

# Krause Fund Research Fall 2019



## Constellation Brands, Inc. (STZ) Consumer Staples

November 19, 2019  
**Recommendation: HOLD**

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Current Price  
Target Price

\$185  
\$210-\$225

We are suggesting a **HOLD** recommendation for Constellation Brands Inc. (STZ) given that their current footprint and market share in a very mature U.S. industry. In addition to the industry's above-average operating margins, STZ is actively narrowing their focus on global expansion and brand recognition, translating to their Y-O-Y growth in revenue exposure from emerging markets.

### Drivers of Thesis

- As consumer preferences shift towards higher-end brands, STZ's portfolio of imported and craft beer in high-growth segments will serve as key revenue generators in the coming fiscal years.
- STZ's continual acquisition of Mexican production facilities will increase production capacity by ~10M hectoliters over the next 4 years, decreasing associated production costs.
- Given the inelastic nature of the Consumer Staples sector, STZ's stock price is less likely to be affected during a market downfall, than other sectors.

### Risk of Thesis

- Changing consumer preferences accompanied with shifts towards healthier alternatives.
- Concern among Constellation Brand's investment in Canopy Growth continues to grow as STZ attributed 2Q losses of \$590.4M to CGC's operations while industry-wide uncertainty surrounding regulation rises.

### Stock Performance Highlights

52-week high	\$214.48
52-week low	\$150.37
Analyst Consensus 1Y Target	\$226.95
DCF/EP Intrinsic Value	\$224.79

### Share Highlights

Market Cap (B)	36.663
Shares Outstanding (M)	190.57
Beta	0.936
Dividend Yield	1.62%
Dividend Payout Ratio	40%
EPS	18.24
P/E	20.20

### Profitability

Profit Margin	9.40%
Operating Margin	32.37%
ROA	6.41%
ROE	6.95%
Revenue (B)	8.21
Gross Profit (ttm) (B)	4.1

### Financial Ratios

Current Ratio	1.16
Debt to Equity	1.28

### Earnings Per Share

2018	2019	2020E	2021E	2022E	2023E
\$12.04	\$18.24	\$9.62	\$10.68	\$11.98	\$13.43

### STZ Stock Price Performance vs. S&P 500 (YTD)



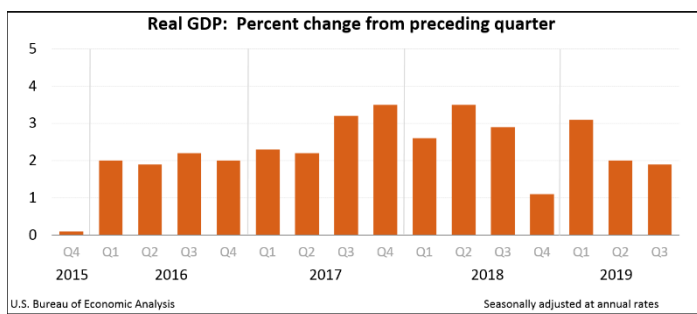
Source: Yahoo Finance

### Company Overview

Constellation Brands, Inc. (STZ) is a total alcohol beverage conglomerate that is made up of a growing portfolio of high-quality brands that consumers trust. STZ's rich portfolio of beer consists of Modelo and Corona, wines such as Meiomi, 7 Moons, and Charles Smith Wines, and spirits like Black Velvet, Svedka, and Black Box. Constellation's wine and spirits division offers premium alcohol products in niche markets. Constellation Brands, Inc. is the #1 retailer in dollar sales growth accounting for 30% of all growth within the alcoholic beverage industry.<sup>1</sup>

### Real GDP Growth

The United States' GDP is an indication of economic health, measuring the value of all goods and services produced within the U.S. each year on an inflation adjusted basis. Thus, Real GDP is highly correlated with the performance of the 11 sectors that make up the S&P 500. The U.S. economy has seen slow and consistent growth since the financial crisis in 2007. Over the last 10 years Real GDP has been below 2% on average and has failed to see 5% since Q2 of 2000. Real GDP growth surged beginning in July of 2017, peaking at roughly 3.2% in July of 2018. Since then, GDP has steadily decreased, reaching 2.7% in Q1 of 2019, and 2.3% in Q2 before settling at 1.9% during Q3.<sup>1</sup>



Source: Bureau of Economic Analysis<sup>2</sup>

This decline in Real GDP since Q2 of 2018 was likely to arise as a result of escalated tensions concerning trade with China. Looking forward, it is likely that Real GDP will continue to decline during Q4 of 2019 and into 2020.<sup>2</sup>

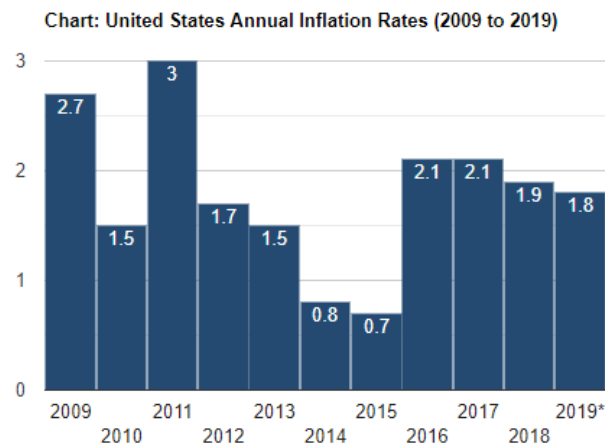
Falling GDP may occur as the stock market is potentially reaching the peak of its bull cycle, as the overall global GDP growth is projected to be 3%, down from 3.6% in 2018. Aside from increased trade tensions with China, decelerating Real GDP can be a result of Brexit and increased speculation that the stock market is reaching a climax. Looking into 2020, we suspect Real GDP to reach a range of 1.7% and concentrate below 2% as a result of these persisting issues.<sup>2,3</sup>

### Inflation

Inflation is an increase in the price of day-to-day items as a result of freely functioning market economies. Inflation is a critical economic variable for the Consumer Staples sector given its low margin business model. As a result, a rise in prices has great

impact on consumers, decreasing their purchasing power, and consequently, decreasing demand for premium products. Consumers tend to bear a greater loss during periods of high inflation because the organization passes their increased costs onto the consumer. A decrease in the purchasing power of individuals is a concern for STZ because the company's revenues largely stem from low-margin, high volume beer sales. To combat this issue, STZ has been divesting in numerous brands within their wine and spirits segment to focus on more premium, high-end brands.

Inflation has bounced between 1.5% in the month of February and 2% in April. From July through October, we have seen inflation of 1.8%, 1.75%, 1.7%, and 1.76%, indicating only a slight percentage change in each month.<sup>4</sup>



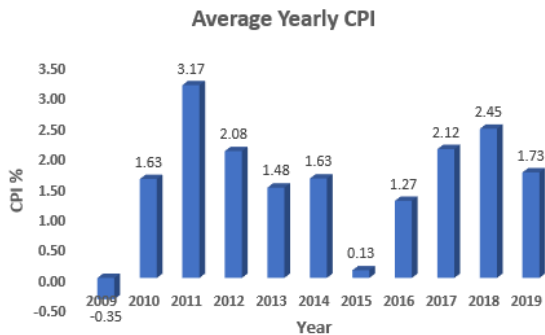
Source: US Inflation Calculator

Looking into the next 6 months, if inflation remains under the Fed's target of 2%, interest rates are less likely to increase, STZ's capital expenditures won't increase, and consumer spending will persist at a constant rate.<sup>4</sup>

### Consumer Price Index (CPI)

CPI is an economic indicator detailing the impact inflation has on consumer spending, examining the weighted average of prices of a basket of goods and services. When CPI increases, consumers' purchasing power decreases and the demand for certain goods and services has a correlating affect. This makes for an extremely important economic variable within the Consumer Staples sector because increased CPI places further constraint on the sectors already low-margin business model.

The CPI increased rapidly in 2018, reaching a high of 2.95 in July, before steadily declining at the end of 2018 and into 2019. From September 2018 to September 2019, the CPI for all consumers increased 1.7%. The Labor Department recently announced the U.S. CPI grew by 0.4% in October of 2019, surpassing the average expectation of 0.3% growth. The increase was largely due to the cost of energy, medical care and food sectors.<sup>5</sup>

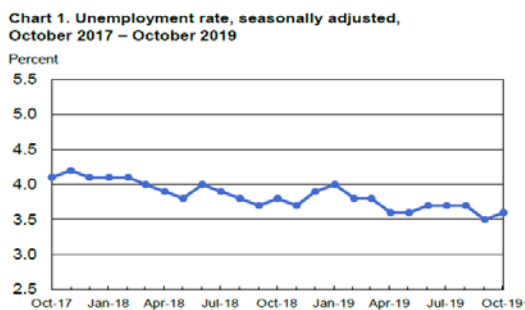


Source: Bureau of Labor Statistics<sup>6</sup>

We have seen a steady decline in CPI in the second half on 2019, significantly down from its peak in 2018. A steady decline in CPI indicates a decrease in the prices of goods and services which is a positive for the Consumer Staples sector. In the next 6 to 8 months, we expect CPI to grow at roughly 1.8-2%, consistent with the U.S. Bureau of Labor Statistics.<sup>6</sup>

### Unemployment Rate and Wages

The current U.S. job market is strong as we are experiencing record lows for unemployment according to the Bureau of Labor Statistics most recent report detailing an unemployment rate of 3.6%. Although this is an increase from the previous month of 3.5%, the unemployment rate is down tremendously from its high of 10.8% in November of 1982. Unfortunately for the Consumer Staples sector, continuation of a strong job market may drive inflation upward resulting in rising interest rates and added pressure to the sector's already low Margins.<sup>7,8</sup>



Source: Bureau of Labor Statistics<sup>8</sup>

### Geopolitical

Increased tensions with China concerning the renegotiation of trade terms and practices has led to a recent reduction in economic growth. With alcohol and tobacco products making up two industries within the Consumer Staples sector, various government rules and regulations can have a significant impact on the company's business operations. Although STZ has not been significantly affected by the trade war, they rely on imports from countries like Mexico, home to many of the company's operational facilities. Looking into the future, STZ is at risk of increased tariffs that can potentially result from renegotiations on trade practices with Mexico. The 2020 primary election is quickly approaching, and elected officials will have a significant impact on future trade policies.<sup>9</sup>

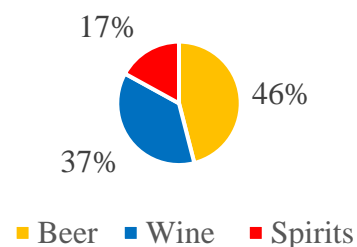
In addition, Constellation Brand's, Inc. massive investment in Canopy Growth (CGC) has well positioned STZ in an emerging market. The outlook on Canopy Growth is positive as the company is poised for large growth in earnings, after reporting net revenue increase 229% year over year in 2019.<sup>32</sup> However, possible earnings growth largely depends on alterations to numerous state laws and certain rules and regulations of the federal government. It is unclear whether the Cannabis industry is a bubble, but it is certain that many unknowns associated with the large investment come with extensive risk to STZ.<sup>10</sup>

### Industry Analysis

Constellation Brands is well positioned in the alcoholic beverage industry, a sub-category of the beverage industry. The alcoholic beverage industry can be divided into 3 sub-categories:

Beer, Wine, & Spirits. Beer sales control the largest market share of the industry at 46% followed by wine (37%) and spirits (17%).

% of U.S. Gross Revenue (2018)



Source: Statista<sup>33</sup>

The industry itself is expected to sustain a CAGR of 3.1% until 2024. The growth in CAGR can be represented by expected upward shifts in consumer disposable income, a younger global demographic consuming alcohol, and a demand for more premium products within the industry.<sup>21</sup>

### Competitive Landscape

The alcoholic beverage industry is comprised of a few large firms that control much of a matured industry. STZ’s main competitors within the industry include Anheuser-Busch Inbev, MillerCoors, Heineken, Boston Beer Co, and Pabst Brewing. These large firms rely on the acquisition of smaller breweries that create brand recognition for innovative products in the industry. These acquisitions maintain their large market shares in the industry through the release of new product lines that fit constantly changing consumer preferences. Given the matured industry in the U.S. these large firms have begun to shift the marketing and sale of their products to emerging alcohol markets, increasing their global share.

#### Revenue Exposures in Emerging Markets

	2018	2019
Constellation Brands (STZ)	4.2%	5.4%
Molson Coors (TAP)	1.3%	3.4%
Heineken (HEIA)	20.0%	25.5%
Anheuser-Busch (BUD)	42.0%	28.8%

*Source: Factset<sup>3</sup>*

This table displays the change in revenue exposure in emerging countries of major industry players from 2018 to 2019. The decrease in BUD’s emerging markets revenue exposure is complemented by an increase in revenue exposure from 9.7% to 23% in the rest of the world. These emerging markets include regions such as the Middle East, China, India, and Africa.<sup>23</sup> The increase in demand for alcoholic beverage consumption in developing countries is due to societal factors like emerging middle classes and the appeal of drinking a premium product. It is expected that competition in emerging markets will increase over the next few years as major players begin to grow their market share through increasing availability of products as well as continual acquisition of established local breweries.

