# Constellation Brands

## Table of Contents

<table>
<thead>
<tr>
<th>Investment Thesis</th>
<th>SWOT Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company Overview</td>
<td>Price History</td>
</tr>
<tr>
<td>Leadership</td>
<td>Financial Highlights</td>
</tr>
<tr>
<td>Market Trends</td>
<td>Valuation</td>
</tr>
<tr>
<td>Company Strategy</td>
<td>Monte Carlo and Portfolio VaR</td>
</tr>
<tr>
<td>Competitive Landscape</td>
<td>Recommendation</td>
</tr>
</tbody>
</table>
Constellation Brands
Investment Thesis

- Maintaining momentum with power brands
- Trimming lower performers
- Continued innovation through a focus on consumer trends
Constellation Brands
Company Overview

**Beer**
- Corona Brand Family
- Modelo Brand Family
- **Imported Beer**: Pacifico and Victoria
- **Craft**: Ballast Point Brand, Funky Buddha, & Four Corners

**Wine and Spirits**
- **15 Wine Brands**
  - Kim Crawford, Ruffino, BlackBox
- **2 Brand Portfolios**
  - Charles Smith & Prisoner
- **3 Spirit Brands**
  - Casa Noble, High West, & Svedka
## Constellation Brands
### Revenue Breakdown

<table>
<thead>
<tr>
<th>Beer 64.1%</th>
<th>Wine 31.2%</th>
<th>Spirits 4.7%</th>
</tr>
</thead>
<tbody>
<tr>
<td>[Beer Logos]</td>
<td>[Wine Logos]</td>
<td>[Spirits Logos]</td>
</tr>
</tbody>
</table>

![Beer Logos](image1.png)

![Wine Logos](image2.png)

![Spirits Logos](image3.png)
Constellation Brands
Revenue Breakdown

Geographic Revenue Breakdown

- **U.S.**: 97%
- **Canada**: 3%

- **Total Revenue**: $7.9 Billion
- **Canadian Revenue**: $221 Million
**Bill Newlands**  
Chief Executive Officer  
- Joined STZ in 2015 as Chief Growth Officer.  
- Previous experience in the industry for 2 decades: Beam Spirits, wine.com, and LVMH Chandon Estates

**Mallika Monteiro**  
EVP and Chief Growth and Strategy Officer  
- Started in 2016 as VP of Beer Innovation  
- Over a decade of experience in the alcohol industry namely with Anheuser Busch

**David Klein**  
Chief Financial Officer  
- Joined STZ in 2004.  
- Held CFO roles at Montana Mills and NetSetGo.  
- Sits on the board of Canopy Growth

**Paul Hetterich**  
President, Beer Division  
- Joined STZ in 1999 as VP of business development  
- Previous experience in industry since 1986  
- Began his career as a sales representative
Established in 1945 in upstate NY as a wine seller under the name "The company has been public since 1973 and has been recognized as Constellation since 2000.

- **2017**
  - Canopy Growth minority stake

- **2018**
  - Australian wine divestment
  - Acquisition of Texas Brewer Four Corners Brewing Co.

- **2018**
  - Strategic partnership with Canopy Growth

- **2019**
  - Divestment of low margin wine & spirits announcement
  - Black Velvet Canadian divestment announcement
Constellation Brands
Market Trends

- Premiumization
- Convenience
- Global growth driven by beer

US spirits volume consumption by segment, Millions of 9 liter cases (2012, 2017)

Source: Distilled Spirits Council
Constellation Brands
Company Strategy

Key Elements

- Leveraging leading position to expand distribution of product portfolio and to provide cross promotional opportunities
- Strengthening relationships with wholesalers and retailers
- Investing in brand building and innovation activities
- Positioning the company to meet and stay ahead of evolving consumer trends
- Realizing operating efficiencies
- Developing employees to enhance performance in the marketplace
Early Signs of Success from New Strategy

- Solidified position in US beer market
- Enhanced margins, results of operations, and operating cash flow
- Provided new avenues for growth
Constellation Brands
Company Strategy – Wine & Spirits Business

- Acquisitions of higher-end brands and portfolios of brands
- Strategic divestitures to optimize the value of this business
- Bolstering spirits portfolio by adding higher-end brands
**Constellation Brands**

Company Strategy – Wine & Spirits Business

**Map of Constellation Brands’ Operations**

- **40+ sites** in FY19 vs. **30 sites** post-divestiture
- **~120 brands** in FY19 vs. **~20 Power Brands** post-divestiture
- **1,600 employees** in FY19 vs. **850 employees** post-divestiture
- **~54 M cases** in FY19 vs. **~24 M cases** post-divestiture
- **~590 t capacity** in FY19 vs. **~260 t capacity** post-divestiture

**Key Locations**:
- California
- Chile
- Australia

**Brands**:
- Dunewood
- Baco & Riddle
- DC Du Bois
- Simi
- Ravenwood
- Robert Mondavi Winery
- The Prisoner Wine Company
- Ancient Lakes
- Beringer
- Collabri
- Hartford Court
- Novelty Hill
- Penfield
- 7 Daughters
- Newton’s Green Brier
- Lethbridge
- Mission Bell
- Tin Door
- Estancia
- Gonzalez
- Wild Horse
- Mission Bell
- Caliterra
- High West
- Chile

