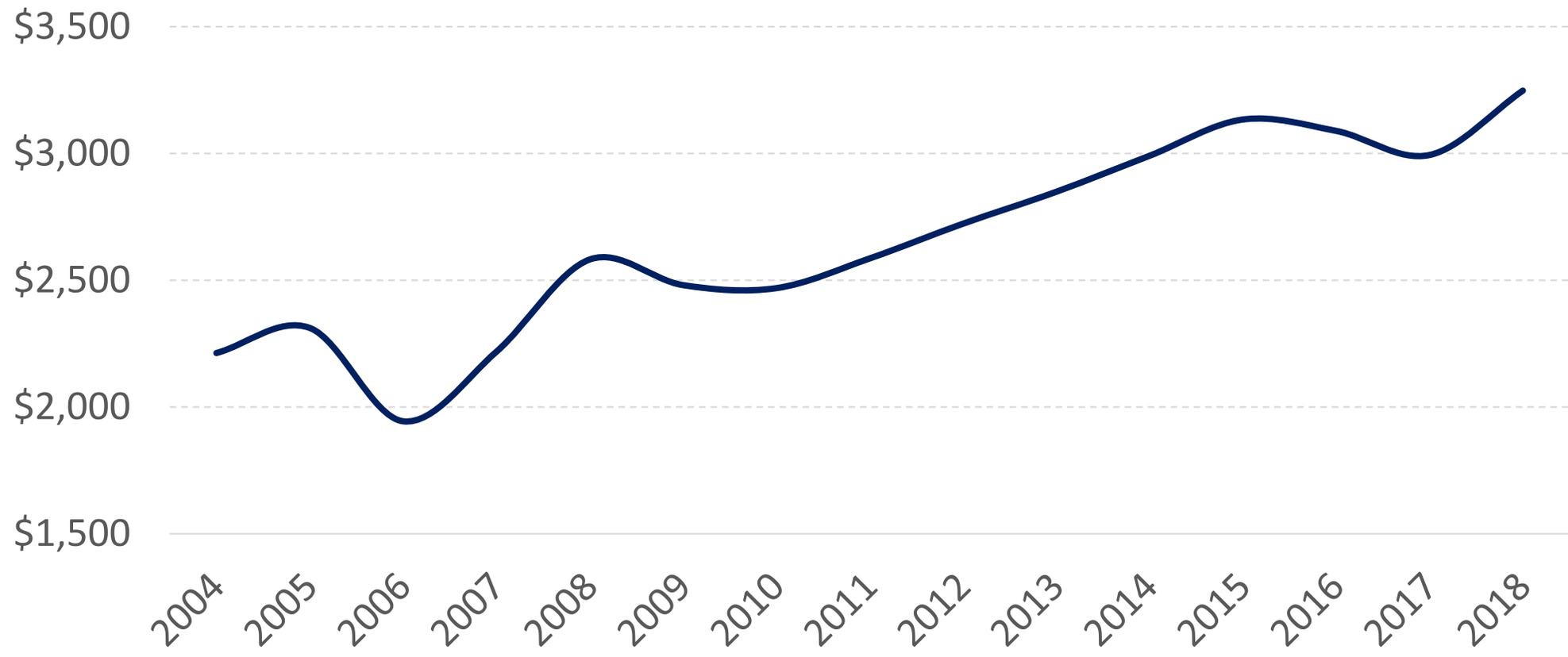


CAGR's	
2-Year:	0.0%
5-Year:	6.8%
10-Year:	30.0%

Revenue



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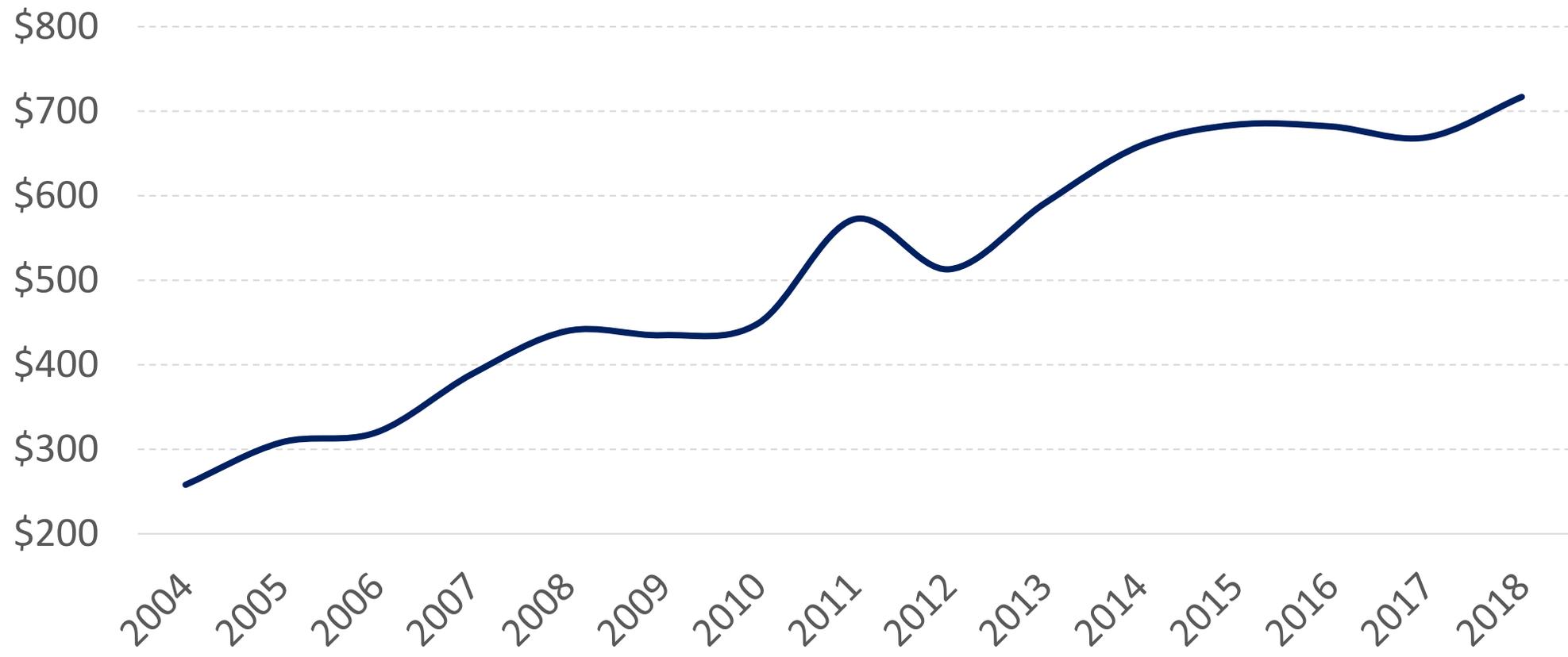


