

## Brown-Forman Corporation

# Not so Happy Holidays; Reiterate Underperform

Reiterate Rating: UNDERPERFORM | PO: 56.00 USD | Price: 56.33 USD

## Weak 3Q depletions & organic sales weigh on BF/B shares

Yesterday, BF/B reported 3Q24 EPS of \$0.60 (includes \$90mm pre-tax gain/\$0.16 EPS related to Finlandia) which was below our forecast of \$0.61 and ahead of Visible Alpha Consensus of \$0.57. In comparison to our financial model, weaker than anticipated organic sales and gross margins were almost entirely offset by lower-than-expected effective tax rate. To our surprise and investors, 3Q organic sales declined -2.0% y/y (BofAe +5.4% y/y) with shipments down -14.9% and price/mix +12.9%. Volume depletions declined approximately -10.0% y/y (BofAe +1.0%). Weak holiday sales in the U.S., UK and France were a negative surprise. BF/B believes that weak global spirits demand is driven by consumers economizing in reaction to inflation, however there is no sign of trade down. In our view, the deceleration of volume depletions the past two quarters suggests limited earnings visibility entering FY25 given the industry backdrop.

## Sales and profit outlook reduced

BF/B lowered its FY24 financial outlook and now expects organic sales to be flat and organic operating income to grow between +0%-2.0%. The company's outlook assumes the global spirits category remains unchanged sequentially. This outlook implies Q4 organic sales up about +1% y/y and organic operating income in the range of \$273mm-\$298mm.

## 4Q24 modeling call outs

Key drivers behind our 4Q23 EPS of \$0.40 includes: 1) organic sales up +0.8% y/y with volumes down -12.2% and price/mix +13.0%. We expect depletions to be down -6.0% y/y. 2) 61.0% gross margins or up +30bps y/y and +160bps sequentially. 3) Operating expenses up +4.2% y/y.

## Lowering estimates & our PO to \$56

Given the EPS miss and lower organic sales growth in Q4, we lower our FY24/FY25/FY26 EPS from \$2.04/\$2.04/\$2.17 to \$1.98/\$1.94/\$2.06, respectively. We also lower our PO from \$60 to \$56, which is still based on 28.0x our CY25 EPS estimate. At 28.0x we value BF/B at about a 20% discount versus its 5-year average and believe that is appropriate given that global spirit consumption is beginning to show signs of normalization.

Estimates (Apr) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	1.82	1.90	1.98	1.94	2.06
EPS Change (YoY)	13.0%	4.4%	4.2%	-2.0%	6.2%
Consensus EPS (Bloomberg)			2.02	2.12	2.30
DPS	0.74	0.79	0.84	0.88	0.93
Valuation (Apr)					
P/E	33.4x	32.0x	30.7x	31.3x	29.5x
Dividend Yield	1.2%	1.3%	1.4%	1.5%	1.5%
EV / EBITDA*	23.6x	23.4x	22.5x	22.9x	21.9x
Free Cash Flow Yield*	2.7%	1.6%	4.1%	2.9%	3.0%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 7.

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Timestamp: 07 March 2024 05:00AM EST

07 March 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
Price Obj.	60.00	56.00
2024E Rev (m)	4,335.8	4,243.4
2025E Rev (m)	4,394.2	4,299.5
2026E Rev (m)	4,504.1	4,406.9
2024E EPS	2.04	1.98
2025E EPS	2.04	1.94
2026E EPS	2.17	2.06

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### Stock Data

Price	56.33 USD
Price Objective	56.00 USD
Date Established	7-Mar-2024
Investment Opinion	B-3-7
52-Week Range	52.59 USD - 71.27 USD
Mrkt Val (mn) / Shares Out (mn)	27,241 USD / 483.6
Free Float	98.2%
Average Daily Value (mn)	88.37 USD
BofA Ticker / Exchange	BFB / NYS
Bloomberg / Reuters	BF/B US / BFB.N
ROE (2024E)	28.1%
Net Dbt to Eqty (Apr-2023A)	77.7%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

# iQprofile<sup>SM</sup> Brown-Forman Corporation

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	16.5%	15.6%	14.3%	13.5%	14.1%
Return on Equity	32.4%	30.5%	28.1%	26.5%	28.2%
Operating Margin	31.9%	29.9%	31.1%	29.9%	30.4%
Free Cash Flow	798	457	1,193	866	875