**Divestitures**:
- Lodi Distribution Center
- Outpost
- Free Flow Wines
- Woodbridge
- Central Cellars
- Napa Bottling Center
- Ravenwood

**Third-Party**
- 3rd Party
Key Research Areas: Genetics, Medical & Clinical, Applied Research

>250 Patent Applications

>100 Patents Achieved
**Constellation Brands**

**Competitive Landscape**

- **AB InBev**
  - HQ: Denver, CO
  - Market Cap: $156B
  - Top Brands: Budweiser, Stella, Beck’s, Bud Light, Michelob
  - Weaknesses: Struggles moving outside of its core industry (beer)
  - Geographic Net Sales: 66.6% U.S.A, 18.4% Europe, 12.8% Canada

- **Diageo**
  - HQ: London, UK
  - Market Cap: $380.3B
  - Top Brands: Johnnie Walker, Guinness, Smirnoff, Baileys, Captain Morgan, Tanqueray
  - Weaknesses: Poor wine presence; Brexit exposure through Scotch business
  - Geographic Net Sales: 34.9% North America, 8.8% Latam, 12.3% Africa, 24.2% Europe, 20.7% Asia Pacific

- **Molson Coors**
  - HQ: Denver, CO
  - Market Cap: $12.4B
  - Top Brands: Blue Moon, Coors, Miller, Keystone, Redd’s
  - Weaknesses: Struggles moving outside of its core industry (beer)
  - Geographic Net Sales: 66.6% U.S.A, 18.4% Europe, 12.8% Canada

- **Constellation Brands**
  - HQ: Boston, MA
  - Market Cap: $4.79B
  - Top Brands: Sam Adams, Angry Orchard, Truly, Twisted Tea
  - Weaknesses: Has struggled to attain meaningful revenue growth over last 5 years; Sam Adams has been declining
  - Geographic Net Sales: 100% US
**Constellation Brands**

**SWOT**

**Strengths**
- Strong brands
- Dominant position

**Weaknesses**
- High customer concentration
- No exposure to Asia Pacific market

**Opportunities**
- Canopy investment
- Expanding Mexico operating facilities
- U.S. beer, cider and hard seltzer market

**Threats**
- Regulatory environment
- Fluctuations in raw materials prices
**Constellation Brands**

**Price History – 1Y**

- Close on Canopy Deal
- Moderate Growth Trends
- Beat Earnings Estimates
- Canopy to Buy Acreage
- Beat Earnings Estimates
- Mexico Trade War Scare
- Beer Segment Missed Estimate
- Wine Segment Missed Estimate
Constellation Brands
Financial Highlights

- Impressive FCF
- Dividend Yield 1.86%
- High Liquidity
- Low EV/EBITDA
## Constellation Brands

### Valuation Overview

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales (% growth)</td>
<td>NA</td>
<td>12.0%</td>
<td>3.4%</td>
<td>7.1%</td>
<td>2.0%</td>
<td>(0.8%)</td>
<td>(2.3%)</td>
<td>2.0%</td>
<td>2.0%</td>
<td></td>
</tr>
<tr>
<td>COGS (% sales)</td>
<td>54.0%</td>
<td>52.1%</td>
<td>49.3%</td>
<td>49.4%</td>
<td>60.0%</td>
<td>60.0%</td>
<td>55.0%</td>
<td>47.0%</td>
<td>47.0%</td>
<td></td>
</tr>
<tr>
<td>SG&amp;A (% sales)</td>
<td>17.5%</td>
<td>18.0%</td>
<td>18.1%</td>
<td>18.4%</td>
<td>25.0%</td>
<td>25.0%</td>
<td>20.0%</td>
<td>20.0%</td>
<td>20.0%</td>
<td></td>
</tr>
<tr>
<td>Depreciation &amp; Amortization (% sales)</td>
<td>2.8%</td>
<td>3.2%</td>
<td>3.9%</td>
<td>4.1%</td>
<td>3.9%</td>
<td>3.7%</td>
<td>3.5%</td>
<td>3.3%</td>
<td>3.1%</td>
<td></td>
</tr>
<tr>
<td>Capital Expenditures (% sales)</td>
<td>10.0%</td>
<td>8.2%</td>
<td>11.3%</td>
<td>5.9%</td>
<td>12.0%</td>
<td>10.0%</td>
<td>10.0%</td>
<td>9.5%</td>
<td>7.4%</td>
<td></td>
</tr>
<tr>
<td>Tax Rate</td>
<td>29.5%</td>
<td>25.7%</td>
<td>18.6%</td>
<td>18.1%</td>
<td>35.0%</td>
<td>35.0%</td>
<td>35.0%</td>
<td>35.0%</td>
<td>35.0%</td>
<td></td>
</tr>
<tr>
<td>Working Capital (% sales)</td>
<td>9.5%</td>
<td>4.8%</td>
<td>17.7%</td>
<td>5.3%</td>
<td>20.1%</td>
<td>20.1%</td>
<td>19.0%</td>
<td>17.2%</td>
<td>17.2%</td>
<td></td>
</tr>
</tbody>
</table>