### Porter’s 5 Forces

#### Threat of new entrants:

*Beer: Moderate, Wine & Spirits: Low*

The barriers to entry in the alcoholic beverage industry are high due to the start-up, legal, production, and branding costs associated with the business. However, the threat of new entrants into the beer industry is becoming an increasing concern among the major players in the industry. The rise in popularity of micro-breweries due to their production of craft beer has been the primary contributor to the decline in market share of large firms. The table below represents the change in market share of U.S. brewers as a percentage of volume over the last 10 years. The decline in volume sales of major competitors is complimented by an increased market share of ‘All Other Domestic and Imports,’ largely consisting of micro-breweries which increased in size from 450 in 2008 to 5,422 in 2018.<sup>75</sup>

#### Change in Market Share of Major Competitors

Brewer/Importer	2008 Share	2018 Share
Anheuser-Busch Inbev	48.80%	40.80%
MillerCoors, LLC	29.40%	23.50%
Constellation	5.30%	9.90%
Heineken USA	4.20%	3.50%
Pabst Brewing	2.70%	2.10%
All Other Domestic and Imports	9.60%	20%
Total	100%	100%

*Source: National Beer Wholesalers Association<sup>22</sup>*

It is expected that the market shares of micro-breweries will continue to increase as a global desire for premium products continues to rise. STZ’s rise in market share can be associated with their divesture of lower-end beer lines and an increased focus in the high-end beer market.

#### Threat of substitutes

*Beer: High, Wine & Spirits: High*

The threat of substitutes within the alcoholic beverage industry is high as consumer preferences are constantly changing and continuous innovation generates new product lines. In order to remain competitive in the industry, STZ produces their own lines of beer, wine & spirits, including investments in the cannabis industry. The sale of diversified product lines in both mature and emerging markets will increase the sustainability of STZ and reduce the threat of substitution. Competitors such as Heineken only offer product lines consisting of beer.

The recent emergence of hard seltzer water has become a popular substitute to common alcoholic

beverages. The hard seltzer industry experienced a market growth of 200% in 2019.<sup>25</sup> This is due to changing consumer preferences such as the desire for a healthier, lower-carb option compared to beer. In 2019 STZ announced Corona Refresca, their own hard seltzer to compete with major players in the industry such as Marc Anthony Co.'s WhiteClaw, Molson Coors' Henry's Hard Sparkling Water, & Boston Beer Co.'s Truly.

Cannabis is also becoming a common substitute for alcohol use. Alcohol sales fell 15% in states where only medical marijuana had been legalized and by 20% in counties where marijuana is sold recreationally.<sup>26</sup> STZ's \$4.1B investment in Canopy Growth (CGC) was one of the first major deviations of an alcoholic beverage company into the emerging, yet uncertain cannabis industry.

### **Bargaining power of buyers**

*Beer: High, Wine & Spirits: High*

The bargaining power of buyers within the alcoholic beverage industry is very high given the minimal cost of change. Alcoholic beverages in the same sub-category share a similar flavor and purpose therefore, it is up to the personal preferences of the consumer to purchase the brand of their choosing. The abundance of beer and spirit options available at common retailers gives the buyer the ability to switch brands in an instant with no associated costs. STZ relies on the availability of different products and brand loyalty to offset the high bargaining power of the buyer. If a shift in alcohol consumption among consumers such as an increasing desire for healthier options occurs, industry leaders such as STZ have the potential to lose out on their largest source of income and ultimately sustainability unless products suiting consumer demands are met.

### **Bargaining power of suppliers**

*Beer: High, Wine & Spirits: High*

The bargaining power of suppliers is also high in the alcoholic beverage industry. The production of alcohol whether beer, wine, or spirits requires similar organic materials in order to achieve the consistency and taste manufacturers need. Much of the product is outsourced from around the world. Given the need for these companies to purchase materials to produce their beverages, the suppliers have a high sense of bargaining power because they can charge whatever

they want to, and it is likely that they will find a paying customer. If a supplier charges a premium for materials, a brewer will charge a premium for the beverage in order to achieve a desirable profit margin.

### **Competitive rivalry**

*Beer: High, Wine & Spirits: High*

While the competition within the beer segment is high, we believe that the rivalry between STZ and major competitors is relatively low. STZ's ability to continually produce innovative products and adapt to changing consumer trends through acquisitions will sustain their share in the beer segment over our CV.

Constellation Brands rivalry within the wine and spirits segment is low due to their current position in a very mature industry. STZ has 18 of the top 100 selling wines in the U.S. industry with emphasis on higher-end products. We expect their share in the premium wine industry to slightly increase over our CV as their divestiture of 30 lower-margin and growth brands will allow STZ to concentrate on the marketing and sale of their premium wines.

### **Industry Trends**

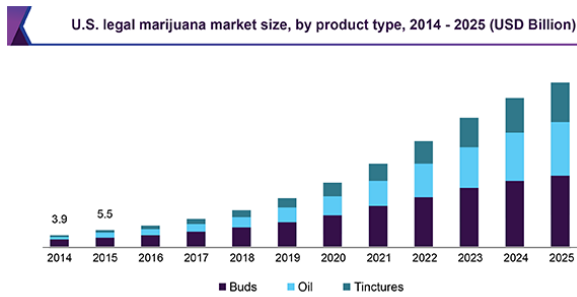
#### ***Growing Preference for Superior Products***

Constellation Brands has been heavily divesting in multiple smaller brands in order to better position themselves in the premium alcoholic brands segment. STZ is focusing on innovation and capitalizing on the trend of premiumization broken up by type: beer, wine, & spirits. STZ's premium products within this sub-industry grew twice as much than those of non-premium brands from 2015-2016. STZ's growth driven by premiumization stems from consumers desiring higher-quality adult beverages with lower levels of alcohol, willingness to spend more money on higher quality beverages, and shifts in taste preferences. Superior alcoholic products tend to offer a greater number of alternative flavors, and consumers are increasingly wanting to test new products.<sup>11</sup>

Overall U.S. beer volume sales were down 1% in 2018, while craft brewery sales grew at a rate of 4%.<sup>24</sup> The increasing demand for premium (craft) beer is supported by increased consumer spending power, current CPI levels, and industry trends.

### Recreational Cannabis Market

The use of recreational marijuana by millennial and Gen-X consumers is gaining popularity as there is an increasing shift from alcohol to cannabis use. The estimated global lawful cannabis market size was \$13.8 billion in 2018, with forecasts to reach \$66.3 billion in 2025, which equates to a CAGR of roughly 23.9%.<sup>12</sup>



Source: www.grandviewresearch.com

Source: Grand View research <sup>12</sup>

Cannabis is widely growing within the medical space, used to treat conditions like cancer, arthritis, mental disorders and Parkinson’s disease. According to a poll by Gallup, support for marijuana legalization in the U.S. has risen to 60%, almost doubling the rate in 2000.<sup>13</sup> STZ has a total of \$4.1 billion invested in Canopy Growth Corp. (CGC) for a 38% stake in the Canadian cannabis company. Canopy has strengths over its competitors like intellectual property, production capacity, and research and development capabilities. CGC has been working to increase market share through acquisitions of personal care companies and is pursuing opportunities within the medical space through their wholly owned subsidiary Canopy Health Innovations.<sup>14</sup>

### Industry Outlook Summary

The alcoholic beverage industry concentrates around change and constant adaptation to consumer preferences driven by younger generations, growth in disposable income, and a rising demand for premium products. Consumers will always have changing taste preferences that demand continual innovation. The performance of products trending towards premiumization or superior products will begin to separate competitors within the industry. Constellation’s divestiture of roughly 30 smaller brands will allow them to better position themselves within this market.

### Business Description

Constellation Brands, Inc. (STZ) is a total beverage alcohol conglomerate boasting a portfolio of high-quality brands. Starting as a small wine producer in 1945 in upstate New York, Constellation Brands is a wholly American-Owned company that has transformed into a top performer in the Fortune 500. STZ’s portfolio of beer consists of Modelo and Corona, wines such as Meiomi, 7 Moons, and Charles Smith Wines. Constellation’s spirits segment consists of Black Velvet, Svedka, Black Box, and more. The entire portfolio consists of more than 80 premium consumer brands, roughly 40 facilities, and approximately 10,000 employees making them a significant competitor within the alcoholic beverage industry.<sup>15</sup>

### Corporate Strategy

Constellation Brands, Inc. (STZ) strategy prioritizes adaptation to evolving consumer trends to exceed industry-wide category growth expectations. STZ’s recent divestiture of 30 slower growth brands in its portfolio signifies its reliance on continual product innovation and capitalization of various industry trends within imported beer, wine and distilled spirits segments to create a competitive advantage.

STZ has been working to better its distribution networks and push for better retail space placement.<sup>15</sup> The high-end beer segment is the primary driver of nearly all U.S. beer category growth. STZ’s leading position within the category largely contributes to growth expectations higher than the industry average. To effectively capitalize on the trend of premiumization and luxury, enhancing its competitive position in the market, STZ is focusing on organic growth accompanied by acquisitions, targeting higher-margin products, and higher-growth segments within the industry.<sup>16,17</sup>

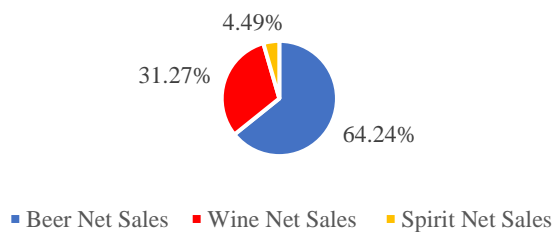
### Revenues



Source: Yahoo Finance

The chart above depicts Constellation Brand's historical and forecasted net sales pertaining to their three main segments: beer, wine, and spirits. We forecasted STZ's gross profit to increase through 2025 supported by the company's increase in beer shipment volume despite decreases in wine and spirits shipment volume from 2017-2018. Projections for increased shipment volume within the wine and spirits segments reflect STZ divestures and pursuit for superior products to meet consumer demand. As a result of the premiumization initiatives, we project STZ's revenue per case to positively increase through 2025 to compensate for added costs associated with the superior products.

### Revenue Decomposition



Source: Mergent

The pie chart above shows the distribution of net sales within each segment. Constellation's beer segment alone accounted for 64.24% of the company's total net sales, while its wine and spirits segment accounted for 31.27% and 4.49% for FY19 ending February 28<sup>th</sup>. In 2014, the wine and spirits segment together accounted for a greater portion (\$2845.5m) of total net assets than its beer segment (\$2835.6m). This change is a result STZ's divesture in roughly 30 smaller brands in order to narrow the focus on their more superior brands, as well as shifts in consumer taste preferences.

### Competition

In 2018, STZ was the third largest U.S. producer of alcoholic beverages in terms of gross profit (\$4.0B) following Anheuser-Busch InBev (\$34.2B) and Molson Coors (\$4.1B). STZ has been able to preserve a competitive advantage in the highly competitive industry through their ability to create diversified products that fit the current trends of the market. Despite an industry-wide decline of 1.1% in total beer sales volume in 2018<sup>28</sup>, we expect STZ's 2020E growth in cases sold (volume) to be around 4.5%. This is supported by recent innovation in product categories of increasing popularity such as imported beer, craft beer, hard seltzer, and mezcal.

STZ's primary competitive advantage in the alcoholic beverage industry results from their position in the imported beer segment. STZ's beer portfolio consists of popular Mexican imported beers such as Corona, Modelo, and Pacifico. Mexican imported beer currently makes up 72.3% of all import sales, which is largely controlled by Constellation Brands. Referencing the chart below, STZ's three major brands alone account for 63.32% of total import sales among the top 10 imported beer brands in the U.S.<sup>29</sup>

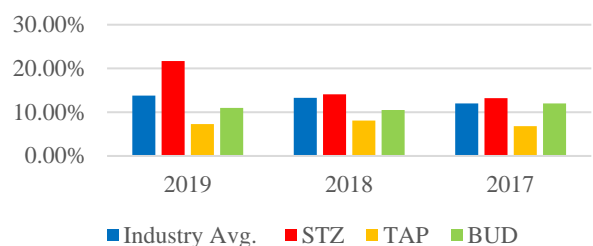
Top imported beers				
(Brand family)				
	DOLLAR SALES	% CHANGE VS. PRIOR YEAR	CASE SALES	% CHANGE VS. PRIOR YEAR
Corona	\$2,370,454,072	11.6	72,203,831	9.5
Modelo	\$1,974,795,285	17.9	63,641,365	15.4
Heineken	\$794,783,627	-1.5	24,557,531	-3.1
Dos Equis XX	\$382,850,606	-1.8	11,947,589	-2.5
Stella Artois	\$367,756,681	-0.8	10,267,589	-0.9
Tecate	\$202,315,496	-11.4	9,913,670	-11.7
Labatt	\$152,248,823	-6.8	8,135,666	-7.3
Guinness	\$144,027,893	0.9	3,876,073	-1.3
Pacifico	\$125,180,970	8.4	3,969,427	6.3
Foster's	\$75,048,784	0.7	2,860,860	-0.6
<b>Total sales*</b>	<b>\$7,059,725,796</b>	<b>7.4</b>	<b>226,620,942</b>	<b>5.2</b>

Source: Beverage Industry<sup>29</sup>

Since their 2013 acquisition of the imported beer business, STZ has more than tripled their Mexican production capacity from 10 million hectoliters to ~34 million hectoliters. Aligning with future growth expectations, STZ will target an additional 10 million hectoliters over the next 4 years. The increasing demand of Mexican imported beer due to growth in the U.S. Hispanic population and preferences of a globally younger drinking-age population<sup>30</sup> is expected to sustain STZ's competitive advantage within the imported beer business, which generates 64.24% of their revenue.