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.1x	0.7x	1.5x	1.1x	1.1x
Asset Replacement Ratio	1.7x	2.3x	2.9x	1.6x	1.4x
Tax Rate	25.0%	22.6%	21.0%	21.0%	21.0%
Net Debt-to-Equity Ratio	51.2%	77.7%	55.6%	58.7%	60.7%
Interest Cover	16.3x	15.6x	11.4x	10.7x	11.2x

## Income Statement Data (Apr)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	3,933	4,228	4,243	4,299	4,407
% Change	13.6%	7.5%	0.4%	1.3%	2.5%
Gross Profit	2,391	2,494	2,585	2,638	2,724
% Change	14.2%	4.3%	3.6%	2.1%	3.3%
EBITDA	1,335	1,345	1,399	1,376	1,437
% Change	19.6%	0.7%	4.0%	-1.6%	4.4%
Net Interest & Other Income	(90)	(83)	(119)	(132)	(132)
<b>Net Income (Adjusted)</b>	<b>874</b>	<b>915</b>	<b>948</b>	<b>912</b>	<b>954</b>
<b>% Change</b>	<b>13.1%</b>	<b>4.7%</b>	<b>3.6%</b>	<b>-3.7%</b>	<b>4.6%</b>

## Free Cash Flow Data (Apr)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	874	915	948	912	954
Depreciation & Amortization	79	80	81	89	97
Change in Working Capital	(77)	(352)	406	(18)	(59)
Deferred Taxation Charge	(11)	(3)	(15)	0	0
Other Adjustments, Net	71	0	9	22	22
Capital Expenditure	(138)	(183)	(235)	(140)	(140)
<b>Free Cash Flow</b>	<b>798</b>	<b>457</b>	<b>1,193</b>	<b>866</b>	<b>875</b>
<b>% Change</b>	<b>5.7%</b>	<b>-42.7%</b>	<b>161.1%</b>	<b>-27.4%</b>	<b>1.0%</b>
Share / Issue Repurchase	0	0	(400)	(500)	(500)
Cost of Dividends Paid	(831)	(378)	(402)	(418)	(433)
Change in Debt	(196)	632	492	0	0

## Balance Sheet Data (Apr)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	868	374	1,466	1,414	1,356
Trade Receivables	813	855	663	671	688
Other Current Assets	2,095	2,572	2,418	2,264	2,298
Property, Plant & Equipment	875	1,031	1,014	1,014	1,014
Other Non-Current Assets	1,722	2,945	2,808	2,808	2,808
<b>Total Assets</b>	<b>6,373</b>	<b>7,777</b>	<b>8,368</b>	<b>8,171</b>	<b>8,164</b>
Short-Term Debt	250	235	728	728	728
Other Current Liabilities	784	849	773	671	680
Long-Term Debt	2,019	2,678	2,678	2,678	2,678
Other Non-Current Liabilities	583	747	702	702	702
<b>Total Liabilities</b>	<b>3,636</b>	<b>4,509</b>	<b>4,881</b>	<b>4,779</b>	<b>4,788</b>
<b>Total Equity</b>	<b>2,737</b>	<b>3,268</b>	<b>3,487</b>	<b>3,392</b>	<b>3,376</b>
<b>Total Equity &amp; Liabilities</b>	<b>6,373</b>	<b>7,777</b>	<b>8,368</b>	<b>8,171</b>	<b>8,164</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 7.

## Company Sector

Spirits, Wines & Ciders

## Company Description

Brown-Forman Corporation manufactures, bottles, imports, exports, and markets a wide variety of alcoholic beverage brands. The Company's products include branded whiskey, vodka, wines, tequila, bourbon, and gin.

## Investment Rationale

Our Underperform rating reflects our view that shares of BFB could underperform peers given tariff issues, its business is susceptible to inflation (agave, wood, transportation) and our view certain markets will encounter a slower than expected recovery. Further, travel retail remains a headwind to sales and profitability over the near term.