CAGR's	
2-Year:	5.1%
5-Year:	14.1%
10-Year:	25.3%

Net Income



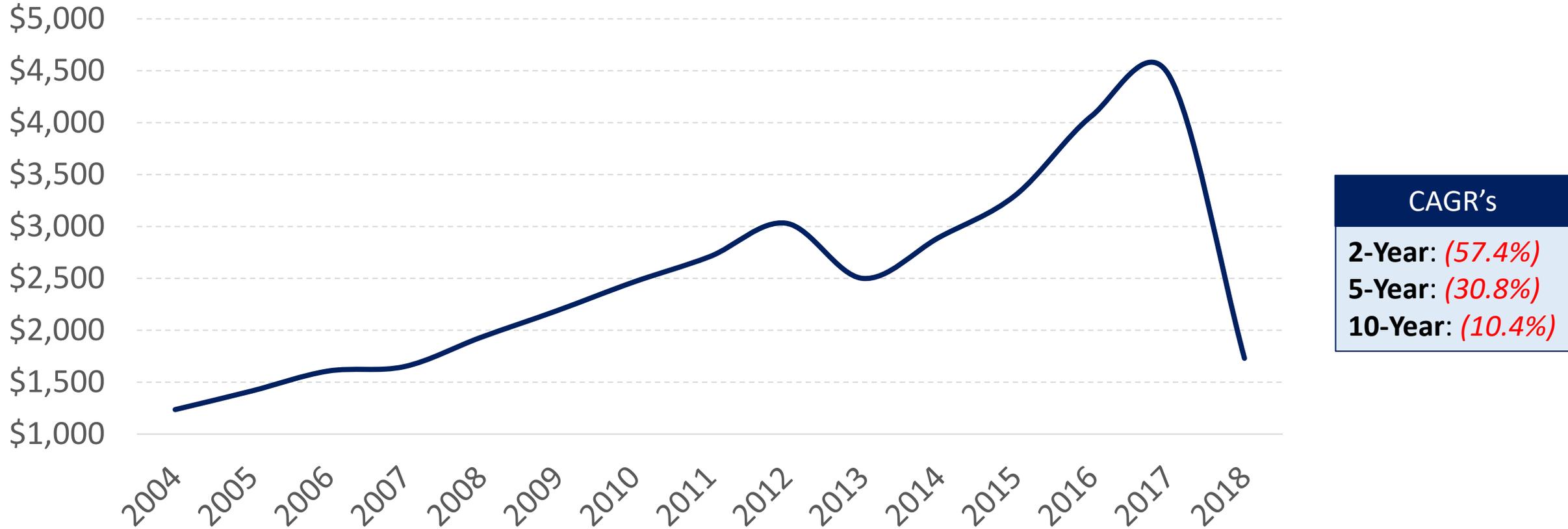
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CAGR's	
2-Year:	5.1%
5-Year:	21.3%
10-Year:	63.0%