### Peer Comparisons

#### ROE Comparison



Source: Factset

ROE was a key determinant in comparison of STZ against industry competitors, giving an indication as to how effectively each competitor is utilizing assets to generate profits for shareholders. Over the last 3 fiscal years as shown in the graph, STZ was able to increase their ROE by 8.50%, far outperforming the change in industry average of 1.80%.

	Op. Margin	FCF Margin	Total D/E
STZ	32.69%	16.76%	108.49
TAP	13.86%	15.59%	77.65
BUD	31.36%	16.52%	170.45
HEIA	13.63%	10.38%	104.37
Average	22.89%	14.81%	115.24

Evaluating the chart above, STZ’s industry-leading operating margin represents strength in their ability to manage indirect costs. The 10% difference between STZ and the industry average can be contributed to their increase in production facilities, especially their Mexico-based breweries. These investments have enabled STZ to increase production capacity and decrease associated costs, supportive of our declining cost in cases sold growth from 2.0% to 1.0% over our CV found in ‘Revenue Decomposition.’ In a traditionally low-margin industry, STZ has found a way to produce products at a much lower cost than their peers.

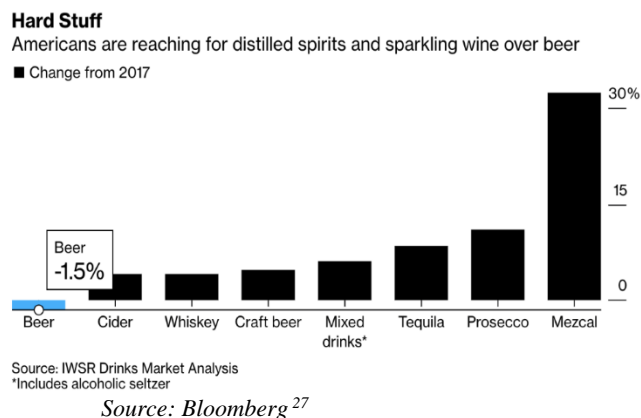
FCF margin represents the amount a shareholder can pocket without stifling STZ’s cash flows. Given their higher FCF margin, STZ displays a better ability to seek out new sources of capital than their peers.

A company’s debt-to-equity ratio gives insight into the company’s capital structure and their use of debt. While STZ still has a debt-to-equity ratio greater than 1, it is still lower than the industry average. A debt-to-equity ratio lower than the industry average means that STZ is less reliant on sources of external capital compared to their peers. The lower the D/E ratio, the less risk there is associated with the stock.

### Catalysts for Growth

The alcoholic beverages industry is anticipated to grow at a consistent CAGR of 3.1% due to increasing commonality within the global population. Satisfying consumer demand with relentless product and marketing innovation is critical for STZ going forward. Offering a vast range of premium products

with multiple flavor variations, and continuous innovation within the sparkling and fortified wines space will closely correlate with CAG in the future.

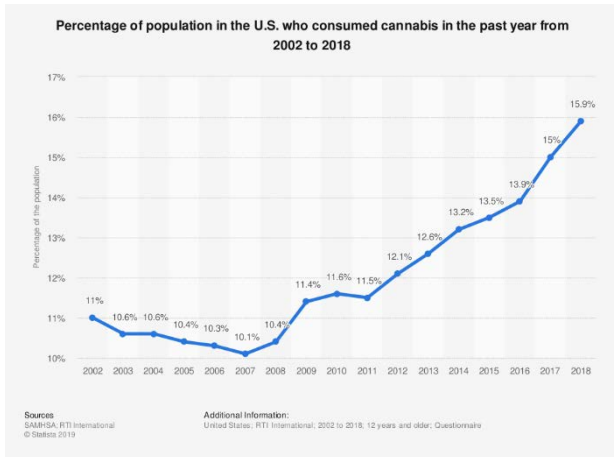


The chart above shows the 2017-2018 percent change in the consumption of various alcoholic beverages. The 1.5% decline in the consumption of beer validates that consumers are forfeiting beer for more premium products like craft beer and various spirits. As beer sales decline, the success of STZ’s products that adapt to current trends will be the most important growth catalyst against competitors; a niche we believe STZ has the potential to thrive in. The beverage that saw the largest consumption increase from 2017 to 2018 was mezcal (32.4%). In response to its success, STZ announced a minority investment in El Silencio in April 2019, the leading U.S. mezcal producer. We believe this collaboration will not only allow STZ to gain a competitive advantage in mezcal sales, but it will also allow El Silencio to invest in STZ’s infrastructure and growth, while maintaining their unique brand and operations.<sup>1</sup> The continual acquisition of craft breweries (up 4.7%) in addition to their line of Corona Refresca in the mixed drink category (up 6.1%), will be the key catalysts for STZ’s growth in the competitive industry.

Another potential growth catalyst that is promising for STZ is rising growth of cannabis, specifically cannabis-infused beverages. The cannabis-infused beverage industry is expected to generate \$75B in international sales by 2030.<sup>31</sup> We can see from the line chart below that cannabis consumption has increased since 2011 and is forecasted to continue. In April 2018, STZ gained a 38% ownership stake in Canopy Growth including warrants that would raise it to 50% if exercised.<sup>18</sup> Recent trends with consumer purchasing shows that individuals are increasingly



choosing cannabis products over alcoholic beverages.



## SWOT Analysis

### Strengths

STZ has a successful track record of creating and developing innovative products. One strength is STZ's focus on its power brands or "value over volume", led by consumer marketing with its industry-leading margins. STZ is confident they can maintain 30% operating margins resulting from 50% gross margin, net of 10% marketing and 10% bottom line SG&A.<sup>15</sup> Another key strength is STZ's growing line of Mexican beers like Corona. Corona and Modelo beer brands are experiencing rapid growth and is a key driver in the company's constant rise in market capitalization. Modelo, who increased their volume-based share by 1.1% from 2016-2017 and Corona Extra, are two of the few leading brands to gain market share in recent years.<sup>16</sup> Another strength STZ has going forward is their aggressive pursuit in the cannabis market with its 38% stake in Canopy Growth Corp. Although the investment has not yet generated positive cash flows, the cannabis industry is likely to grow more rapidly as an increasing number of states and countries legalize recreational use of the drug.

### Weaknesses

STZ's primary weakness results from their small presence in the growing global market. Given the matured industries in the U.S. and Europe, competitors have begun to shift the marketing and sale of their products to other areas of opportunity. In 2018, only 4% of STZ's revenues came from the sale of their products in the rest of the world, including emerging and frontier markets. During this time,

peers such as BUD and HEIA experienced revenue exposures of 58% and 43% respectively from these markets.<sup>3</sup> Given the nature of the product sold, federal rules and regulations are always subject to change. If politically uncertainty caused the U.S. to impose greater tariffs on items imported from Mexico, STZ would lose out on their largest source of revenue, ultimately questioning the sustainability of Constellation brands.

### Threats

Alcohol consumption is at a decline across the globe as consumers are shifting towards alternatives like marijuana.<sup>17</sup> Going forward, increased legalization of cannabis will likely cause decreases in beer sales and further hinder the wine and spirits segment. Growing trends of health and wellness within consumer spending habits is evident as consumers are more aware of health risks associated with alcohol than ever.<sup>18</sup> STZ is at risk of newly available substitute beverages like energy drinks and other non-alcoholic beverages. Another threat to STZ is the growing number of competitors within the industry. STZ's loyal customer base is a result of their strong portfolio of beers, however, companies who can provide innovative products to compensate for shifts in consumer preferences will see the largest growth going forward.

### Opportunities

The alcoholic beverages industry is largely associated with heavy mergers and acquisitions that increase market share. STZ has opportunities to partner with vendors to grasp distant geographical locations to serve a wider customer base. Given the nature of alcoholic beverage products, catering to a wider consumer base will induce added demand within industry.<sup>18</sup> STZ will look to add to its line of premium products within its wine and spirit section as well as craft beers. Growth in the U.S. spirits market from 2016-2021 for non-premium products is associated with a GAGR of 2.9%, while premium products carry a GAGR of 23.6%.<sup>19</sup> STZ efforts to focus on premiumization is evident with their divestiture of roughly 30 smaller brands as well as acquisition of wine companies like Charles Smith and craft breweries such as Four Corners. Increased investment in superiorization and a decrease in "standard" brands will have a positive impact on STZ's operating margins.

### Revenue Decomposition

We believe a 2020E growth in beer shipment volume of 4.5% and a growth in revenue per case of 1.5% are fair representations of expected estimates. These values widely represent historical growth in volume sold and Y-o-Y increasing sales from their growing craft and premium beer portfolio. We slow the growth in volume from 4.5% to 2% over our 6-year CV as we expect national beer consumption to continue to decline as consumer preferences change and more alternatives are introduced into the market. The growth in shipment volume is reinforced through increases in production capacity as STZ continues to acquire facilities in Mexico to support demand of imported beer. Expected to produce an additional 10 Million hectoliters over the next four years, STZ should see a reduction in associated costs within production.

The declining cost growth from 2% to 1% over our CV is reflective of STZ's investments in production facilities. While the cost growth is expected to decline, we forecasted the cost per case to increase as divestiture of lower-end beer and a corporate strategy epitomizing premiumization raises the cost to make a premium product. We forecasted our growth in cases sold in the wine & spirits sector to remain relatively stagnant around 1% in 2020 and taper down to a 0.5% growth rate in our 2025 CV.

With a global consumer trend towards premiumization, STZ has divested 30 lower-end wines and acquired brands centralized around premiumization. This growth rate is also driven by our future performance expectations in new product lines within the wine & spirits sector, including beverages such as mezcal which saw an investment from STZ in 2019. Our cost per case and cost growth in the wine & spirit segments was forecasted off similar assumptions to changes in the efficiency of beer production.

### Cost of Goods Sold

We did not assume a profit margin when calculating STZ's COGS, instead, our forecast stems from our assumptions contained in the revenue decomposition statement. In calculating GOGS, total gross profit was subtracted from total net sales from STZ's beer, wine and spirits segments. From our common size

income statement, we see that our estimations for STZ's operating margin steadily increases from 27.15% in 2019, to 34.54% in our CV year of 2025. With major uncertainties concerning U.S. trade and tariffs going forward, we feel confident that relating COGS to total revenues provides an adequate forecast.

### Capital Expenditures

Our assumptions about STZ's purchases of PP&E going forward reflect historical values contained in the company's most recent annual report. STZ saw a CAGR in CAPEX of roughly 222% from 2014-2015, and since then has had an average CAGR of 6.5%. STZ's statement of cash flows shows a decrease in purchases of PP&E from 2018-2019, accompanied with gains from the sale of assets within their wine and spirits segments. We feel an estimation of 7% CAG for STZ's CAPEX is somewhat conservative and is appropriate given its historical values. Outlined in the company's 2019 annual report, STZ plans to spend between \$800-\$900 million dollars for CAPEX for fiscal 2020. Most of the expenditures will be go towards STZ's "Mexican Beer Expansion Projects" as the company tries to expand beer production by roughly 2% each year. The remaining CAPEX for fiscal 2020 will contribute to improvements in existing facilities and replacement costs of equipment and buildings.<sup>20</sup>

### Continuing Value Growth for NOPLAT

STZ's stock price has seen a recent downfall, and our CV of only 1.5% compensates for the setback (down 8.4% in the last month), leaving us with what we feel is a suitable estimation. Additionally, our assumption is based on the current inflation rate of 1.7%, as well as estimations for sales growth of beer, wine and spirits outlined in the revenue decomposition statement.

### Weighted Average Cost of Capital (WACC)

We calculated our WACC by first calculating the MV of the firm (V) by summing our MV of equity (E), MV of debt (D). These were calculated by multiplying the current share price by the number of Class A shares outstanding and adding the current maturities of long-term debt, long-term debt, less current maturities and the PV of total operating lease payments. We then used  $WACC = Re * (E/V) + Rd * (1 - Div\ yield) * (D/V)$  to get 6.90%.

### **Cost of Debt (Rd)**

Our cost of debt was calculated by finding the yield to maturity for a BBB- bond with a 30-year time horizon through Bloomberg. This value was then multiplied by one minus our tax rate of 1.62% to get a final Rd of 4.99%.

### **Cost of Equity (Re)**

We calculated our cost of equity using the CAPM equation ( $r_{fr} + B \cdot MRP$ ). Our Beta found on Bloomberg was .936, our risk-free rate was 2.15% from the U.S. 10-year Treasury Yield, and the market risk premium was 4.69% which was calculated from the historical average. This produced a final Re of 7.77%.