## Stock Data

Average Daily Volume 1,568,809

## Quarterly Earnings Estimates

	2023	2024
Q1	0.52A	0.48A
Q2	0.47A	0.50A
Q3	0.48A	0.60A
Q4	0.43A	0.40E

## Variance

### Exhibit 1: 3Q24 BF/B Variance

3Q24 EPS of \$0.60 was \$0.01 below our forecast of \$0.61

	Actual results	Our estimates	Last year			
	1/31/2024 3Q24A	1/31/2024 3Q24E	4/30/2022 3Q23A			
<b>Sales breakdown</b>						
Est volume	-14.9%	-2.6%	3.0%			
Est price/mix	12.9%	8.0%	2.0%			
<b>Organic sales growth</b>	<b>-2.0%</b>	<b>5.4%</b>	<b>5.0%</b>			
Foreign currency	-1.0%	0.0%	-1.0%			
Acquisitions/divestitures	1.0%	-2.3%	1.0%			
<b>Net sales growth</b>	<b>-1.1%</b>	<b>3.1%</b>	<b>4.2%</b>			
<b>Supplemental info.</b>						
Estimated net change in distributor inventories	-5.0%	0.0%	-4.0%			
Total shipments	12.0	13.7	14.1			
Total depletions	12.6	14.1	14.0			
Variance between shipments & depletions	-0.6	-0.4	0.1			
Year over year change in depletions	-10.0%	1.0%	3.0%			
<b>Consolidated income statement</b>	<b>3Q24A</b>	<b>3Q24E</b>	<b>3Q23A</b>	<b>Variance</b>	<b>EPS impact</b>	<b>% chg</b>
<b>Adjusted net sales</b>	<b>\$1,069.0</b>	<b>\$1,114.4</b>	<b>\$1,081.0</b>	<b>(45.4)</b>	<b>(0.08)</b>	<b>-1.1%</b>
Cost of goods sold	(434.0)	(434.6)	(457.0)	0.6	0.00	-5.0%
Gross profit	635.0	679.8	624.0	(44.8)	(0.08)	1.8%
Advertising expenses	(143.0)	(148.1)	(141.0)	5.1	0.01	1.4%
SG&A expense	(203.0)	(197.3)	(186.0)	(5.7)	(0.01)	9.1%
Amortization expense	-	-	-	-	-	-
Other (exp) inc, net	84.0	72.0	14.0	12.0	0.02	500.0%
<b>Operating income</b>	<b>373.0</b>	<b>406.3</b>	<b>311.0</b>	<b>(33.3)</b>	<b>(0.06)</b>	<b>19.9%</b>
Post retirement expenses	(1.0)	(1.0)	-	-	-	#DIV/0!
Interest expense, net	(30.0)	(29.0)	(22.0)	(1.0)	(0.00)	36.4%
Pretax income	342.0	376.3	289.0	(34.3)	(0.06)	18.3%
Income taxes	(57.0)	(82.8)	(57.0)	25.8	0.05	0.0%
<b>Underlying net income</b>	<b>285.0</b>	<b>293.5</b>	<b>232.0</b>	<b>(8.5)</b>	<b>(0.02)</b>	<b>22.8%</b>
Gain/(charge)	-	-	(132.0)	-	-	-
GAAP net income	285.0	293.5	100.0	(8.5)	(0.02)	185.0%
<b>Diluted EPS</b>	<b>\$0.60</b>	<b>\$0.61</b>	<b>\$0.48</b>	<b>(0.01)</b>		<b>24.1%</b>
Diluted shares out	475.6	479.8	480.5	(4.2)	(0.01)	-1.0%
% chg	-1.0%	-0.1%	0.0%			
Cost of goods	40.6%	39.0%	42.3%			
COGS mgn chg	-170 bp	-330 bp	230 bp			
<b>Advertising</b>	<b>13.4%</b>	<b>13.3%</b>	<b>13.0%</b>			
Adv mgn chg	30 bp	30 bp	180 bp			
<b>SG&amp;A</b>	<b>19.0%</b>	<b>17.7%</b>	<b>17.2%</b>			
SG&A mgn chg	180 bp	50 bp	160 bp			
<b>Gross profit mgn</b>	<b>59.4%</b>	<b>61.0%</b>	<b>57.7%</b>			
Gross mgn chg	170 bp	330 bp	-230 bp			
<b>Operating margin</b>	<b>34.9%</b>	<b>36.5%</b>	<b>28.8%</b>			
Op mgn chg	610 bp	770 bp	-470 bp			
Pretax margin	32.0%	33.8%	26.7%			
Net margin	26.7%	26.3%	21.5%			
<b>Tax rate</b>	<b>16.7%</b>	<b>22.0%</b>	<b>19.7%</b>			
Tax rate change	-310 bp	230 bp	-130 bp			