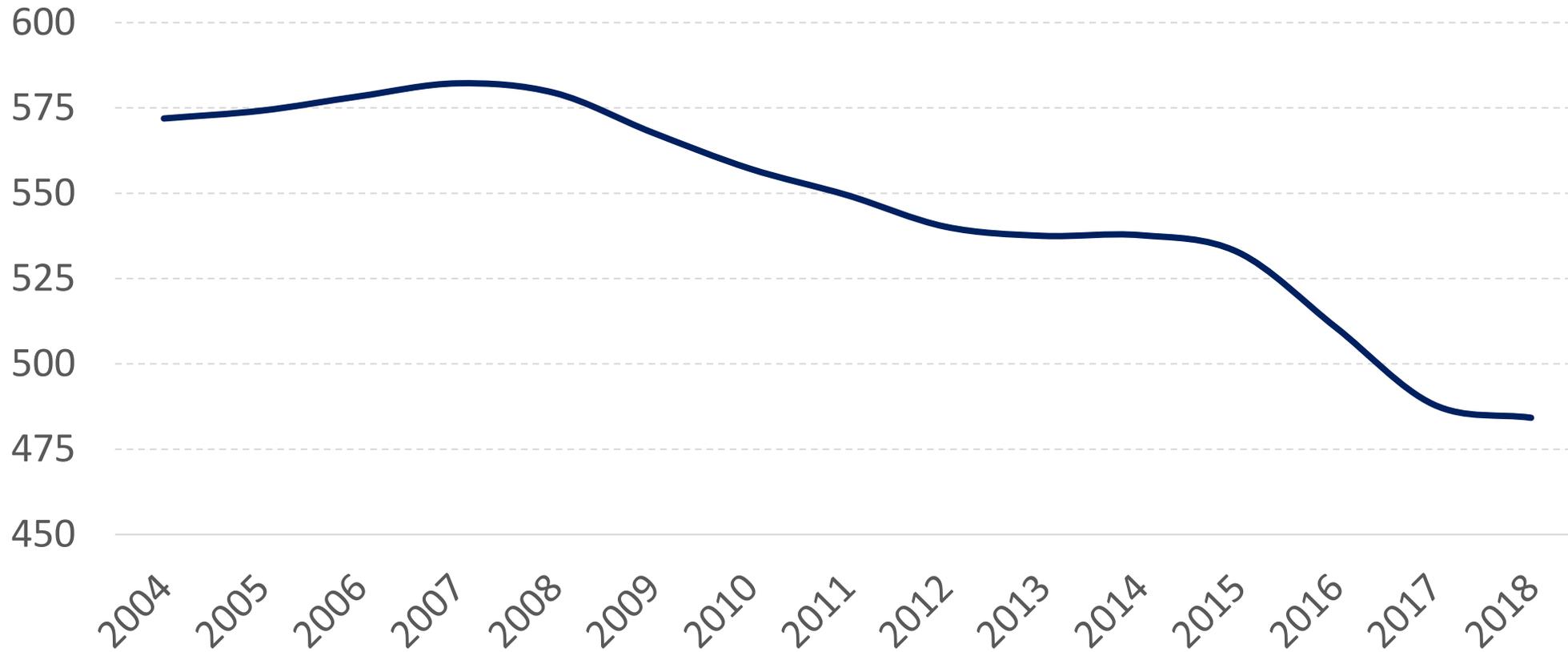


Retained Earnings





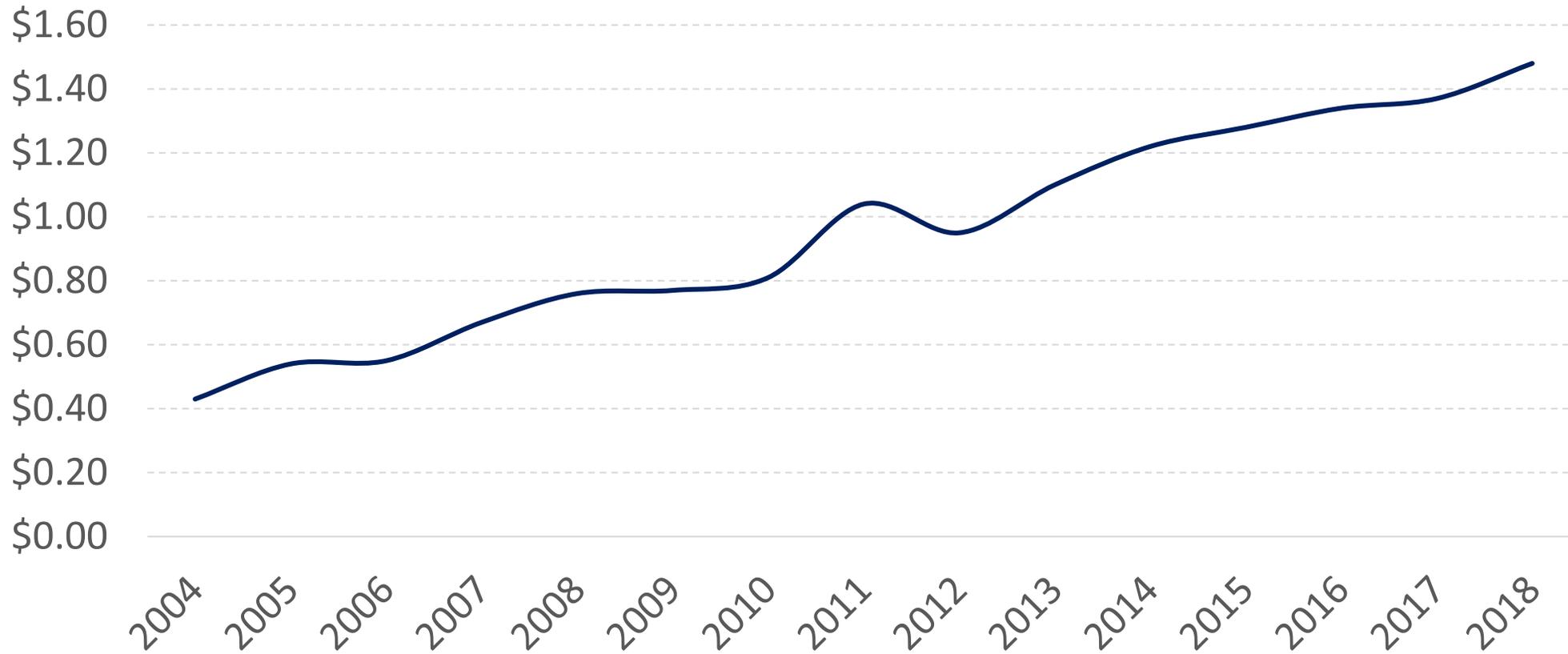
Diluted Shares Outstanding *(millions)*



CAGR's	
2-Year:	(5.2%)
5-Year:	(9.9%)
10-Year:	(16.4%)