### **Dividend Payout Ratio**

Constellation Brands has had a steadily decreasing dividend payout ratio since the company first began offering one in 2016. We chose 15% going forward and feel it is appropriate given their DPR of 16.42% in 2019, down from 23.13% in 2016.<sup>11</sup> STZ, has returned \$3.9 billion in dividends and share repurchases to shareholders over the last three years, and is committed to returning \$4.5 billion over the next three years.<sup>1</sup>

## Valuation Models

To calculate a target price for a share of STZ stock, we analyzed different aspects of the economy, industry and company itself that are responsible for driving equity value. Included in our analysis of Constellation Brands, Inc. are the computations and key assumptions outlined in the analysis above to calculate the intrinsic value for STZ. We used four different valuation methodologies including: discounted cash flow (DCF), Dividend discount model (DDM), and economic profit (EP), and relative valuation.

### **DCF and EP Models**

To calculate the intrinsic value of STZ, we used discounted cash flow and economic profit financial models with a continuing value (CV) forecasted five years into the future. In calculating the DCF, we incorporated key value drivers such as CV growth, CV ROIC, WACC, and cost of equity, as well as NOPLAT and invested capital (IC), to determine free cash flow before discounted back to the WACC. To forecast STZ's economic profit (EP) to the CV year of 2025, we subtracted CV ROIC from the WACC

and then multiply it by our forecast for beginning invested capital. We then discounted each cash flow and summed the present value cash flows to find the value of operating assets. We accounted from non-operating assets and liabilities to determine our value of equity, divided that value by the number of shares outstanding, and then did a partial adjustment compensating for the elapsed fraction to calculate an intrinsic value of \$224.79. We chose the discounted cash flow (DCF) as our main financial model because we are confident with the model more accurately accounts for the current financial operations of STZ.

### **Dividend Discount Model (DDM)**

To derive our intrinsic value using the Dividend Discount Model, we began with our EPS class A shares from the current FY carried out until our 2025 CV. Our CV value was calculated by multiplying our expected P/E multiple of 14.48 in 2025 from assumptions in CV growth and calculations of ROE & Re and our CV EPS of 16.76. Future cash flows (dividends per share) were calculated using our DPR of 15% then discounted by our Re of 7.77%. These summed values resulted in a time adjusted value of \$183.73.

### **Relative Valuation**

To construct our relative valuation model we selected comparable firms in the industry such as Molson Coors (TAP), Anheuser Busch (BUD), Heineken (HEIA), and Brown Forman (BF.B). We determined the forecasted EPS and P/E values for each competitor using Yahoo Finance. Next, calculated averages for the competitor's P/E ratios for 2019 and 2020 and compared the EPS values and P/E multiples with STZ's. We feel that the model offers an imprecise valuation because STZ's fiscal year 2019 has already ended, resulting in timing differences. Nonetheless, we found that STZ has an implied relative value of \$223.56 in 2019 and \$231.97 in 2020.

## Sensitivity Analysis

To perform our sensitivity analysis, we made data tables to see the impact our assumptions have on the intrinsic value within our DCF model. The assumptions contained in our models have a significant impact on our stock price even when affected by small amounts, so it is important to analyze these values closely.

## Pre-Tax Cost of Debt & Marginal Tax Rate

		Pre-Tax Cost of Debt							
		224.79	3.50%	4.00%	4.50%	5.07%	5.50%	6.00%	6.50%
Marginal Tax Rate	15.00%	246.62	246.87	247.12	247.40	247.62	247.87	248.12	
	17.00%	239.10	239.34	239.59	239.86	240.07	240.32	240.56	
	19.00%	231.58	231.82	232.06	232.33	232.53	232.77	233.01	
	21.00%	224.06	224.29	224.52	224.79	224.99	225.23	225.46	
	23.00%	216.54	216.77	216.99	217.25	217.45	217.68	217.91	
	25.00%	209.02	209.24	209.46	209.72	209.91	210.13	210.36	
	27.00%	201.50	201.71	201.93	202.18	202.37	202.59	202.80	

Analyzing and distinguishing relationships with the marginal tax rate is significant because of its direct impact on net income. We wanted to analyze its relationship with the pre-tax cost of debt because of its tax shield component when adjusting for taxes in calculating NOPLAT. Furthermore, we wanted to determine the impact on STZ's stock price with an increasing and decreasing tax rate accompanied with pre-tax cost of debt. Our financial statements from Mergent showed a 2019 marginal tax rate for STZ of 19.40%, however, we chose a marginal tax rate of 21% based off the company's most recent 10-Q. We anticipate STZ's marginal tax rate to fluctuate year over year as income levels and tax credits change. From the table, we see that a 200-basis point decrease in the marginal tax rate increases STZ's stock price by \$7.52, while a decrease in the pre-tax cost of debt of 50-basis points results in a \$0.25 decrease in stock price.

## CV Growth NOPLAT and CV Growth ROIC

		CV Growth NOPLAT							
		224.79	0.50%	0.75%	1.25%	1.50%	1.75%	2.00%	2.25%
CV ROIC	21.00%	191.04	197.58	212.41	220.85	230.11	240.32	251.62	
	23.00%	191.53	198.36	213.81	222.61	232.27	242.91	254.70	
	25.00%	191.95	199.01	214.99	224.10	234.08	245.09	257.28	
	26.06%	192.15	199.31	215.55	224.79	234.93	246.11	258.49	
	28.00%	192.46	199.81	216.45	225.92	236.32	247.77	260.46	
	30.00%	192.75	200.25	217.26	226.94	237.56	249.26	262.23	
	32.00%	193.00	200.64	217.96	227.83	238.65	250.57	263.78	

Small changes to both our CV of NOPLAT and CV ROIC significantly impact our intrinsic value. Given that the CV of NOPLAT is an assumption based on future growth expectations in their steady state, it was critical to how changes impact the stock price. As STZ continues to find ways to reduce associated costs of production through the acquisition of facilities and more efficient processes, we expect to see our ROIC slightly increase until the CV. An increase in CV growth of NOPLAT of 25 basis points increases the stock price by \$10.21, and an

increase in CV ROIC of 200 basis points very narrowly raises the stock price only \$0.16.

## CV Growth of NOPLAT & WACC

		CV Growth NOPLAT							
		224.79	0.50%	0.75%	1.25%	1.50%	1.75%	2.00%	2.25%
WACC	5.50%	280.61	294.23	326.25	345.27	366.82	391.45	419.87	
	6.00%	243.79	254.46	279.16	293.57	309.68	327.80	348.33	
	6.50%	213.16	221.66	241.10	252.28	264.63	278.36	293.70	
	6.90%	192.15	199.31	215.55	224.79	234.93	246.11	258.49	
	7.50%	165.19	170.81	183.41	190.49	198.19	206.59	215.79	
	8.50%	129.38	133.25	141.80	146.52	151.60	157.07	162.98	
	9.50%	101.68	104.42	110.41	113.69	117.17	120.89	124.87	

We chose to examine the sensitivity of the WACC on STZ's stock price because we incorporate it in the discount factor used to calculate present value cash flows. We tested its relationship with the growth rate because the growth rate of 1.5% will take affect once STZ reaches its steady state in 2025. STZ could see changes in their WACC with subsequent increases or decreases in their proportion of fixed costs relative to variable costs, as well as changes in their proportion of debt-financed capital. Changes in the CV growth are likely as the company's outlook becomes more positive. From the table, a decrease of 50 basis points in the WACC indicates an increase in stock price of \$36.82, and a decrease in CV growth of NOPLAT of 25 basis points decreases the stock price by \$32.02.

## Growth in Revenue Per Case (Beer) & Growth in Cases Sold (Beer)

		Growth in Revenue Per Case (Beer)							
		224.79	0.50%	0.75%	1.00%	1.50%	2.00%	3.00%	2.50%
Growth in Cases Sold (Beer)	0.25%	221.46	221.50	221.53	221.61	221.69	221.84	221.76	
	1.00%	222.85	222.89	222.93	223.01	223.08	223.24	223.16	
	1.50%	223.78	223.82	223.86	223.94	224.01	224.17	224.09	
	2.00%	224.71	224.75	224.79	224.87	224.95	225.10	225.02	
	2.50%	225.64	225.68	225.72	225.80	225.88	226.03	225.95	
	3.00%	226.57	226.61	226.65	226.73	226.81	226.96	226.89	
	4.00%	228.43	228.47	228.51	228.59	228.67	228.83	228.75	

A sensitivity analysis comparing the growth in volume sold with the growth in revenue per case will indicate whether STZ's strategy of divesting lower-end brands to focus on higher-margin premiumization will benefit the stock price. STZ has been able to increase volume in cases sold through new product lines and a growing customer base while additionally increasing revenue per case through lower associated production costs and the sale of higher-margin brands. If we saw STZ reach a growth in revenue per case of 3% and a growth in volume sold of 3%, we would expect the stock price to increase from \$224.79 to \$226.96.

## Growth in Revenue Per Case (Beer) & WACC

		Growth in Revenue Per Case (Beer)						
		0.25%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%
WACC	224.79							
	6.00%	293.43	293.47	293.52	293.57	293.62	293.67	293.72
	6.25%	271.69	271.74	271.78	271.83	271.88	271.92	271.97
	6.50%	252.15	252.19	252.23	252.28	252.32	252.36	252.41
	6.90%	224.67	224.71	224.75	224.79	224.83	224.87	224.91
	7.25%	203.80	203.83	203.87	203.90	203.94	203.98	204.01
	7.50%	190.39	190.42	190.46	190.49	190.52	190.56	190.59
	7.75%	178.07	178.10	178.13	178.16	178.20	178.23	178.26

A sensitivity analysis performed on the growth in revenue per case and WACC illustrates the relationship between decreasing costs and increased profits. As STZ increases their scale of production through the acquisition of more efficient facilities in Mexico, they will begin to see a decline in associated production costs and growth in revenue per case. Independent of growth in revenue, if WACC decreases 25 basis points the stock price will increase from \$225.15 to \$271.69. Therefore, if STZ can finance their capital structure with more debt than equity due to its cheaper nature from tax advantages, they should see a decrease in the cost of capital and increasing revenue growth.

### Important Disclosure

This report was created by students enrolled in the Applied Equity Valuation class at the University of Iowa. The report was originally created to offer an internal investment recommendation for the University of Iowa Krause Fund and its advisory board. The report also provides potential employers and other interested parties an example of the students' skills, knowledge and abilities. Members of the Krause Fund are not registered investment advisors, brokers or officially licensed financial professionals. The investment advice contained in this report does not represent an offer or solicitation to buy or sell any of the securities mentioned. Unless otherwise noted, facts and figures included in this report are from publicly available sources. This report is not a complete compilation of data, and its accuracy is not guaranteed. From time to time, the University of Iowa, its faculty, staff, students, or the Krause Fund may hold a financial interest in the companies mentioned in this report.

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**Constellation Brands**  
Revenue Decomposition

<i>Fiscal Years Ending Feb. 28</i>	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	CV (2025E)
<b>Beer (24-pack, 12-ounce case equivalent)</b>									
Shipment volume	246.60	268.00	294.10	307.33	319.63	330.81	340.74	347.55	354.51
Revenue per case	17.14	17.39	17.69	17.95	18.97	19.98	20.99	22.00	23.01
<b>Beer Net sales</b>	<b>4,227.30</b>	<b>4,660.40</b>	<b>5,202.10</b>	<b>5,517.74</b>	<b>6,062.87</b>	<b>6,610.19</b>	<b>7,153.32</b>	<b>7,647.76</b>	<b>8,158.77</b>
Growth of cases sold	11.60%	7.99%	8.87%	4.50%	4.00%	3.50%	3.00%	2.00%	2.00%
Growth in revenue per case	3.06%	1.42%	1.69%	1.50%	1.50%	1.30%	1.20%	1.10%	1.00%
<b>Wine and Spirits ( 9 liter case equivalents)</b>									
Shipment volume	69.20	59.00	58.50	59.09	59.68	60.27	60.57	60.88	61.18
Revenue per case	44.83	49.49	49.81	50.06	50.46	50.96	51.58	52.35	53.13
Wine Net Sales	2,739.30	2,556.30	2,532.50	2,573.25	2,619.77	2,672.43	2,718.02	2,772.58	2,828.24
Spirit Net Sales	362.90	381.40	363.60	384.51	391.46	399.33	406.14	414.29	422.61
<b>Wine &amp; Spirit Net sales</b>	<b>3,102.20</b>	<b>2,919.90</b>	<b>2,913.90</b>	<b>2,957.75</b>	<b>3,011.23</b>	<b>3,071.76</b>	<b>3,124.16</b>	<b>3,186.88</b>	<b>3,250.85</b>
Growth of cases sold	1.45%	-17.29%	-0.85%	1.00%	1.00%	1.00%	0.50%	0.50%	0.50%
Growth in revenue per case	5.69%	-6.24%	-0.21%	0.50%	0.80%	1.00%	1.20%	1.50%	1.50%
<b>Total net sales</b>	<b>7,329.50</b>	<b>7,580.30</b>	<b>8,116.00</b>	<b>8,475.49</b>	<b>9,074.10</b>	<b>9,681.94</b>	<b>10,277.48</b>	<b>10,834.64</b>	<b>11,409.62</b>
Growth in net sales	0.11	0.03	0.07	0.04	0.07	0.07	0.06	0.05	0.05
<b>Beer</b>									
Cost Per Case	8.42	7.94	8.06	8.22	8.37	8.49	8.60	8.70	8.79
Cost Growth	-0.62%	-5.96%	1.47%	2.00%	1.75%	1.50%	1.20%	1.20%	1.00%
<b>Wine &amp; Spirits</b>									
Cost per Case	26.98	27.30	26.55	27.21	27.89	28.51	29.08	29.60	30.05
Cost Growth	14.95%	1.15%	-2.81%	2.50%	2.50%	2.20%	2.00%	1.80%	1.50%
Gross profit, Beer	2,151.30	2,531.20	2,830.70	2,990.06	3,388.08	3,800.26	4,224.36	4,624.37	5,044.07
Gross profit, Wine & Spirits	1,235.00	1,309.40	1,360.70	1,349.80	1,346.60	1,353.49	1,362.77	1,384.81	1,412.61
<b>Total gross profit</b>	<b>3,386.30</b>	<b>3,840.60</b>	<b>4,191.40</b>	<b>4,339.87</b>	<b>4,734.68</b>	<b>5,153.75</b>	<b>5,587.13</b>	<b>6,009.19</b>	<b>6,456.69</b>
<b>Cost of goods sold</b>	<b>3,943.20</b>	<b>3,739.70</b>	<b>3,924.60</b>	<b>4,135.63</b>	<b>4,339.42</b>	<b>4,528.19</b>	<b>4,690.35</b>	<b>4,825.45</b>	<b>4,952.93</b>