Source: BofA Global Research estimates, Company reports

BofA GLOBAL RESEARCH



## Income statement

### Exhibit 2: BF/B Income Statement

BofA forecasting FY24 EPSe of \$1.98

	4/30/22	4/30/23	7/31/23	10/31/23	1/31/24	4/30/24	4/30/24	4/30/25	4/30/26
	FY2022	FY2023	1Q24	2Q24	3Q24E	4Q24E	FY2024E	FY2025E	FY2026E
<b>Sales mix</b>									
Est volume	9.0%	8.0%	-4.0%	-9.1%	-14.9%	-12.2%	-10.0%	1.0%	1.0%
Est price/mix	8.0%	2.0%	6.0%	8.1%	12.9%	13.0%	10.0%	1.5%	1.5%
<b>Local FX, organic sales growth</b>	<b>17.0%</b>	<b>10.0%</b>	<b>2.0%</b>	<b>-1.0%</b>	<b>-2.0%</b>	<b>0.8%</b>	<b>0.0%</b>	<b>2.5%</b>	<b>2.5%</b>
Foreign currency	-2.0%	-3.0%	-1.0%	1.0%	-1.0%	-	-0.3%	0.0%	0.0%
Acquisitions/divestitures	-2.0%	0.0%	2.0%	1.0%	1.0%	-2.4%	0.4%	-1.2%	0.0%
<b>Reported net sales growth</b>	<b>13.6%</b>	<b>7.5%</b>	<b>3.1%</b>	<b>1.2%</b>	<b>-1.1%</b>	<b>-1.6%</b>	<b>0.4%</b>	<b>1.3%</b>	<b>2.5%</b>
<b>Estimated net change in distributor inventories</b>									
YTD impact	4.0%	0.0%	-6.0%	-5.0%	-5.0%	-3.8%	-3.8%	0.0%	0.0%
BofA quarterly estimate using YTD figure	4.0%	0.0%	-6.0%	-4.0%	-5.0%	0.0%	-3.8%	0.0%	0.0%
<b>Shipments</b>									
Total portfolio (year over year change)	51.1	55.1	13.2	13.0	12.0	11.4	49.6	50.1	50.6
<b>Estimated change in depletions</b>									
Total portfolio (year over year change)	7.0%	8.7%	1.0%	-4.6%	-10.0%	-6.0%	-4.9%	1.0%	1.0%
Depletions (millions in 9-Liter)	47.1	51.2	12.6	12.4	12.6	11.1	48.7	49.2	49.7
Variance between shipments & depletions	4.0	3.9	0.6	0.6	-0.6	0.3	0.9	0.9	0.9
Two year stack		15.7%	14.0%	6.4%	-7.0%	1.0%	3.8%	-3.9%	2.0%
<b>Consolidated income statement</b>									
<b>Adjusted net sales</b>	<b>\$3,933.0</b>	<b>\$4,228.0</b>	<b>\$1,038.0</b>	<b>\$1,107.0</b>	<b>\$1,069.0</b>	<b>\$1,029.4</b>	<b>\$4,243.4</b>	<b>\$4,299.5</b>	<b>\$4,406.9</b>
Cost of goods sold	(1,542.0)	(1,734.0)	(387.0)	(436.0)	(434.0)	(401.5)	(1,658.5)	(1,661.4)	(1,683.1)
<b>Gross profit</b>	<b>\$2,391.0</b>	<b>\$2,494.0</b>	<b>\$651.0</b>	<b>\$671.0</b>	<b>\$635.0</b>	<b>\$627.9</b>	<b>\$2,584.9</b>	<b>\$2,638.1</b>	<b>\$2,723.8</b>
Advertising expenses	(438.0)	(506.0)	(131.0)	(140.0)	(143.0)	(141.5)	(555.5)	(563.1)	(577.2)
SG&A expense	(690.0)	(742.0)	(200.0)	(192.0)	(203.0)	(207.5)	(802.5)	(812.1)	(831.1)
Amortization expense	-	-	-	-	-	-	-	-	-
Other (exp) inc, net	(7.0)	19.0	7.0	-	84.0	-	91.0	24.0	24.0