Diluted EPS

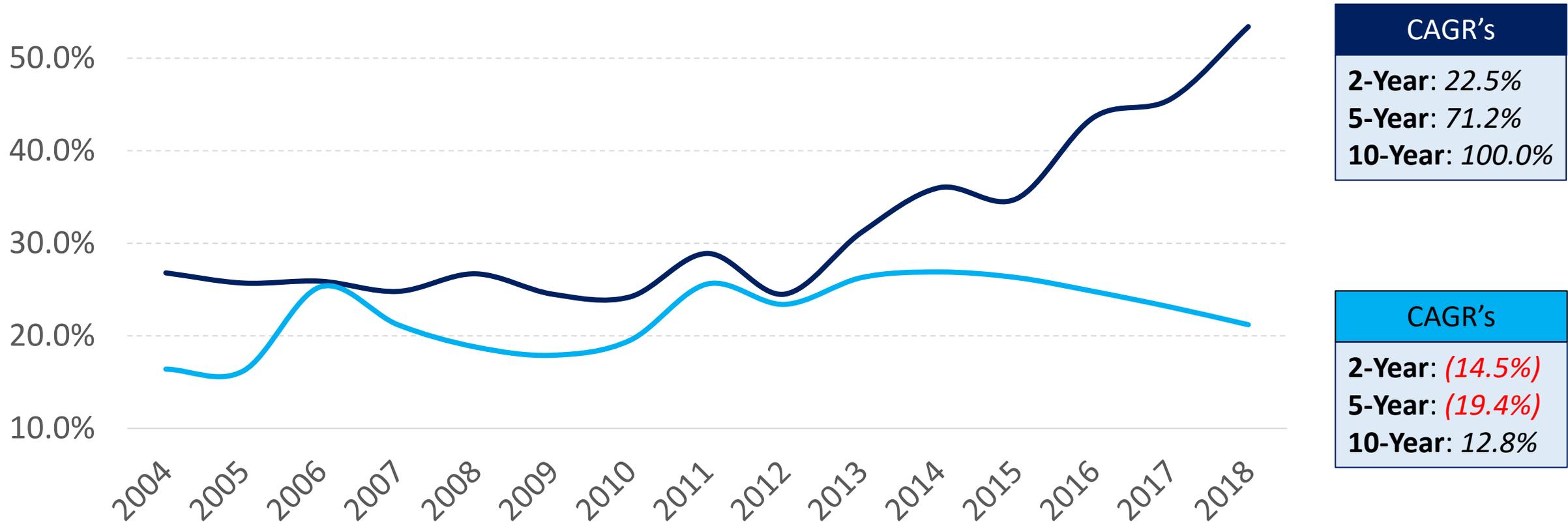


CAGR's
2-Year: 10.4%
5-Year: 34.5%
10-Year: 52.7%

ROE & ROIC



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DuPont *(Historical)*

	FLM	TAT	NPM	ROE
2014	2.02	0.73	22.1%	32.5%
2015	2.20	0.75	21.8%	35.9%
2016	2.68	0.74	22.0%	43.5%
2017	3.38	0.65	22.3%	48.7%
2018	3.78	0.65	22.1%	54.5%

- *Increase in leverage but obligations still well manageable*
- *Equity balance has fallen due to special dividend & share repurchases*
- *Asset turnover is declining due to inventory buildup which is fine as long as demand grows*

Debt



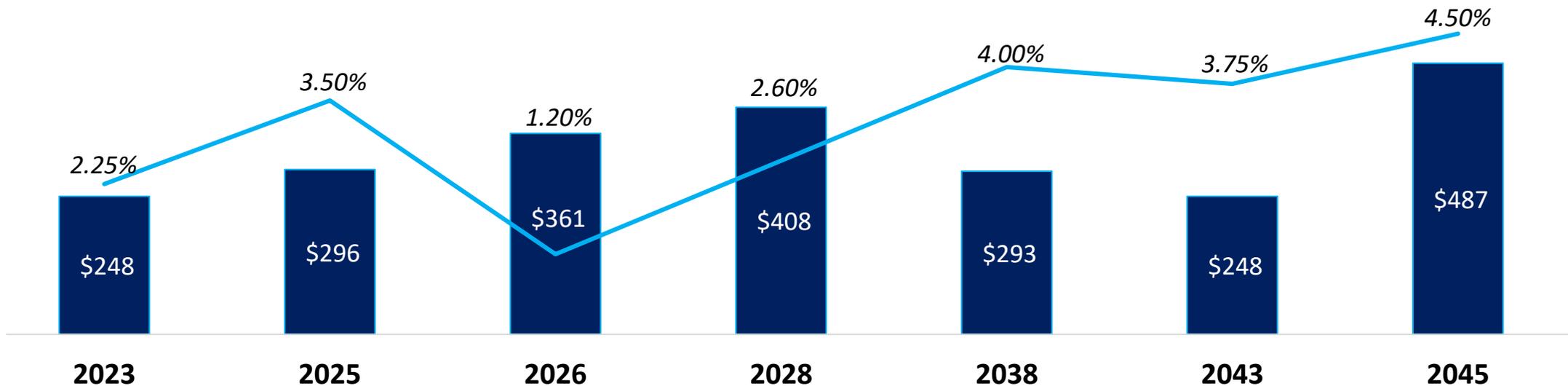
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MOODY'S
A1

"...very strong credit metrics, solid liquidity, good geographic diversification, and ownership of the Jack Daniel's brand."

STANDARD & POOR'S
A-

"Brown-Forman has historically maintained conservative financial policies."