## Constellation Brands

### Income Statement

	Millions	Millions	Millions						CV
<i>Fiscal Years Rev!Ending Feb. 28</i>	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	(2025E)
Sales	8,061.60	8,326.80	8,884.30	9,261.69	9,915.83	10,580.05	11,230.83	11,839.68	12,468.00
Excise taxes	730.10	741.80	768.30	786.20	841.73	898.11	953.35	1,005.04	1,058.37
Net sales	7,331.50	7,585.00	8,116.00	8,475.49	9,074.10	9,681.94	10,277.48	10,834.64	11,409.62
Depreciation	237.50	293.80	333.10	323.94	362.34	402.46	444.48	488.60	535.00
Amortization of intangible assets	56.40	92.70	114.00	58.53	57.45	56.40	55.37	54.36	53.36
Cost of goods sold	3,508.20	3,381.30	3,588.60	4,135.63	4,339.42	4,528.19	4,690.35	4,825.45	4,952.93
Gross profit	3,529.40	3,817.20	4,080.30	4,339.87	4,734.68	5,153.75	5,587.13	6,009.19	6,456.69
Selling, general & administrative expenses	1,392.40	1,532.70	1,668.10	1,596.96	1,709.75	1,824.28	1,936.49	2,041.47	2,149.81
Gain on sale of business	262.40	-	-	-	-	-	-	-	-
Operating income (loss)	2,399.40	2,284.50	2,412.20	2,742.91	3,024.93	3,329.47	3,650.64	3,967.72	4,306.88
Equity in earnings of equity method investees	27.30	487.20	2,101.60	0.00	0.00	0.00	0.00	0.00	0.00
Interest expense	333.30	332.00	367.10	493.30	575.14	626.67	666.09	679.77	722.61
Loss on extinguishment of debt	-	-97.00	-1.70	-	-	-	-	-	-
Income before income taxes	2,083.00	2,338.00	4,145.00	2,249.61	2,449.80	2,702.80	2,984.54	3,287.94	3,584.27
Provision (benefit) for income taxes	554.20	11.90	685.90	472.42	514.46	567.59	626.75	690.47	752.70
<b>Net income (loss)</b>	<b>1,539.20</b>	<b>2,330.80</b>	<b>3,459.10</b>	<b>1,777.19</b>	<b>1,935.34</b>	<b>2,135.21</b>	<b>2,357.79</b>	<b>2,597.48</b>	<b>2,831.57</b>
Net loss attributable to noncontrolling interests	-4.10	-11.90	-23.20	0.89	0.97	1.07	1.18	1.30	1.42
<b>Net income attributable to Constellation Brands, Inc.</b>	<b>1,535.10</b>	<b>2,318.90</b>	<b>3,435.90</b>	<b>1,776.30</b>	<b>1,934.37</b>	<b>2,134.15</b>	<b>2,356.61</b>	<b>2,596.18</b>	<b>2,830.16</b>
Weighted average shares outstanding - class A	175.93	171.46	167.25	163.37	159.95	156.95	154.34	151.25	147.65
Weighted average shares outstanding - class B	23.35	23.34	23.32	23.32	23.32	23.32	23.32	23.32	23.32
EPS Class-A	7.79	12.04	18.24	9.62	10.68	11.98	13.43	15.05	16.76
EPS Class-B	7.07	10.93	16.57	8.75	9.71	10.89	12.20	13.69	15.24
Dividends per class A common share	1.60	2.08	2.96	1.44	1.60	1.80	2.01	2.26	2.51
Dividends per class B convertible common share	1.44	1.88	2.68	1.31	1.46	1.63	1.83	2.05	2.29
Actual Dividends Paid	315.12	400.50	557.56	266.45	290.16	320.12	353.49	389.43	424.52

## Constellation Brands

### Balance Sheet

<i>Fiscal Years Ending Feb. 28</i>	2017	2018	2019	2020E	2021E	2022E	2023E	2024E CV (2025E)	
<b>Total current assets</b>	<b>3230.00</b>	<b>3474.00</b>	<b>3684.00</b>	<b>3356.24</b>	<b>5796.33</b>	<b>7472.95</b>	<b>8839.10</b>	<b>9425.76</b>	<b>10828.68</b>
Cash & cash equivalents	177.40	90.30	93.60	-511.29	1655.65	3054.90	4149.29	4481.71	5622.26
Accounts receivable	737.00	776.20	846.90	905.88	969.86	1034.82	1098.48	1158.03	1219.48
Inventories	1,955.10	2,084.00	2,130.40	2,446.69	2,619.49	2,794.96	2,966.88	3,127.72	3,293.70
Prepaid expense & other current assets	360.50	523.50	613.10	514.97	551.34	588.27	624.45	658.31	693.24
Property, plant & equipment, Net	3,932.80	4,789.70	5,267.30	5,891.70	6,544.09	7,227.38	7,944.66	8,699.14	9,494.24
Goodwill	7,920.50	8,083.10	8,088.80	8,088.80	8,088.80	8,088.80	8,088.80	8,088.80	8,088.80
Intangible assets	3,377.70	3,304.80	3,198.10	3,139.57	3,082.12	3,025.72	2,970.35	2,915.99	2,862.63
Other assets	141.40	887.10	109.70	109.70	109.70	109.70	109.70	109.70	109.70
Deferred income taxes			2,183.30	2,329.87	2,486.29	2,653.20	2,831.32	3,021.40	3,224.24
Equity method investments	-	-	3,465.60	3,003.80	2,613.31	2,351.98	2,234.38	2,346.10	2,463.40
Securities measured at fair value	-	-	3,234.70	3,410.34	3,595.53	3,790.76	3,996.60	4,213.62	4,442.42
<b>Total assets</b>	<b>18,602.40</b>	<b>20,538.70</b>	<b>29,231.50</b>	<b>29,330.04</b>	<b>32,316.16</b>	<b>34,720.49</b>	<b>37,014.90</b>	<b>38,820.50</b>	<b>41,514.11</b>
Current maturities of long-term debt	910.90	22.30	1,065.20	734.60	1,680.60	1,827.20	1,637.50	780.70	594.90
Notes payable to banks & short-term borrowings	606.50	746.80	791.50	491.24	529.16	566.53	604.48	641.66	676.45
Accounts payable	559.80	592.20	616.70	636.14	681.07	726.69	771.39	813.21	856.36
Other accrued expenses & liabilities	575.80	583.40	690.40	908.00	972.13	1,037.25	1,101.05	1,160.74	1,222.34
<b>Total Current Liabilities</b>	<b>2,697.60</b>	<b>1,944.70</b>	<b>3,163.80</b>	<b>2,769.98</b>	<b>3,862.95</b>	<b>4,157.67</b>	<b>4,114.42</b>	<b>3,396.31</b>	<b>3,350.05</b>
Long-term debt, less current maturities	7,720.70	9,417.60	11,759.80	11,597.87	12,697.78	13,839.43	15,014.79	16,213.57	17,470.27
Deferred income taxes	1,134.00	718.00	948.75	1,012.44	1,080.41	1,152.95	1,230.35	1,312.95	1,401.09
Other liabilities	165.70	395.00	521.95	530.82	539.85	549.02	558.36	567.85	577.50
<b>Total Liabilities</b>	<b>11,717.60</b>	<b>12,476.00</b>	<b>16,394.30</b>	<b>15,911.11</b>	<b>18,180.99</b>	<b>19,699.07</b>	<b>20,917.92</b>	<b>21,490.67</b>	<b>22,798.91</b>
<b>Total CBI stockholders' equity before treasury stock</b>	<b>9,668.60</b>	<b>11,853.20</b>	<b>15,335.30</b>	<b>16,939.24</b>	<b>18,677.61</b>	<b>20,585.89</b>	<b>22,683.38</b>	<b>24,938.03</b>	<b>27,345.08</b>
Common stock	2,758.40	2,827.90	1,413.00	1,506.19	1,599.38	1,692.57	1,785.76	1,832.36	1,832.36
Retained earnings	7,310.00	9,228.20	14,276.20	15,786.94	17,432.13	19,247.22	21,251.52	23,459.57	25,866.62
Accumulated other comprehensive income (loss)	-399.80	-202.90	-353.90	-353.90	-353.90	-353.90	-353.90	-353.90	-353.90
Less treasury stock - class A common stock, at cost	2,775.50	3,805.20	2,782.10	3,805.20	4,828.30	5,851.40	6,874.50	7,897.60	8,920.70
Less treasury stock - class B convertible common stock, at cost	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20	2.20
<b>Less total treasury stock</b>	<b>2,777.70</b>	<b>3,807.40</b>	<b>2,784.30</b>	<b>3,807.40</b>	<b>4,830.50</b>	<b>5,853.60</b>	<b>6,876.70</b>	<b>7,899.80</b>	<b>8,922.90</b>
<b>Total Constellation Brands, Inc. stockholder's equity</b>	<b>6,891.20</b>	<b>8,046.10</b>	<b>12,551.00</b>	<b>13,131.84</b>	<b>13,847.11</b>	<b>14,732.29</b>	<b>15,806.68</b>	<b>17,038.23</b>	<b>18,422.18</b>
Noncontrolling interests	-6.40	16.60	286.20	287.09	288.06	289.12	290.30	291.60	293.02
<b>Total stockholders' equity</b>	<b>6,884.80</b>	<b>8,062.70</b>	<b>12,837.20</b>	<b>13,418.92</b>	<b>14,135.17</b>	<b>15,021.42</b>	<b>16,096.98</b>	<b>17,329.83</b>	<b>18,715.19</b>
<b>Total Liabilities and stockholders equity</b>	<b>18,602.40</b>	<b>20,538.70</b>	<b>29,231.50</b>	<b>29,330.04</b>	<b>32,316.16</b>	<b>34,720.49</b>	<b>37,014.90</b>	<b>38,820.50</b>	<b>41,514.11</b>