<b>Operating income</b>	<b>\$1,256.0</b>	<b>\$1,265.0</b>	<b>\$327.0</b>	<b>\$339.0</b>	<b>\$373.0</b>	<b>\$278.9</b>	<b>\$1,317.9</b>	<b>\$1,286.8</b>	<b>\$1,339.6</b>
Postretirement expense	(13.0)	(2.0)	(1.0)	-	(1.0)	(1.0)	(3.0)	(12.0)	(12.0)
Interest expense, net	(77.0)	(81.0)	(27.0)	(29.0)	(30.0)	(30.0)	(116.0)	(120.0)	(120.0)
<b>Pretax income</b>	<b>\$1,166.0</b>	<b>\$1,182.0</b>	<b>\$299.0</b>	<b>\$310.0</b>	<b>\$342.0</b>	<b>\$247.9</b>	<b>\$1,198.9</b>	<b>\$1,154.8</b>	<b>\$1,207.6</b>
Income taxes	(291.7)	(267.0)	(68.0)	(68.0)	(57.0)	(58.3)	(251.3)	(242.5)	(253.6)
<b>Underlying net income</b>	<b>\$874.3</b>	<b>\$915.0</b>	<b>\$231.0</b>	<b>\$242.0</b>	<b>\$285.0</b>	<b>\$189.6</b>	<b>\$947.6</b>	<b>\$912.3</b>	<b>\$954.0</b>
Gain/(charge)	(36.3)	(132.0)	-	-	-	-	-	-	-
<b>GAAP net income</b>	<b>\$838.0</b>	<b>\$783.0</b>	<b>\$231.0</b>	<b>\$242.0</b>	<b>\$285.0</b>	<b>\$189.6</b>	<b>\$947.6</b>	<b>\$912.3</b>	<b>\$954.0</b>
Diluted shares out	480.6	480.5	480.4	480.1	475.6	473.8	477.8	470.2	463.1
% chg	0.0%	0.0%	0.0%	-0.1%	-1.0%	-1.4%	-0.6%	-1.6%	-1.5%
<b>Underlying EPS</b>	<b>\$1.82</b>	<b>\$1.90</b>	<b>\$0.48</b>	<b>\$0.50</b>	<b>\$0.60</b>	<b>\$0.40</b>	<b>\$1.98</b>	<b>\$1.94</b>	<b>\$2.06</b>
% chg	13.1%	4.7%	-7.2%	6.7%	24.1%	-7.1%	4.1%	-2.2%	6.2%
<b>Consensus EPS</b>	<b>\$1.70</b>								
% chg	-2.0%	-100.0%	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
<b>GAAP EPS</b>	<b>\$1.74</b>	<b>\$1.63</b>	<b>\$0.48</b>	<b>\$0.50</b>	<b>\$0.60</b>	<b>\$0.40</b>	<b>\$1.98</b>	<b>\$1.94</b>	<b>\$2.06</b>
<b>FX impact on EPS</b>									
FX neutral EPS									
% chg									
Cost of goods	39.2%	41.0%	37.3%	39.4%	40.6%	39.0%	39.1%	38.6%	38.2%
COGS mgn chg	-30 bp	180 bp	-90 bp	-460 bp	-170 bp	-30 bp	-190 bp	-40 bp	-50 bp
Advertising	11.1%	12.0%	12.6%	12.6%	13.4%	13.8%	13.1%	13.1%	13.1%
Adv mgn chg	-40 bp	80 bp	170 bp	160 bp	30 bp	90 bp	110 bp	bp	bp
SG&A	17.5%	17.5%	19.3%	17.3%	19.0%	20.2%	18.9%	18.9%	18.9%
SG&A mgn chg	-180 bp	bp	190 bp	90 bp	180 bp	90 bp	140 bp	bp	bp
<b>Gross profit mgn</b>	<b>60.8%</b>	<b>59.0%</b>	<b>62.7%</b>	<b>60.6%</b>	<b>59.4%</b>	<b>61.0%</b>	<b>60.9%</b>	<b>61.4%</b>	<b>61.8%</b>
Gross mgn chg	30 bp	-180 bp	90 bp	460 bp	170 bp	30 bp	190 bp	40 bp	50 bp
<b>Operating margin</b>	<b>31.9%</b>	<b>29.9%</b>	<b>31.5%</b>	<b>30.6%</b>	<b>34.9%</b>	<b>27.1%</b>	<b>31.1%</b>	<b>29.9%</b>	<b>30.4%</b>
Op mgn chg	190 bp	-200 bp	-260 bp	200 bp	610 bp	-140 bp	110 bp	-110 bp	50 bp
Pretax margin	29.6%	28.0%	28.8%	28.0%	32.0%	24.1%	28.3%	26.9%	27.4%