\$ in millions, all senior secured debt, denominated in USD



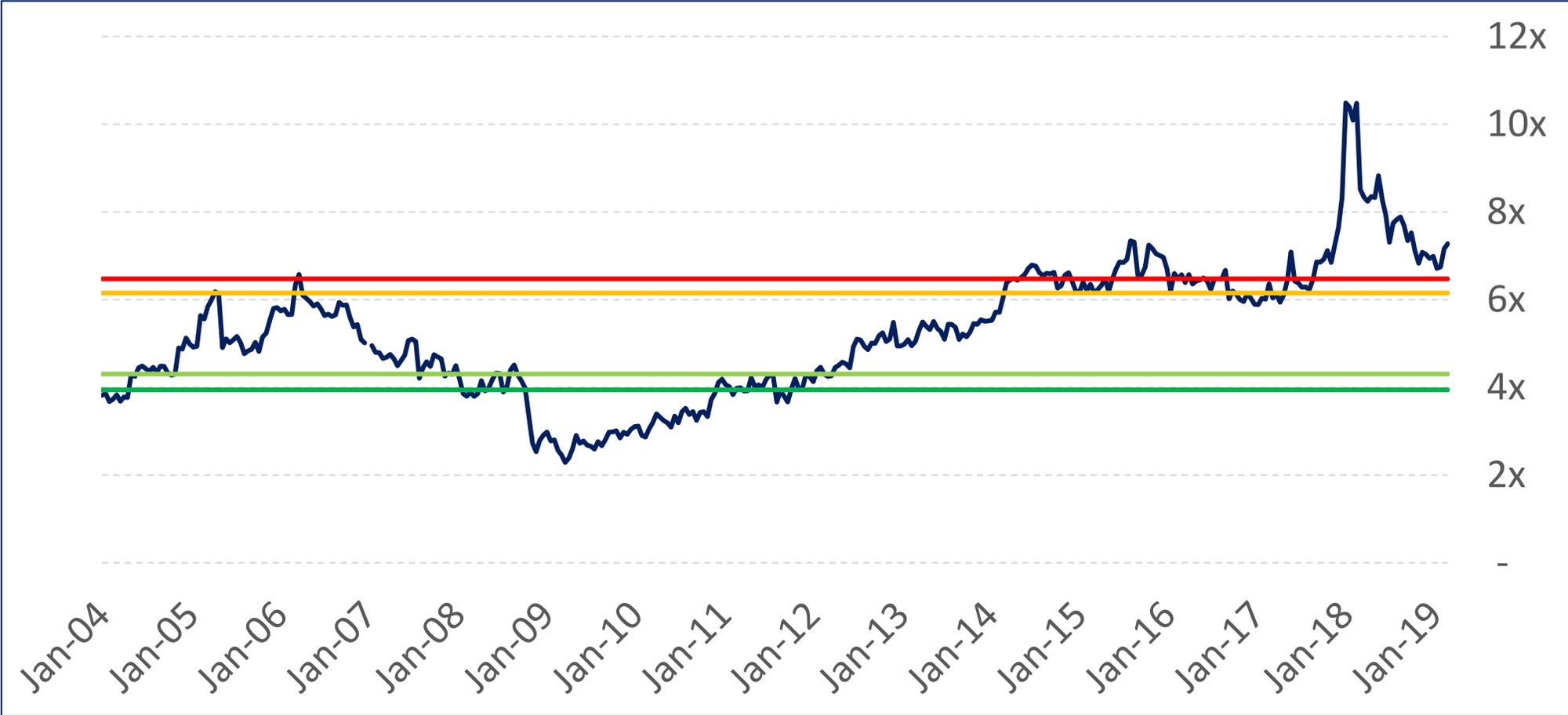
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Valuation