**Constellation Brands**
*Cash Flow Statement*

<i>Fiscal Years Ending Feb. 28</i>	2014	2015	2016	2017	2018	2019
<b>Cash flows from operating activities:</b>						
Net income (loss)	1,943.10	836.20	1,060.60	1,539.20	2,330.80	3,459.10
Adjustments to reconcile net income to net cash provided by operating activities:						
Unrealized net loss (gain) on securities measured at fair value	-	-	-	-	-464.30	-1,971.20
Net loss (gain) on sale of unconsolidated investment	-	-	-	-	-	-99.80
Net income tax benefit related to the Tax Cuts & Jobs Act	-	-	-	-	-363.00	-37.60
Depreciation	139.80	162.00	180.30	237.50	293.80	333.10
Amortization of debt issuance costs & loss on extinguishment of debt	11.60	12.20	12.00	12.70	108.70	29.40
Deferred tax provision (benefit)	41.60	79.30	251.00	128.70	114.90	426.90
Impairment & amortization of intangible assets	15.50	40.00	40.70	56.40	92.70	114.00
Stock-based compensation	49.90	55.00	54.00	56.10	60.90	64.10
Loss on contract termination	-	-	-	-	59.00	-
Loss (gain) on sale of business	-	-	-	-262.40	-	-
Change in operating assets and liabilities, net of effects from purchases of business:						
Accounts receivable	36.50	16.10	-129.80	-49.40	-34.10	-71.90
Inventories	-41.10	-132.50	10.10	-151.00	-123.80	-61.90
Prepaid expenses & other current assets	-0.20	-71.20	45.90	-71.60	-111.50	-103.00
Accounts payable	-49.30	-0.80	24.70	115.90	12.80	21.40
Other accrued expenses & liabilities	58.10	44.70	-116.80	106.00	-71.60	-22.10
Other operating activities	10.60	36.30	-25.20	-38.30	26.10	165.80
Total adjustments	-1,116.90	244.80	353.10	156.80	-399.40	-1,212.80
<b>Net cash flows from operating activities</b>	<b>826.20</b>	<b>1,081.00</b>	<b>1,413.70</b>	<b>1,696.00</b>	<b>1,931.40</b>	<b>2,246.30</b>
<b>Cash flows from investing activities:</b>						
Purchases of property, plant & equipment	-223.50	-719.40	-891.30	-907.40	-1,057.60	-886.30
Investments in equity method investees & securities	-	-	-	-	-191.30	-4,081.50
Purchases of businesses, net of cash acquired	-4,681.30	-310.30	-1,316.40	-1,111.00	-150.10	-45.60
Proceeds from sale of unconsolidated investment	-	-	-	-	-	110.20
Proceeds from sale of business	-	-	-	575.30	-	-
Investment in equity method investee	-	-	-	-	-	-
Proceeds from sales of assets	7.80	-	-	-	-	72.30
Proceeds from (payments related to) sale of business	-	-	-	-	-5.00	-
Other investing activities	9.80	13.80	0.30	-18.70	-19.10	-0.90
<b>Net cash flows from investing activities</b>	<b>-4,863.80</b>	<b>-1,015.90</b>	<b>-2,207.40</b>	<b>-1,461.80</b>	<b>-1,423.10</b>	<b>-4,831.80</b>
<b>Cash flows from financing activities:</b>						
Principal payments of long-term debt	-96.40	-605.70	-208.70	-971.80	-7,128.70	-62.80
Purchases of treasury stock	-	-	-33.80	-1,122.70	-1,038.50	-504.30
Dividends paid	-	-	-241.60	-315.10	-400.10	-557.70
Payments of debt issuance & other financing costs	-	-	-	-14.10	-	-
Payments of debt issuance, debt extinguishment & other financing costs	-	-	-	-	-122.20	-34.60
Payments of minimum tax withholdings on stock-based payment awards	-18.00	-28.40	-38.60	-64.90	-31.70	-13.60
Proceeds from issuance of long-term debt	3,725.00	905.00	610.00	1,965.60	7,933.40	3,657.60
Net proceeds from short-term borrowings	-	-	-	-	137.20	45.50
Net proceeds from (repayment of) notes payable	57.30	13.10	360.60	197.10	-	-
Proceeds from shares issued under equity compensation plans	-	63.70	113.00	59.70	49.40	63.20
Excess tax benefits from stock-based payment awards	65.40	78.00	203.40	131.40	-	-
Proceeds from noncontrolling interests	-	115.00	25.00	-	-	-
<b>Net cash flows from financing activities</b>	<b>3,777.00</b>	<b>-16.40</b>	<b>776.00</b>	<b>-134.80</b>	<b>-601.20</b>	<b>2,593.30</b>
Effect of exchange rate changes on cash & cash equivalents	-7.00	-2.50	-9.30	-5.10	5.80	-4.50
Net increase (decrease) in cash & cash equivalents	-267.60	46.20	-27.00	94.30	-87.10	3.30
Cash & cash equivalents, beginning of year	331.50	63.90	110.10	83.10	177.40	90.30
Cash & cash equivalents, end of year	63.90	110.10	83.10	177.40	90.30	93.60

**Constellation Brands**

*Cash Flow Statement*

<i>Fiscal Years Ending Feb. 28</i>	2020E	2021E	2022E	2023E	2024E CV (2025E)	
<b>Cash Flows from Operating Activities</b>						
<b>Net income (loss)</b>	<b>1,777.19</b>	<b>1,935.34</b>	<b>2,135.21</b>	<b>2,357.79</b>	<b>2,597.48</b>	<b>2,831.57</b>
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>						
Depreciation	323.94	362.34	402.46	444.48	488.60	535.00
Amortization of intangible assets	58.53	57.45	56.40	55.37	54.36	53.36
Change in deferred taxes	-82.88	-88.44	-94.38	-100.72	-107.48	-114.70
Accounts receivable	-58.98	-63.98	-64.97	-63.65	-59.55	-61.46
Inventories	-316.29	-172.80	-175.47	-171.92	-160.84	-165.98
Prepaid expenses & other current assets	98.13	-36.37	-36.93	-36.18	-33.85	-34.94
Accounts payable	19.44	44.93	45.62	44.70	41.82	43.16
Other accrued expenses & liabilities	217.60	64.13	65.12	63.80	59.69	61.60
Other Liabilities	8.87	9.02	9.18	9.33	9.49	9.65
<b>Net Cash Flows from Operating Activities</b>	<b>2,045.56</b>	<b>2,111.62</b>	<b>2,342.24</b>	<b>2,603.00</b>	<b>2,889.71</b>	<b>3,157.27</b>
<b>Cash Flows from Investing Activities</b>						
Purchases of property, plant & equipment	-948.34	-1,014.72	-1,085.76	-1,161.76	-1,243.08	-1,330.10
Equity method investments	461.80	390.49	261.33	117.60	-111.72	-117.30
Securities measured at fair value	-175.64	-185.18	-195.24	-205.84	-217.02	-228.80
Other investing activities	0.00	0.00	0.00	0.00	0.00	0.00
<b>Net Cash Flows from Investing Activities</b>	<b>-662.19</b>	<b>-809.41</b>	<b>-1,019.66</b>	<b>-1,250.00</b>	<b>-1,571.82</b>	<b>-1,676.20</b>
<b>Cash Flows from Financing Activities</b>						
Proceeds from issuance of Long-Term Debt	-492.53	2,045.91	1,288.25	985.66	341.97	1,070.90
Purchases of treasury stock	-1,023.10	-1,023.10	-1,023.10	-1,023.10	-1,023.10	-1,023.10
Dividends paid	-266.45	-290.16	-320.12	-353.49	-389.43	-424.52
Net proceeds from (repayment of) notes payable & short-term borrowings	-300.26	37.92	37.37	37.95	37.18	34.79
Proceeds from shares issued under equity compensation plans	93.19	93.19	93.19	93.19	46.60	0.00
Non-controlling interest	0.89	0.97	1.07	1.18	1.30	1.42
<b>Net Cash Flows from Financing Activities</b>	<b>-1,988.26</b>	<b>864.73</b>	<b>76.66</b>	<b>-258.61</b>	<b>-985.48</b>	<b>-340.52</b>
Net Increase Cash & Cash Equivalents	-604.89	2,166.94	1,399.25	1,094.40	332.41	1,140.55
Cash & Cash Equivalents, Beg of Year	93.60	-511.29	1,655.65	3,054.90	4,149.29	4,481.71
<b>Cash &amp; Cash Equivalents, End of Year</b>	<b>-511.29</b>	<b>1,655.65</b>	<b>3,054.90</b>	<b>4,149.29</b>	<b>4,481.71</b>	<b>5,622.26</b>

**Constellation Brands***Common Size Income Statement*

<i>Fiscal Years Ending Feb. 28</i>	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	CV (2025E)
Sales	100%	100%	100%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Excise taxes	9.06%	8.91%	8.65%	8.49%	8.49%	8.49%	8.49%	8.49%	8.49%
Net sales	90.94%	91.09%	91.35%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of product sold	43.52%	40.61%	40.39%	44.65%	43.76%	42.80%	41.76%	40.76%	39.73%
Depreciation	2.95%	3.53%	3.75%	3.50%	3.65%	3.80%	3.96%	4.13%	4.29%
Amortization	0.70%	1.11%	1.28%	0.63%	0.58%	0.53%	0.49%	0.46%	0.43%
Gross profit	43.78%	45.84%	45.93%	46.86%	47.75%	48.71%	49.75%	50.75%	51.79%
SG&A	17.27%	18.41%	18.78%	17.24%	17.24%	17.24%	17.24%	17.24%	17.24%
Gain on sale of business	3.25%	-	-	-	-	-	-	-	-
Operating income / loss	29.76%	27.44%	27.15%	29.62%	30.51%	31.47%	32.51%	33.51%	34.54%
Equity in earnings / losses of equity method investees	0.34%	5.85%	23.66%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Interest expense	4.13%	3.99%	4.13%	5.33%	5.80%	5.92%	5.93%	5.74%	5.80%
Loss on extinguishment of debt		-1.16%	-0.02%	-	-	-	-	-	-
Income before income taxes	25.84%	28.08%	46.66%	24.29%	24.71%	25.55%	26.57%	27.77%	28.75%
Provision for / benefit from income taxes	6.87%	0.14%	7.72%	5.10%	5.19%	5.36%	5.58%	5.83%	6.04%
Net income / loss	19.09%	27.99%	38.93%	19.19%	19.52%	20.18%	20.99%	21.94%	22.71%
Net income / loss attributable to noncontrolling interests	-0.05%	-0.14%	-0.26%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%
Net income / loss attributable to CBI	19.04%	27.85%	38.67%	19.18%	19.51%	20.17%	20.98%	21.93%	22.70%

**Constellation Brands**

*Common Size Balance Sheet*

<i>Fiscal Years Ending Feb. 28</i>	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	CV (2025E)
<b>Total current assets</b>	<b>40.07%</b>	<b>41.72%</b>	<b>41.47%</b>	<b>36.24%</b>	<b>58.46%</b>	<b>70.63%</b>	<b>78.70%</b>	<b>79.61%</b>	<b>86.85%</b>
Cash & cash equivalents	2.20%	1.08%	1.05%	-5.52%	16.70%	28.87%	36.95%	37.85%	45.09%
Accounts receivable	9.14%	9.32%	9.53%	9.78%	9.78%	9.78%	9.78%	9.78%	9.78%
Inventories	24.25%	25.03%	23.98%	26.42%	26.42%	26.42%	26.42%	26.42%	26.42%
Prepaid expense & other current assets	4.47%	6.29%	6.90%	5.56%	5.56%	5.56%	5.56%	5.56%	5.56%
Property, plant & equipment	48.78%	57.52%	59.29%	63.61%	66.00%	68.31%	70.74%	73.47%	76.15%
Goodwill	98.25%	97.07%	91.05%	87.34%	81.57%	76.45%	72.02%	68.32%	64.88%
Intangible assets	41.90%	39.69%	36.00%	33.90%	31.08%	28.60%	26.45%	24.63%	22.96%
Other assets	1.75%	10.65%	1.23%	1.18%	1.11%	1.04%	0.98%	0.93%	0.88%
Equity method investments			39.01%	32.43%	26.35%	22.23%	19.90%	19.82%	19.76%
Securities measured at fair value			36.41%	36.82%	36.26%	35.83%	35.59%	35.59%	35.63%
<b>Total assets</b>	<b>230.75%</b>	<b>246.66%</b>	<b>329.02%</b>	<b>316.68%</b>	<b>325.90%</b>	<b>328.17%</b>	<b>329.58%</b>	<b>327.88%</b>	<b>332.97%</b>
Current maturities of long-term debt	11.30%	0.27%	11.99%	7.93%	16.95%	17.27%	14.58%	6.59%	4.77%
Notes payable to banks & short-term borrowings	7.52%	8.97%	8.91%	5.30%	5.34%	5.35%	5.38%	5.42%	5.43%
Accounts payable	6.94%	7.11%	6.94%	6.87%	6.87%	6.87%	6.87%	6.87%	6.87%
Other accrued expenses & liabilities	7.14%	7.01%	7.77%	9.80%	9.80%	9.80%	9.80%	9.80%	9.80%
<b>Total Current Liabilities</b>	<b>33.46%</b>	<b>23.35%</b>	<b>35.61%</b>	<b>29.91%</b>	<b>38.96%</b>	<b>39.30%</b>	<b>36.64%</b>	<b>28.69%</b>	<b>26.87%</b>
Long-term debt, less current maturities	95.77%	113.10%	132.37%	125.22%	128.06%	130.81%	133.69%	136.94%	140.12%
Deferred income taxes	14.07%	8.62%	10.68%	10.93%	10.90%	10.90%	10.96%	11.09%	11.24%
Other liabilities	2.06%	4.74%	5.87%	5.73%	5.44%	5.19%	4.97%	4.80%	4.63%
<b>Total liabilities</b>	<b>145.35%</b>	<b>149.83%</b>	<b>184.53%</b>	<b>171.79%</b>	<b>183.35%</b>	<b>186.19%</b>	<b>186.25%</b>	<b>181.51%</b>	<b>182.86%</b>
Common stock	34.22%	33.96%	15.90%	16.26%	16.13%	16.00%	15.90%	15.48%	14.70%
Retained earnings	90.68%	110.83%	160.69%	170.45%	175.80%	181.92%	189.22%	198.14%	207.46%
Accumulated other comprehensive income (loss)	-4.96%	-2.44%	-3.98%	-3.82%	-3.57%	-3.34%	-3.15%	-2.99%	-2.84%
Less treasury stock - class A common stock, at cost	34.43%	45.70%	31.31%	41.09%	48.69%	55.31%	61.21%	66.70%	71.55%
Less treasury stock - class B convertible common stock, at cost	0.03%	0.03%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%
<b>Less total treasury stock</b>	<b>34.46%</b>	<b>45.72%</b>	<b>31.34%</b>	<b>41.11%</b>	<b>48.72%</b>	<b>55.33%</b>	<b>61.23%</b>	<b>66.72%</b>	<b>71.57%</b>
<b>Total Constellation Brands, Inc. stockholder's equity (deficit)</b>	<b>85.48%</b>	<b>96.63%</b>	<b>141.27%</b>	<b>141.79%</b>	<b>139.65%</b>	<b>139.25%</b>	<b>140.74%</b>	<b>143.91%</b>	<b>147.76%</b>
Noncontrolling interests	-0.08%	0.20%	3.22%	3.10%	2.91%	2.73%	2.58%	2.46%	2.35%
<b>Total stockholders' equity</b>	<b>85.40%</b>	<b>96.83%</b>	<b>144.49%</b>	<b>144.89%</b>	<b>142.55%</b>	<b>141.98%</b>	<b>143.33%</b>	<b>146.37%</b>	<b>150.11%</b>
<b>Total Liabilities and stockholders equity</b>	<b>230.75%</b>	<b>246.66%</b>	<b>329.02%</b>	<b>316.68%</b>	<b>325.90%</b>	<b>328.17%</b>	<b>329.58%</b>	<b>327.88%</b>	<b>332.97%</b>