### Conservative Estimates
- Sales – GDP Growth
- COGS – Tariff threat
- SG&A - International Exposure
- Capital Expenditure – Expansion of Mexico plants
- Tax Rate - against guidance

### Enterprise Value

<table>
<thead>
<tr>
<th>Terminal Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Terminal Year EBITDA (2024E) (end 2019)</td>
</tr>
<tr>
<td>Exit Multiple</td>
</tr>
<tr>
<td>Terminal Value</td>
</tr>
<tr>
<td>Discount Factor</td>
</tr>
<tr>
<td>Present Value of Terminal Value</td>
</tr>
<tr>
<td>% of Enterprise Value</td>
</tr>
<tr>
<td>Enterprise Value</td>
</tr>
</tbody>
</table>

### Implied Equity Value and Share Price

<table>
<thead>
<tr>
<th>Implied Equity Value</th>
<th>$4,334.3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diluted Shares Outstanding</td>
<td>191.2</td>
</tr>
<tr>
<td>Implied Share Price</td>
<td>$226.09</td>
</tr>
</tbody>
</table>

Source: Proprietary Model
Constellation Brands
Monte Carlo & Portfolio VaR

Monte Carlo Simulation

Median Price
$210.41

Mean Price
$217.35

Portfolio VaR

Excluding STZ: 1.4%

Including STZ: 1.7%

Source: Quant Team
Recommendation: 57 Shares for 5.7%
STZ: Unrealized Net Gain (Loss) From The Changes In Fair Value of Canopy's Securities (in millions)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q3 FY-2018</td>
<td>216.8</td>
</tr>
<tr>
<td>Q4 FY-2018</td>
<td>247.5</td>
</tr>
<tr>
<td>Q1 FY-2019</td>
<td>258.3</td>
</tr>
<tr>
<td>Q2 FY-2019</td>
<td>692.1</td>
</tr>
<tr>
<td>Q3 FY-2019 (163.9)</td>
<td>1,184.7</td>
</tr>
<tr>
<td>Q4 FY-2019</td>
<td></td>
</tr>
<tr>
<td>Q1 FY-2020</td>
<td>(827.5)</td>
</tr>
<tr>
<td>Q2 FY-2020</td>
<td>(839.1)</td>
</tr>
<tr>
<td>Total</td>
<td>768.9</td>
</tr>
</tbody>
</table>
Constellation Brands
Appendix

CGC and STZ Price History YTD
Key Growth Drivers

- Largest Vertically integrated multi-state owner of cannabis licenses and assets in the U.S.
- Projected to produce > $500M of revenue > $100M EBITDA in FY20
- Acreage to sell Canopy CBD & THD consumer brands in the U.S
- Scale quickly upon U.S. federal legalization
WINE INDUSTRY PROFIT POOLS: PRIORITY SEGMENT OPPORTUNITIES

Share & Sales Change Per Focus Market Segment

<table>
<thead>
<tr>
<th>Market Segment</th>
<th>Industry Share</th>
<th>Industry $ Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chardonnay Super Premium</td>
<td>20%</td>
<td>6%</td>
</tr>
<tr>
<td>Cab Sauv</td>
<td>17%</td>
<td>7%</td>
</tr>
<tr>
<td>Chardonnay Ultra Premium</td>
<td>23%</td>
<td>6%</td>
</tr>
<tr>
<td>Cab Sauv</td>
<td>21%</td>
<td>15%</td>
</tr>
<tr>
<td>Pinot Grigio Luxury</td>
<td>12%</td>
<td>4%</td>
</tr>
<tr>
<td>Chardonnay Super Luxury</td>
<td>25%</td>
<td>8%</td>
</tr>
<tr>
<td>Prosecco Sparkling Wine Spk-Super Premium</td>
<td>56%</td>
<td>22%</td>
</tr>
</tbody>
</table>
SPIRITS INDUSTRY PROFIT POOLS: PRIORITY SEGMENT OPPORTUNITIES

Share & Sales Change Per Focus Market Segment

- Vodka
  - Popular: Industry Share: 31%, Industry $ Growth: 2%
  - Vodka: Industry Share: 30%, Industry $ Growth: 13%
- Whisky
  - Premium: Industry Share: 45%, Industry $ Growth: 13%
  - Tequila: Industry Share: 7%, Industry $ Growth: 14%
- Gin
  - Industry Share: 4%, Industry $ Growth: 5%
- Whiskey
- Tequila
  - Ultra Premium: Industry Share: 43%, Industry $ Growth: 18%
Debt Breakdown by Maturity

Constellation Brands Inc

Expiration Date

Corporates
Loans
Amount Available

Copyright © 2019 Bloomberg Finance L.P.