**Exhibit 2: BF/B Income Statement**  
BofA forecasting FY24 EPSe of \$1.98

	4/30/22	4/30/23	7/31/23	10/31/23	1/31/24	4/30/24	4/30/24	4/30/25	4/30/26
Net margin	22.2%	21.6%	22.3%	21.9%	26.7%	18.4%	22.3%	21.2%	21.6%
<b>Tax rate</b>	<b>25.0%</b>	<b>22.6%</b>	<b>22.7%</b>	<b>21.9%</b>	<b>16.7%</b>	<b>23.5%</b>	<b>21.0%</b>	<b>21.0%</b>	<b>21.0%</b>
<i>Tax rate change</i>	610 bp	-240 bp	-90 bp	-190 bp	-310 bp	50 bp	-160 bp	bp	bp

Source: BofA Global Research estimates, Company reports

BofA GLOBAL RESEARCH



## Price objective basis & risk

### Brown-Forman Corporation (BFB)

Our \$56 price objective is based on 28.0x our CY25 EPS estimate. At 28.0x we value BF/B at about a 20% discount versus its 5-year average and believe that is appropriate given that global spirit consumption is beginning to show signs of normalization.

Upside risks to our PO: 1) Jack Daniel's Apple contributes more than the expected 100bps to FY20 sales growth and becomes larger than other Jack Daniel flavors (Honey, Fire, etc.). 2) Removal of tariffs. 3) Consumer demand in emerging markets and travel retail return. 4) Increased possibility of M&A activity in spirits. 4) Valuation gap between BFB and other alcoholic beverage manufacturers closes more than anticipated.

Downside risks to our PO: 1) Jack Daniel's Apple does not resonate with consumers. 2) Consumers shift their preference from spirits to hard seltzers, wine and other types of substitutes. 3) Government regulation/taxes/tariffs. 4) Potentially rising costs of production.

## Analyst Certification

I, Bryan D. Spillane, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Consumables Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	BellRing Brands Inc	BRBR	BRBR US	Bryan D. Spillane
	Coca-Cola Europacific Partners plc	CCEP	CCEP US	Bryan D. Spillane
	Colgate-Palmolive Company	CL	CL US	Bryan D. Spillane
	Constellation Brands	STZ	STZ US	Bryan D. Spillane
	Coty Inc.	COTY	COTY US	Anna Lizzul
	e.l.f. Beauty	ELF	ELF US	Anna Lizzul
	Freshpet, Inc.	FRPT	FRPT US	Bryan D. Spillane
	Kenvue Inc.	KVUE	KVUE US	Anna Lizzul
	Keurig Dr Pepper	KDP	KDP US	Bryan D. Spillane
	Kraft Heinz Company	KHC	KHC US	Bryan D. Spillane
	Lamb Weston Holdings Inc	LW	LW US	Peter T. Galbo, CFA
	McCormick & Co.	MKC	MKC US	Peter T. Galbo, CFA
	Mondelez International	MDLZ	MDLZ US	Bryan D. Spillane
	Monster Beverage Corporation	MNST	MNST US	Peter T. Galbo, CFA
	PepsiCo	PEP	PEP US	Bryan D. Spillane
	Philip Morris International	PM	PM US	Lisa K. Lewandowski
	Pilgrim's Pride Corp.	PPC	PPC US	Peter T. Galbo, CFA
	The Coca Cola Company	KO	KO US	Bryan D. Spillane
	The Procter & Gamble Company	PG	PG US	Bryan D. Spillane
<b>NEUTRAL</b>				
	Altria Group	MO	MO US	Lisa K. Lewandowski
	Celsius Holdings Inc	CELH	CELH US	Jonathan Keypour
	Church & Dwight	CHD	CHD US	Anna Lizzul
	Clorox	CLX	CLX US	Anna Lizzul
	Conagra Brands, Inc.	CAG	CAG US	Peter T. Galbo, CFA
	Estee Lauder Companies Inc.	EL	EL US	Bryan D. Spillane
	General Mills	GIS	GIS US	Bryan D. Spillane
	JM Smucker Company	SJM	SJM US	Peter T. Galbo, CFA
	Kellanova	K	K US	Peter T. Galbo, CFA
	Molson Coors Beverage Company	TAP	TAP US	Bryan D. Spillane
	The Hershey Company	HSY	HSY US	Bryan D. Spillane
	The Vita Coco Company, Inc.	COCO	COCO US	Bryan D. Spillane