**Constellation Brands**  
Value Driver Estimation

Fiscal Years Ending Feb. 28	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	CV (2025E)
<b>EBITA</b>									
Sales	8061.60	8326.80	8884.30	9261.69	9915.83	10580.05	11230.83	11839.68	12468.00
Less: COGS	3214.30	2994.80	3141.50	3753.16	3919.62	4069.33	4190.50	4282.50	4364.57
Less: Excise Tax	730.10	741.80	768.30	786.20	841.73	898.11	953.35	1005.04	1058.37
Less: Selling, general and administrative expenses	1392.40	1532.70	1668.10	1596.96	1709.75	1824.28	1936.49	2041.47	2149.81
Less: Depreciation	237.50	293.80	333.10	323.94	362.34	402.46	444.48	488.60	535.00
Less: Amortization of Non-Goodwill Intangibles	56.40	92.70	114.00	58.53	57.45	56.40	55.37	54.36	53.36
Plus: Implied Interest on Operating Leases	18.42	20.89	21.94	23.06	24.23	25.45	26.74	28.10	29.53
<b>EBITA</b>	<b>2449.32</b>	<b>2691.89</b>	<b>2881.24</b>	<b>2765.96</b>	<b>3049.16</b>	<b>3354.92</b>	<b>3677.38</b>	<b>3995.82</b>	<b>4336.40</b>
<b>Less: Adjusted Taxes</b>									
Marginal Tax Rate	26.20%	18.20%	19.40%	21.00%	21.00%	21.00%	21.00%	21.00%	21.00%
Total Income Tax Provision	550.30	22.70	685.90	472.42	514.46	567.59	626.75	690.47	752.70
Add: PV of Op Lease Interest	4.83	3.80	4.26	4.84	5.09	5.35	5.62	5.90	6.20
Less: Gain on Sale	262.4	-	-	-	-	-	-	-	-
Plus: Tax shield on amortized goodwill	14.78	16.87	22.12	12.29	12.07	11.84	11.63	11.42	11.21
Less: Equity Earnings of Equity Method Investees	7.15	88.67	407.71	407.71	407.71	407.71	407.71	407.71	407.71
Plus: Tax shield on interest	87.32	60.42	71.22	103.59	120.78	131.60	139.88	142.75	151.75
Plus: Tax shield on Loss on Extinguishment of Debt	-	-17.65	-0.33	-	-	-	-	-	-
<b>Less: Total adjusted taxes</b>	<b>387.68</b>	<b>-2.53</b>	<b>375.45</b>	<b>185.43</b>	<b>244.68</b>	<b>308.67</b>	<b>376.17</b>	<b>442.83</b>	<b>514.14</b>
Deferred Taxes (liabilities)	1,134.00	718.00	948.75	1,012.44	1,080.41	1,152.95	1,230.35	1,312.95	1,401.09
Previous Year Deferred Taxes (liabilities)	1,022.00	1,134.00	718.00	948.75	1,012.44	1,080.41	1,152.95	1,230.35	1,312.95
<b>Plus: Change in Deferred Taxes</b>	<b>112.00</b>	<b>-416.00</b>	<b>230.75</b>	<b>63.69</b>	<b>67.97</b>	<b>72.53</b>	<b>77.40</b>	<b>82.60</b>	<b>88.14</b>
<b>NOPLAT</b>	<b>2,173.65</b>	<b>2,278.41</b>	<b>2,736.54</b>	<b>2,644.22</b>	<b>2,872.45</b>	<b>3,118.79</b>	<b>3,378.61</b>	<b>3,635.59</b>	<b>3,910.40</b>
<b>Invested Capital</b>									
<b>Operating Current Assets</b>									
Normal Cash	84.93	87.73	93.60	97.58	104.47	111.47	118.32	124.74	131.36
Plus: Accounts Receivable	737.00	776.20	846.90	905.88	969.86	1,034.82	1,098.48	1,158.03	1,219.48
Plus: Inventory	1,955.10	2,084.00	2,130.40	2,446.69	2,619.49	2,794.96	2,966.88	3,127.72	3,293.70
Plus: Prepaid Expenses	360.50	523.50	613.10	514.97	551.34	588.27	624.45	658.31	693.24
<b>Non Interest-Bearing Current Liabilities</b>									
Less: Accounts Payable	559.80	592.20	616.70	636.14	681.07	726.69	771.39	813.21	856.36
Less: Other accrued expenses & liabilities	575.80	583.40	690.40	908.00	972.13	1,037.25	1,101.05	1,160.74	1,222.34
<b>Operating Working Capital</b>	<b>2,001.93</b>	<b>2,295.83</b>	<b>2,376.90</b>	<b>2,420.97</b>	<b>2,591.96</b>	<b>2,765.58</b>	<b>2,935.69</b>	<b>3,094.84</b>	<b>3,259.08</b>
<b>Plus: Net PP&amp;E</b>	<b>3,932.80</b>	<b>4,789.70</b>	<b>5,267.30</b>	<b>5,891.70</b>	<b>6,544.09</b>	<b>7,227.38</b>	<b>7,944.66</b>	<b>8,699.14</b>	<b>9,494.24</b>
Intangible Assets	3,377.70	3,304.80	3,198.10	3,139.57	3,082.12	3,025.72	2,970.35	2,915.99	2,862.63
Capitalized PV of Operating Leases	363.39	411.95	417.42	454.99	495.94	540.57	589.23	642.26	700.06
Other assets	141.40	887.10	109.70	109.70	109.70	109.70	109.70	109.70	109.70
<b>Plus: Net Other Operating Assets</b>	<b>3,882.49</b>	<b>4,603.85</b>	<b>3,725.22</b>	<b>3,704.27</b>	<b>3,687.76</b>	<b>3,675.99</b>	<b>3,669.27</b>	<b>3,667.95</b>	<b>3,672.39</b>
<b>Less: Other Operating Liabilities</b>	<b>165.70</b>	<b>395.00</b>	<b>521.95</b>	<b>530.82</b>	<b>539.85</b>	<b>549.02</b>	<b>558.36</b>	<b>567.85</b>	<b>577.50</b>
<b>Invested Capital</b>	<b>9,651.52</b>	<b>11,294.37</b>	<b>10,847.47</b>	<b>11,486.11</b>	<b>12,283.96</b>	<b>13,119.93</b>	<b>13,991.26</b>	<b>14,894.08</b>	<b>15,848.21</b>
<b>ROIC</b>									
NOPLAT	2,173.65	2,278.41	2,736.54	2,644.22	2,872.45	3,118.79	3,378.61	3,635.59	3,910.40
Divided by:									
Beginning Invested Capital	8,954.02	9,651.52	11,294.37	10,847.47	11,486.11	12,283.96	13,119.93	13,991.26	14,894.08
<b>ROIC</b>	<b>24.28%</b>	<b>23.61%</b>	<b>24.23%</b>	<b>24.38%</b>	<b>25.01%</b>	<b>25.39%</b>	<b>25.75%</b>	<b>25.98%</b>	<b>26.25%</b>
<b>Economic Profit</b>									
NOPLAT	2,173.65	2,278.41	2,736.54	2,644.22	2,872.45	3,118.79	3,378.61	3,635.59	3,910.40
Beginning Invested Capital	8,954.02	9,651.52	11,294.37	10,847.47	11,486.11	12,283.96	13,119.93	13,991.26	14,894.08
WACC	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07
<b>Economic Profit</b>	<b>1,555.52</b>	<b>1,612.13</b>	<b>1,956.85</b>	<b>1,895.39</b>	<b>2,079.52</b>	<b>2,270.78</b>	<b>2,472.90</b>	<b>2,669.72</b>	<b>2,882.21</b>
<b>FCF</b>									
NOPLAT	2,173.65	2,278.41	2,736.54	2,644.22	2,872.45	3,118.79	3,378.61	3,635.59	3,910.40
Less:									
Change in Invested Capital	697.50	1,642.85	-446.90	638.64	797.84	835.97	871.33	902.82	954.13
<b>FCF</b>	<b>1,476.14</b>	<b>635.56</b>	<b>3,183.44</b>	<b>2,005.59</b>	<b>2,074.61</b>	<b>2,282.81</b>	<b>2,507.28</b>	<b>2,732.77</b>	<b>2,956.28</b>



## Constellation Brands

### *Weighted Average Cost of Capital (WACC) Estimation*

Risk Free Rate (10-Year LT T Bond)	2.15%
Risk Premium	6.00%
Beta (10-Yr Weekly)	0.936
<b>Cost of Equity</b>	<b>7.77%</b>
Debt Rating	BBB-
Pre-Tax Cost of Debt	5.07%
Tax Rate	1.62%
<b>Cost of Debt</b>	<b>4.99%</b>
MV of Equity (E)	\$30,941.07
MV of Debt (D)	\$13,384.50
MV of Firm (V) (E+D+PFD)	\$44,325.57
<b>WACC</b>	<b>6.90%</b>

## Constellation Brands

### Discounted Cash Flow (DCF) and Economic Profit (EP) Valuation Models

#### Key Inputs:

CV Growth	1.50%
CV ROIC	26.06%
WACC	6.90%
Cost of Equity	7.77%

#### DCF Model

Fiscal Years Ending Feb. 28	2019	2020E	2021E	2022E	2023E	2024E	CV (2025E)
NOPLAT		2,644.22	2,872.45	3,118.79	3,378.61	3,635.59	3,910.40
Less: Change in Invested Capital		638.64	797.84	835.97	871.33	902.82	954.13
Free Cash Flow		2,005.59	2,074.61	2,282.81	2,507.28	2,732.77	2,956.28
Continuing Value (CV)							68,246.74
CF to Discount		2,005.59	2,074.61	2,282.81	2,507.28	2,732.77	68,246.74
Discount Factor		1.07	1.14	1.22	1.31	1.40	1.40
<b>PV of CF</b>		<b>1,876.13</b>	<b>1,815.43</b>	<b>1,868.69</b>	<b>1,919.96</b>	<b>1,957.56</b>	<b>48,887.00</b>

#### Value of Operating Assets **58,324.78**

Add: Normal Cash	-
Less: Debt	12,825.00
Less: PV of Operating Leases	559.50
Less: PV of ESOP	901.42
Less: Non-Controlling Interest	3,003.80

#### Value of Equity **41,035.05**

Shares Outstanding	190.57
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#### Intrinsic Value **215.33**

#### Time Adjusted **224.79**

#### EP Model

Fiscal Years Ending Feb. 28	2,019.00	2020E	2021E	2022E	2023E	2024E	2025E
NOPLAT		2,644.22	2,872.45	3,118.79	3,378.61	3,635.59	3,910.40
Beginning Invested Capital	10,847.47	10,847.47	11,486.11	12,283.96	13,119.93	13,991.26	14,894.08
ROIC		0.2438	0.2501	0.2539	0.2575	0.2598	0.2625
WACC		0.0690	0.0690	0.0690	0.0690	0.0690	0.0690
EP		1,895.39	2,079.52	2,270.78	2,472.90	2,669.72	2,882.21
Continuing Value (CV)							53,345.43
CF to Discount		1,895.39	2,079.52	2,270.78	2,472.90	2,669.72	53,345.43
Discount Factor		1.07	1.14	1.22	1.31	1.40	1.40
<b>PV of EP</b>		<b>1,773.05</b>	<b>1,819.74</b>	<b>1,858.84</b>	<b>1,893.63</b>	<b>1,912.39</b>	<b>38,212.78</b>

#### PV of EP 47,470.43

Add: Beginning Invested Capital	10,847.47
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#### Value of Operating Assets **58,317.91**

Add: Excess Cash	-
Less: Debt	12,825.00
Less: PV of Operating Leases	559.50
Less: PV of ESOP	901.42
Less: Non-Controlling Interest	3,003.80

#### Value of Equity **41,028.18**

Shares Outstanding	190.57
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#### Intrinsic Value **215.29**

#### Time Adjusted **224.79**

#### For Discounting:

Number of Periods	1.00	2.00	3.00	4.00	5.00	6.00	7.00	8.00
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Model Date 11/18/2019

Next FYE 2/28/2020

Last FYE 2/28/2019

Days in FY 365

Days to FYE 263

Elapsed Fraction 0.72

**Constellation Brands***Dividend Discount Model (DDM) or Fundamental P/E Valuation Model*

<i>Fiscal Years Ending</i>	2019	2020E	2021E	2022E	2023E	2024E	CV (2025E)
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EPS Class A	18.24	9.62	10.68	11.98	13.43	15.05	16.76
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**Key Assumptions**