Price to Sales



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Price to Earnings





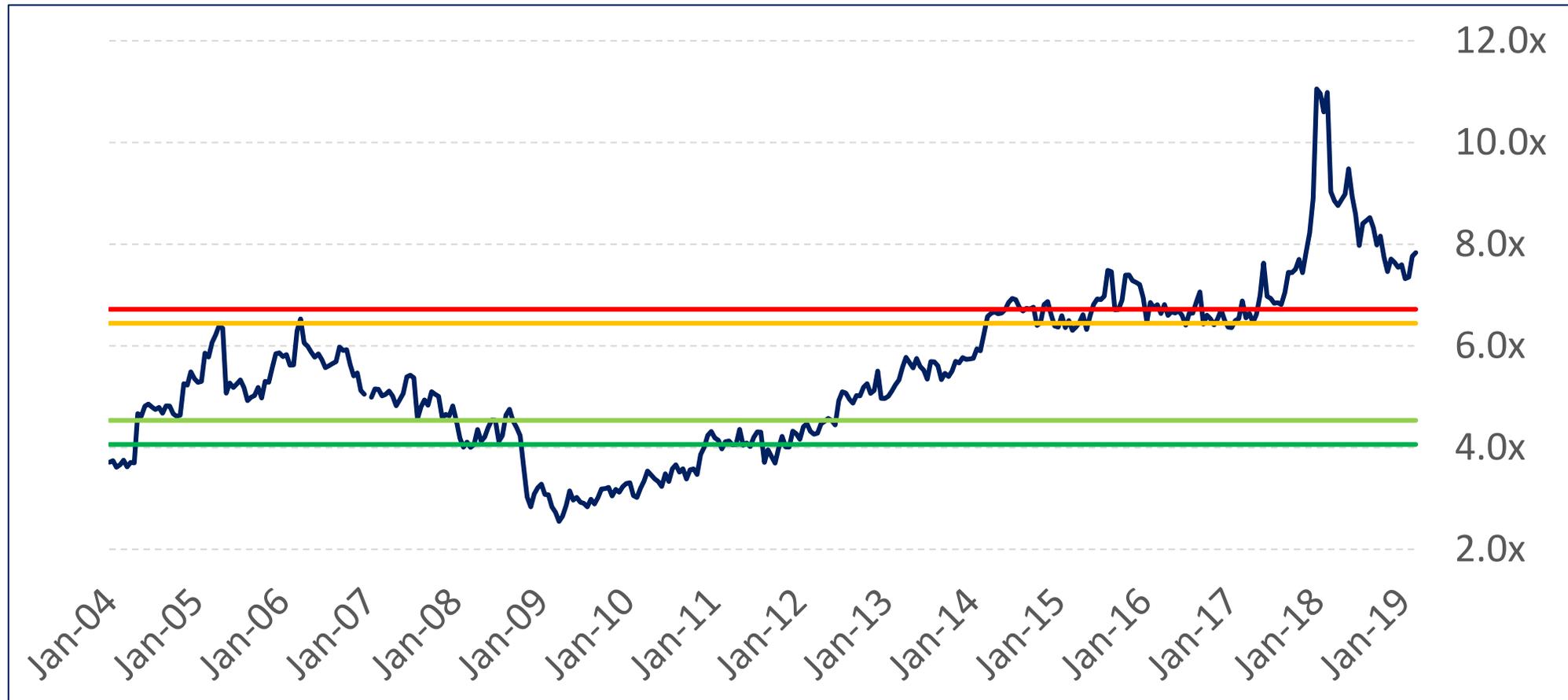
Free Cash Flow Yield



EV / Revenue



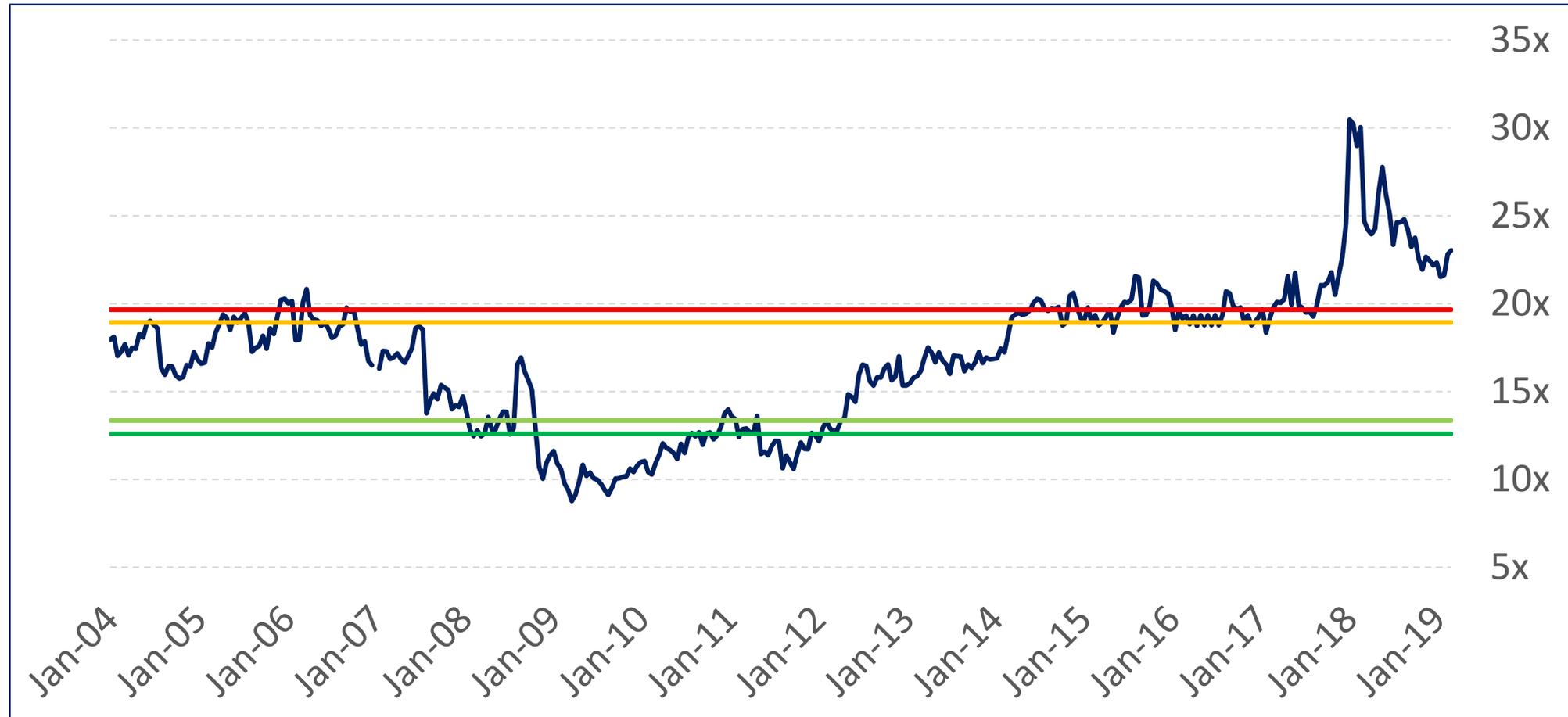
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EV / EBITDA



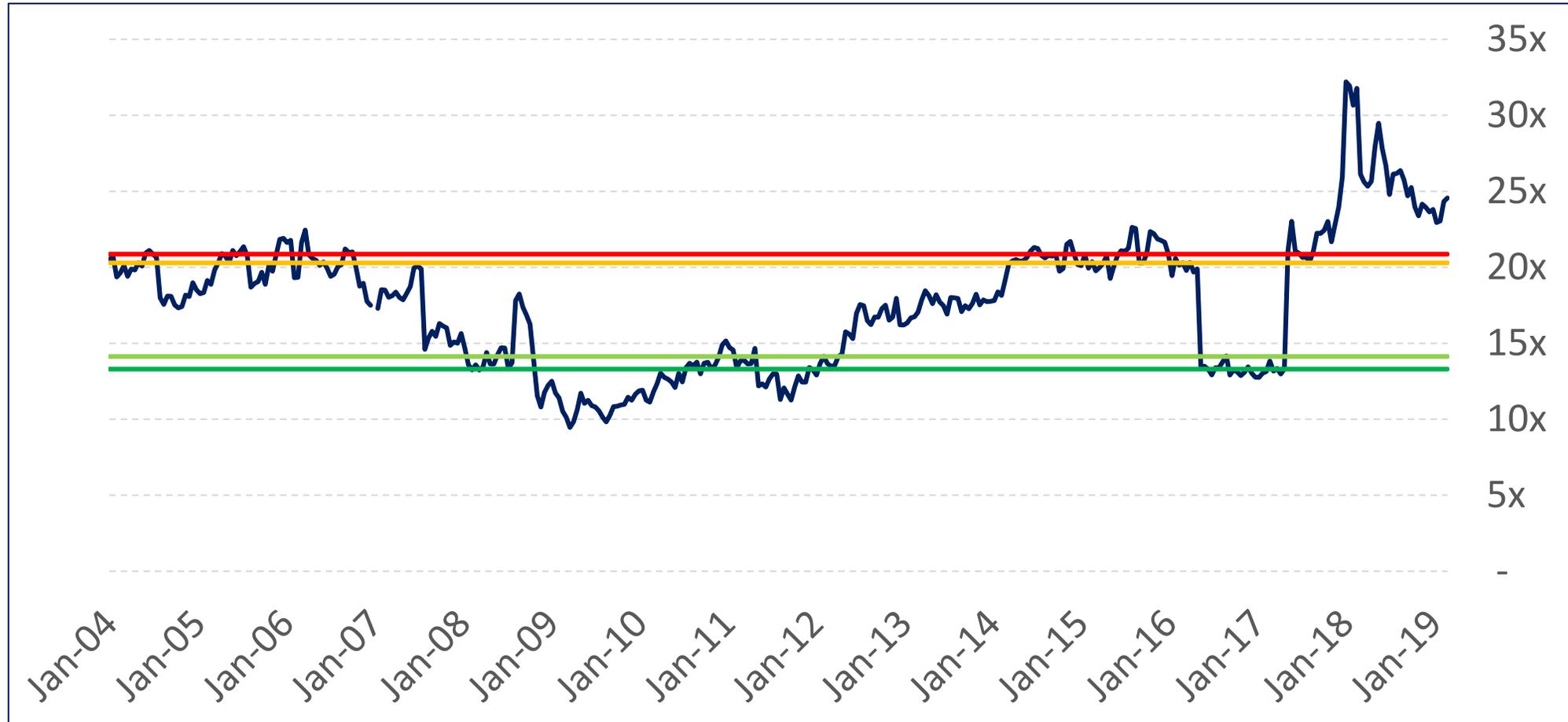
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EV / EBIT