## US - Consumables Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Tyson Foods, Inc.	TSN	TSN US	Peter T. Galbo, CFA
	Utz Brands	UTZ	UTZ US	Peter T. Galbo, CFA
	WK Kellogg Co	KLG	KLG US	Peter T. Galbo, CFA

## UNDERPERFORM

	Brown-Forman Corporation	BFB	BF/B US	Bryan D. Spillane
	Campbell Soup Company	CPB	CPB US	Peter T. Galbo, CFA
	Canopy Growth	YWEED	WEED CN	Lisa K. Lewandowski
	Canopy Growth	CGC	CGC US	Lisa K. Lewandowski
	Cronos Group	YCRON	CRON CN	Lisa K. Lewandowski
	Cronos Group	CRON	CRON US	Lisa K. Lewandowski
	Dole plc	DOLE	DOLE US	Bryan D. Spillane
	Herbalife Ltd	HLF	HLF US	Anna Lizzul
	Hormel Foods Corp.	HRL	HRL US	Peter T. Galbo, CFA
	Kimberly-Clark	KMB	KMB US	Anna Lizzul
	The Duckhorn Portfolio, Inc.	NAPA	NAPA US	Peter T. Galbo, CFA

iQmethod<sup>SM</sup> Measures Definitions

## Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

## Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

## Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

## Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

## Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

## Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

## Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

## Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

## Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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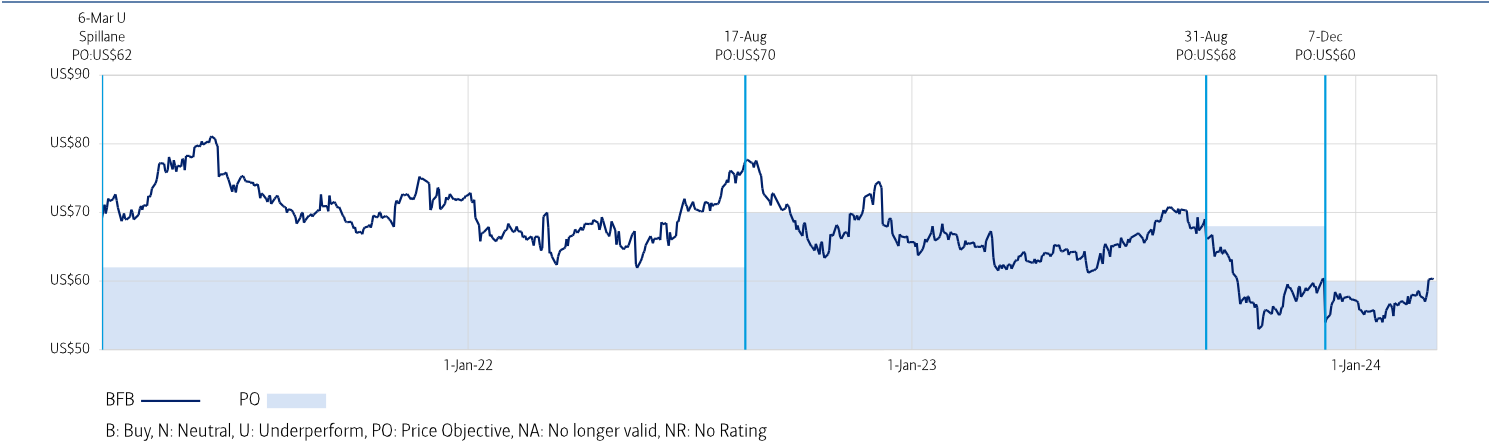
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### Equity Investment Rating Distribution: Beverages - Alcoholic Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	22	61.11%	Buy	15	68.18%
Hold	6	16.67%	Hold	4	66.67%
Sell	8	22.22%	Sell	2	25.00%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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