CV growth	1.50%
CV ROE	16.33%
Cost of Equity	7.77%

**Future Cash Flows**

P/E Multiple (CV Year)							14.48
EPS (CV Year)							16.76
Future Stock Price							242.77
Dividends Per Share	2.96	1.44	1.60	1.80	2.01	2.26	
Future Cash Flows	2.96	1.44	1.60	1.80	2.01	2.26	242.77
Periods		1	2	3	4	5	5
Discounted Cash Flows		\$ 1.339	\$ 1.592	\$ 1.796	\$ 2.014	\$ 2.258	\$ 166.994

Intrinsic Value	\$ 175.99
Time Adjusted	\$ 183.73

For Discounting:

Number of Periods	1	2	3	4	5	6	7
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Model Date	11/18/2019
Next FYE	2/28/2019
Last FYE	2/28/2018
Days in FY	365
Days to FYE	263
Elapsed Fraction	0.721

## Constellation Brands

### Relative Valuation Models

Ticker	Company	Price	EPS		P/E 19	P/E 20
			2019E	2020E		
TAP	Molson Coors	\$53.55	\$4.37	\$4.18	12.25	12.81
BUD	Anheuser Busch	\$79.23	\$3.19	\$3.42	24.84	23.17
HEIA	Heineken	\$90.50	\$4.70	\$5.27	19.26	17.17
BF.B	Brown Forman	\$65.47	\$1.79	\$1.94	36.58	33.75
			Average		<b>23.23</b>	<b>21.72</b>
STZ	Constellation Brands	\$185.00	\$9.62	\$10.68	19.2	17.3

### Implied Relative Value:

P/E (EPS19)	\$ 223.56
P/E (EPS20)	\$ 231.97

**Constellation Brands**  
Key Management Ratios

<i>Fiscal Years Ending</i>	2016	2017	2018	2019E	2020E	2021E	2022E	2023E	2024E CV (2025E)	
<b><i>Liquidity Ratios</i></b>										
Current Ratio (Current Assets/ Current Liabilities)	1.31	1.20	1.79	1.16	1.21	1.50	1.80	2.15	2.78	3.23
Quick Ratio ((Cash Equivalents + AR) / Current Liabilities)	0.36	0.34	0.45	0.30	0.14	0.68	0.98	1.28	1.66	2.04
Cash Ratio (Cash & Cash Equivalents) / Current Liabilities)	0.04	0.07	0.05	0.03	-0.18	0.43	0.73	1.01	1.32	1.68
<b><i>Activity or Asset-Management Ratios</i></b>										
Total Asset Turnover (Sales / Total Assets)	0.43	0.43	0.41	0.30	0.32	0.31	0.30	0.30	0.30	0.30
Fixed Asset Turnover (Sales / Fixed Assets)	1.05	1.08	0.93	1.04	1.01	1.02	1.02	1.02	1.01	1.00
Inventory Turnover (Sales / Inventory)	3.90	4.12	4.00	4.17	3.79	3.79	3.79	3.79	3.79	3.79
<b><i>Financial Leverage Ratios</i></b>										
Debt to Equity (Total Liabilities / Stockholder's Equity)	1.54	1.70	1.55	1.28	1.19	1.29	1.31	1.30	1.24	1.22
Equity Ratio (Total Equity / Total Assets)	0.39	0.37	0.39	0.44	0.46	0.44	0.43	0.43	0.45	0.45
Debt Ratio (Total Debt / Total Assets)	0.45	0.46	0.46	0.44	0.42	0.44	0.45	0.45	0.44	0.44
<b><i>Profitability Ratios</i></b>										
Gross Margin (GrossProfit / Sales)	14.68%	19.09%	27.99%	38.93%	19.19%	19.52%	20.18%	20.99%	21.94%	22.71%
Operating Margin (Operating Income / Sales)	24.43%	29.76%	27.44%	27.15%	29.62%	30.51%	31.47%	32.51%	33.51%	34.54%
Profit Margin (Net Income / Sales)	14.68%	19.09%	27.99%	38.93%	19.19%	19.52%	20.18%	20.99%	21.94%	22.71%
Return on Assets (Net Income / Total Assets)	6.25%	8.27%	11.35%	11.83%	6.06%	5.99%	6.15%	6.37%	6.69%	6.82%
Return on Equity (Net Income / Stockholder's Equity)	15.85%	22.36%	28.91%	26.95%	13.24%	13.69%	14.21%	14.65%	14.99%	15.13%
<b><i>Payout Policy Ratios</i></b>										
Divident Payout Ratio (Class A) (Dividend Class A / EPS)	22.88%	20.54%	17.28%	16.23%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
Divided Payout Ratio (Class B) (Dividend Class B / EPS)	22.76%	20.37%	17.20%	16.17%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
Total Payout Ratio ((Dividend + Stock Repurchases) / Net Income)	119.20%	86.94%	61.08%	45.70%	72.56%	67.86%	62.91%	58.38%	54.38%	51.12%

**Present Value of Operating Lease Obligations (2019)**

Fiscal Years Ending Feb. 28	Operating Leases
2019	59
2020	58.2
2021	51.1
2022	47.9
2023	41.2
Thereafter	302.1
Total Minimum Payments	559.5
Less: Interest	142
PV of Minimum Payments	417
Implied Interest on Operating Leases	21

**Capitalization of Operating Leases**

Pre-Tax Cost of Debt	5.07%
Number Years Implied by Year 6 Payment	7.3

Year	Lease Commitment	PV Lease Payment
1	59	56.2
2	58.2	52.7
3	51.1	44.1
4	47.9	39.3
5	41.2	32.2
6 & beyond	41.2	193.0
PV of Minimum Payments		417.4

**Present Value of Operating Lease Obligations (2018)**

Fiscal Years Ending Feb. 28	Operating Leases
2018	53.6
2019	53.7
2020	50.3
2021	44
2022	41.3
Thereafter	316.3
Total Minimum Payments	559.2
Less: Interest	147
PV of Minimum Payments	412
Implied Interest on Operating Leases	21

**Capitalization of Operating Leases**

Pre-Tax Cost of Debt	5.07%
Number Years Implied by Year 6 Payment	7.7

Year	Lease Commitment	PV Lease Payment
1	53.6	51.0
2	53.7	48.6
3	50.3	43.4
4	44	36.1
5	41.3	32.3
6 & beyond	41.3	200.6
PV of Minimum Payments		411.9

**Present Value of Operating Lease Obligations (2017)**

Fiscal Years Ending	Operating Leases
2017	41.6
2018	46.8
2019	45.2
2020	43.2
2021	35.4
Thereafter	285.5
Total Minimum Payments	497.7
Less: Interest	134
PV of Minimum Payments	363
Implied Interest on Operating Leases	18

**Capitalization of Operating Leases**

Pre-Tax Cost of Debt	5.07%
Number Years Implied by Year 6 Payment	8.1

Year	Lease Commitment	PV Lease Payment
1	41.6	39.6
2	46.8	42.4
3	45.2	39.0
4	43.2	35.4
5	35.4	27.6
6 & beyond	35.4	179.3
PV of Minimum Payments		363.4

Pre-Tax Cost of Debt								
Marginal Tax Rate	#REF!	3.50%	4.00%	4.50%	5.07%	5.50%	6.00%	6.50%
	15.00%	246.62	246.87	247.12	247.40	247.62	247.87	248.12
	17.00%	239.10	239.34	239.59	239.86	240.07	240.32	240.56
	19.00%	231.58	231.82	232.06	232.33	232.53	232.77	233.01
	21.00%	224.06	224.29	224.52	224.79	224.99	225.23	225.46
	23.00%	216.54	216.77	216.99	217.25	217.45	217.68	217.91
	25.00%	209.02	209.24	209.46	209.72	209.91	210.13	210.36
	27.00%	201.50	201.71	201.93	202.18	202.37	202.59	202.80

CV Growth NOPLAT								
CV ROIC	#REF!	0.50%	0.75%	1.25%	1.50%	1.75%	2.00%	2.25%
	21.00%	191.04	197.58	212.41	220.85	230.11	240.32	251.62
	23.00%	191.53	198.36	213.81	222.61	232.27	242.91	254.70
	25.00%	191.95	199.01	214.99	224.10	234.08	245.09	257.28
	26.06%	192.15	199.31	215.55	224.79	234.93	246.11	258.49
	28.00%	192.46	199.81	216.45	225.92	236.32	247.77	260.46
	30.00%	192.75	200.25	217.26	226.94	237.56	249.26	262.23
	32.00%	193.00	200.64	217.96	227.83	238.65	250.57	263.78

CV Growth NOPLAT								
WACC	#REF!	0.50%	0.75%	1.25%	1.50%	1.75%	2.00%	2.25%
	5.50%	280.61	294.23	326.25	345.27	366.82	391.45	419.87
	6.00%	243.79	254.46	279.16	293.57	309.68	327.80	348.33
	6.50%	213.16	221.66	241.10	252.28	264.63	278.36	293.70
	6.90%	192.15	199.31	215.55	224.79	234.93	246.11	258.49
	7.50%	165.19	170.81	183.41	190.49	198.19	206.59	215.79
	8.50%	129.38	133.25	141.80	146.52	151.60	157.07	162.98
	9.50%	101.68	104.42	110.41	113.69	117.17	120.89	124.87

Growth in Revenue Per Case (Beer)								
Growth in Cases Sold (Beer)	#REF!	0.50%	0.75%	1.00%	1.50%	2.00%	3.00%	2.50%
	0.25%	221.46	221.50	221.53	221.61	221.69	221.84	221.76
	1.00%	222.85	222.89	222.93	223.01	223.08	223.24	223.16
	1.50%	223.78	223.82	223.86	223.94	224.01	224.17	224.09
	2.00%	224.71	224.75	224.79	224.87	224.95	225.10	225.02
	2.50%	225.64	225.68	225.72	225.80	225.88	226.03	225.95
	3.00%	226.57	226.61	226.65	226.73	226.81	226.96	226.89
	4.00%	228.43	228.47	228.51	228.59	228.67	228.83	228.75

Growth in Revenue Per Case (Beer)								
WACC	#REF!	0.25%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%
	6.00%	293.43	293.47	293.52	293.57	293.62	293.67	293.72
	6.25%	271.69	271.74	271.78	271.83	271.88	271.92	271.97
	6.50%	252.15	252.19	252.23	252.28	252.32	252.36	252.41
	6.90%	224.67	224.71	224.75	224.79	224.83	224.87	224.91
	7.25%	203.80	203.83	203.87	203.90	203.94	203.98	204.01
	7.50%	190.39	190.42	190.46	190.49	190.52	190.56	190.59
	7.75%	178.07	178.10	178.13	178.16	178.20	178.23	178.26

## Effects of ESOP Exercise and Share Repurchases on Common Stock Balance Sheet Account and Number of Shares Outstanding

Number of Options Outstanding (shares):	7.4447
Average Time to Maturity (years):	4.50
Expected Annual Number of Options Exercised:	<u>1.6544</u>

Current Average Strike Price:	\$ 56.33
Cost of Equity:	9.00%
Current Stock Price:	\$185.00

	2020E	2021E	2022E	2023E	2024E	CV (2025E)
Increase in Shares Outstanding:	1.65	1.65	1.65	1.65	0.83	-
Average Strike Price:	56.33	56.33	56.33	56.33	56.33	-
<b>Increase in Common Stock Account:</b>	<b>93.19</b>	<b>93.19</b>	<b>93.19</b>	<b>93.19</b>	<b>46.60</b>	
Change in Treasury Stock	1,023	1,023	1,023	1,023	1,023	1,023
Expected Price of Repurchased Shares:	185.00	201.65	219.80	239.58	261.14	284.65
<b>Number of Shares Repurchased:</b>	<b>5.53</b>	<b>5.07</b>	<b>4.65</b>	<b>4.27</b>	<b>3.92</b>	<b>3.59</b>
Shares Outstanding (beginning of the year)	167.25	163.37	159.95	156.95	154.34	151.25
Plus: Shares Issued Through ESOP	1.65	1.65	1.65	1.65	0.83	-
Less: Shares Repurchased in Treasury	5.53	5.07	4.65	4.27	3.92	3.59
<b>Shares Outstanding (end of the year)</b>	<b>163.37</b>	<b>159.95</b>	<b>156.95</b>	<b>154.34</b>	<b>151.25</b>	<b>147.65</b>



## VALUATION OF OPTIONS GRANTED IN ESOP

Ticker Symbol	STZ
Current Stock Price	\$185.00
Risk Free Rate	2.15%
Current Dividend Yield	1.62%
Annualized St. Dev. of Stock Returns	25.68%

Range of Outstanding Options	Number of Shares	Average Exercise Price	Average Remaining Life (yrs)	B-S Option Price	Value of Options Granted
Range 1	7444701.00	\$ 56.33	4.50	\$ 121.08	\$ 901,422,812.71
Range 2					
Total	7444701.00	\$ 56.33	4.50	\$ 134.01	<b>\$ 901,422,812.71</b>