BROWN-FORMAN



Analyst Discussion



BROWN-FORMAN



December 6, 2018

“...we see potential in the firm's other premium whiskey brands, which include bourbon (Woodford Reserve), Irish whiskey (Slane), and single-malt scotch (BenRiach), as well as tequila brands el Jimador and Herradura.”

“Moreover, we expect volumes in international markets to grow as the firm strengthens its foothold abroad.”

Fair Value
\$45



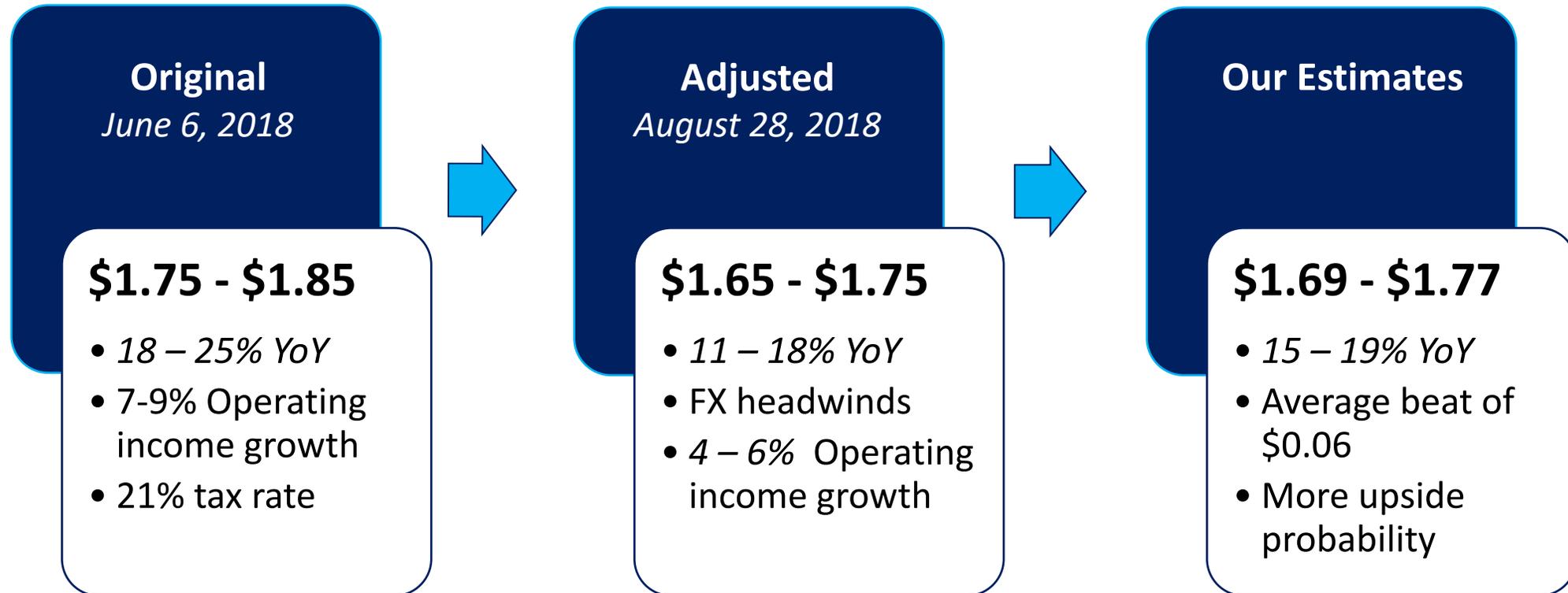
January 18, 2019

“The selloff offers long-term investors a solid entry point as these shares offer above-average capital appreciation potential over the 2021-2023 pull.”

2021-23 Projections
\$75 - \$95
13% - 23% CAGR



2019 Earnings Guidance





Risks & Opportunities



- Reliance on Jack Daniel's
- Excise tax
- Tariffs
- CEO Transition
- Emergence of craft distillers
- Family Interests



- Negatives baked in
- Concentration on premium & super-premium
- Value chain & culture
- Inelastic demand
- Family ownership & internal management
- Growing spirit market

DCF



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EPS: \$1.75
10 – Year Growth: 16.0%
Terminal Growth: 6.0%
Discount Rate: 9.0%

Fair Value
\$53.00
+6.3%

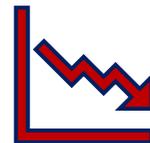
Assuming higher end of top line growth, tariff compromise, & margin expansion of 8% by 2024 as revenue increases relative to fixed costs.



EPS: \$1.71
10 – Year Growth: 13.0%
Terminal Growth: 5.0%
Discount Rate: 9.0%

Fair Value
\$42.28
(15.3%)

Assuming mid range of estimates of growth in global markets with mild economic slowdown that many are pricing in. Slight margin expansion of 5% by 2024.



EPS: \$1.68
10 – Year Growth: 7.0%
Terminal Growth: 3.0%
Discount Rate: 9.0%

Fair Value
\$28.32
(41.6%)

Assuming low range of estimates, economic slowdown in the short term, & no margin expansion.



DuPont (Competitors)

	FLM	TAT	NPM	ROE
 BROWN-FORMAN	3.78	0.65	22.1%	54.5%
	2.54	0.40	24.2%	24.6%
 RÉMY COINTREAU	1.12	0.80	13.2%	11.8%
 Pernod Ricard GRUPPO	2.00	0.32	17.6%	11.3%
	2.30	0.41	9.9%	9.3%



Gross Margins *(Competitors)*

	Market Cap	Revenue	Gross	Operating	Net	ROE	ROIC
 BROWN-FORMAN	\$22.5B	\$3,248	67.2%	31.1%	22.8%	54.5%	21.8%
DIAGEO	\$94.3B	\$16,174	61.9%	30.4%	24.9%	30.0%	15.3%
 RÉMY COINTREAU	\$6.7B	\$1,333	65.3%	21.0%	13.4%	12.5%	11.1%
 Pernod Ricard	\$45.9B	\$10,628	62.3%	26.5%	18.8%	9.7%	8.1%
GRUPPO CAMPARI	\$11.1B	\$2,164	59.1%	21.4%	11.2%	9.4%	8.2%

Trading Comps



BROWN-FORMAN

	P/E	Fwd P/E	5-yr EPS	PEG	P/S	EV/EBITDA	EV/EBIT	FCF Yield
 BROWN-FORMAN	31.8x	27.7x	14.0%	2.3	7.2x	21.8x	23.3x	2.9%
 DIAGEO	24.7x	22.9x	6.0%	4.1	5.9x	16.3x	17.5x	3.1%
 RÉMY COINTREAU	38.7x	35.7x	3.0%	12.9	5.4x	23.9x	26.7x	2.7%
 Pernod Ricard	27.6x	25.3x	6.0%	4.6	4.9x	17.2x	18.9x	3.1%
 GRUPPO CAMPARI	25.8x	23.9x	10.0%	2.6	6.4x	24.1x	24.1x	3.4%

Intraportfolio



BROWN-FORMAN

P/E

OMC	13.1
PEP	13.2
NXPI	13.7
DIS	15.6
GNW	16.1
PII	16.7
DG	17.6
CNI	18.9
HD	19.0
CHRW	19.1
ORCL	19.5
UHAL	19.5
UNP	21.1
TSCO	21.8
ROST	22.4
GOOG	26.1
MSFT	26.1
ULTA	29.4
SBUX	31.4
BF.B	32.1
QCOM	34.4
MA	40.6
NKE	66.5
BRK.B	125.3

P/S

GNW	0.2
CHRW	0.8
PII	0.9
OMC	1.1
DG	1.3
TSCO	1.5
HD	2.0
UHAL	2.0
BRK.B	2.2
ROST	2.4
PEP	2.5
DIS	2.9
ULTA	2.9
NXPI	3.3
QCOM	3.5
NKE	3.7
SBUX	3.8
ORCL	5.3
UNP	5.5
CNI	5.7
GOOG	6.0
BF.B	7.3
MSFT	7.4
MA	15.9

EV/EBITDA

UHAL	6.3
NXPI	6.9
OMC	7.6
PII	10.0
DIS	10.4
ORCL	11.1
CNI	12.4
UNP	13.0
CHRW	13.2
DG	13.3
HD	13.3
TSCO	13.5
ROST	14.0
PEP	14.2
MSFT	15.0
GOOG	15.3
ULTA	16.6
SBUX	17.1
QCOM	20.8
BF.B	23.2
NKE	24.5
MA	29.1
BRK.B	-
GNW	-

FCF Yield

GNW	-
NXPI	11.5%
SBUX	9.7%
OMC	8.8%
ORCL	6.5%
CHRW	5.7%
DIS	5.5%
HD	5.0%
DG	4.6%
BRK.B	4.5%
PII	4.5%
ROST	4.4%
UNP	4.2%
PEP	3.7%
MSFT	3.6%
TSCO	3.6%
NKE	3.3%
ULTA	3.3%
CNI	2.9%
GOOG	2.6%
MA	2.4%
BF.B	2.4%
QCOM	2.3%
UHAL	1.3%



Recommendation

Diversity

- Wide array of premium & super-premium products in multiple categories as well as total global reach

Value Chain

- From cooperage to customer everything is thought out & delivers high efficiency as show via leading margins

Stability

- Recession resistant demand as shown in 2008 with flat earnings with share price falling 40%

Growth

- Despite the firms age, effective strategies have yielded historic growth & a runway for the future

Stewardship

- Industry leading ROIC, special dividends, & buybacks shows commitment to increasing shareholders wealth

Weighted Average Valuation

70th Percentile Multiples & DCF

P/E	70th	28x	\$50.38
EV/EBITDA	70th	22x	\$49.73
DCF	Base to Bull		\$48.63

Average	\$49.58
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March 15 Put @ \$55 – \$5.65 – Effective entry @ 49.35

Or

\$49.50 limit order

Q&A



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