

Constellation Brands

3Q – Beer Beat, Wine and Spirits missed
guidance unchanged

Maintain Rating: BUY | PO: 290.00 USD | Price: 242.33 USD

FY3Q24 adj EPS (X Canopy) of \$3.24 vs. BofAe \$3.07

STZ reported FY3Q24 adj. EPS of \$3.24 (excluding Canopy losses, \$3.19 including Canopy losses) beating our estimate and Visible Alpha Consensus of \$3.07. EPS upside versus our model was driven by better-than-expected beer gross and operating margins and lower than forecasted interest expense. STZ maintained its FY24 EPS outlook (excluding Canopy losses) as lower W&S outlook (worth \$0.19) was offset by higher beer operating income outlook (worth \$0.13), lower interest expense forecast (worth \$0.04) and less corporate expense (worth \$0.02). **Key takeaways** from this morning's release: 1) Beer depletions of +8.2% y/y surpassed our +6.0% estimate. 2) Beer gross margins of 52.8% beat our 51.4% estimate despite less fixed cost leverage and brewery shutting down for maintenance. We believe gross margins could have been higher if STZ was not well hedged against commodities (about 82% hedged against commodities like aluminum, corn, diesel fuel and natural gas). 3) Last night in a separate release STZ announced that Robert Hanson, President of the W&S division, will step down at the end of this fiscal year. Current CEO Bill Newlands will serve as interim leader of the W&S division and maintain his existing responsibilities as CEO.

Modeling takeaways

Key takeaways in terms of our model include **Beer** 1) Depletions of +8.2% y/y were ahead of our +6.0%. Growth was driven by Modelo Especial (about +12% y/y), Pacifico (+19% y/y) and Modelo Chelada (+22% y/y). 2) Beer shipment volumes increased +3.4%, well below depletions as breweries shut down for maintenance and seasonality. 3) Beer sales increased +4.0% y/y which was in line with our forecast of +4.0% growth. 4) Beer operating income of \$757.3mm surpassed our estimate of \$732.1mm due to better-than-expected gross margins (52.8% versus 51.4%). SG&A of 281.8mm was in line with our forecast of \$279.5mm. **Wine & Spirits (W&S)** 5) W&S segmented generated \$502.4mm of sales which was below our forecast of \$566.4mm. 6) Operating income of \$127.6mm also came in below our forecast (BofAe \$149.5mm).

FY24 EPS outlook unchanged

STZ maintained its adj. EPS outlook (excluding Canopy losses) of \$12.00-\$12.20 which now assumes: 1) beer operating income growth of +7% to +8% (prior +6% to +7%), 2) W&S organic sales down -7% to -9% (prior -1% to -2%) and operating income down -6% to -8% (prior up +3%), 3) interest expense \$450mm (prior \$460mm) and 4) corporate expense of \$260mm to \$270mm (prior \$270mm)

Maintain Buy & \$290 PO

We maintain our Buy rating & \$290 PO which is based on 19.8x CY25 EPS_e (X Canopy). Shares of STZ are trading 16.2x our CY25 EPS_e (X Canopy) which in our view is unjustified given our outlook for strong sales and earnings growth and expectation for more consistent capital allocation going forward.

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Refer to important disclosures on page 4 to 6. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.

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Stock Data

Price	242.33 USD
Price Objective	290.00 USD
Date Established	19-Jul-2023
Investment Opinion	B-1-7
52-Week Range	208.12 USD - 273.65 USD
Mrkt Val (mn) / Shares Out (mn)	47,383 USD / 195.5
Free Float	87.5%
Average Daily Value (mn)	258.77 USD
BofA Ticker / Exchange	STZ / NYS
Bloomberg / Reuters	STZ US / STZ.N
ROE (2024E)	22.6%
Net Dbt to Eqty (Feb-2023A)	139.6%
ESGMeter™	Medium

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3Q24 Variance

Exhibit 1: 3Q24 STZ Variance

3Q24 EPS (X Canopy) of \$3.24 beat our estimate of \$3.07

Consolidated income statement	Actual 3Q24	BofA Global Research 2Q24E	A vs. E	Per share	Actual 2Q23	Year over Year chg
Consolidated net sales	\$2,470.9	\$2,534.5	-\$63.6	-\$0.28	\$2,436.5	1.4%
Cost of goods sold	\$1,188.1	\$1,256.7	-\$68.6	-\$0.30	\$1,184.4	0.3%
Non GAAP gross profit	\$1,282.8	\$1,277.8	\$5.0	\$0.02	\$1,252.1	2.5%
Selling, general & admin costs	\$463.0	\$478.1	-\$15.1	-\$0.07	\$482.4	-4.0%
Non GAAP operating income	\$819.8	\$799.7	\$20.1	\$0.09	\$769.7	6.5%
Inc (loss) from Canopy Growth inv	-\$6.5	-\$19.5	\$13.0	\$0.06	-\$36.7	-82.3%
Inc (loss) from unconsolidated investments (Includes income from Opus)	\$25.7	\$35.0	-\$9.3	-\$0.04	\$31.0	-17.1%
EBIT	\$839.0	\$815.2	\$23.8	\$0.11	\$764.0	9.8%
Interest expense	\$104.2	\$115.6	-\$11.4	-\$0.05	\$98.7	5.6%
Pretax income	\$734.8	\$699.6	\$35.2	\$0.16	\$665.3	10.4%
Income tax expense	\$134.6	\$130.8	\$3.8	\$0.02	\$128.6	4.7%
Net income	\$600.2	\$568.8	\$31.4	\$0.14	\$536.7	11.8%
Less income attrib to CBL Glass Joint Venture (income)	\$11.8	\$18.5	-\$6.7	-\$0.03	\$12.0	-1.7%
Non GAAP STZ net income	\$588.4	\$550.3	\$38.1	\$0.17	\$524.7	12.1%
Adjusted EPS (including Canopy)	\$3.19	\$2.99	\$0.21	n/a	\$2.83	12.8%
Adjusted EPS (excluding Canopy)	\$3.24	\$3.07	\$0.17		\$3.01	7.7%
Weighted avg diluted shares	184.2	184.3	(0.11)	n/a	185.3	-0.6%
Gross margin	51.9%	50.4%	150 bps	n/a	51.4%	53 bps
SG&A	18.7%	18.9%	-13 bps	n/a	19.8%	-106 bps
Operating margin	33.2%	31.6%	163 bps	n/a	31.6%	159 bps
EBIT	34.0%	32.2%	179 bps	n/a	31.4%	260 bps
Interest expense	4.2%	4.6%	-34 bps	n/a	4.1%	17 bps
Tax rate	18.3%	18.7%	-38 bps	n/a	19.3%	-101 bps

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

Constellation Brands (STZ)

Our \$290 price objective is based on 19.8x our CY25e EPS that excludes Canopy. At 19.8x we value shares of STZ at the upper end of its valuation range over the past five years given our outlook for strong sales and earnings growth and expectation for more consistent capital allocation going forward.

Upside risks to our PO: 1) Modelo's beer brands continue to grow above current trends. 2) Corona's new products resonate with consumers and drives sales growth. 3) Investment behind certain wine & spirit brands accelerates sales growth and operating margins.

Downside risks to our PO: 1) Hard seltzers cannibalize growth from STZ's beer portfolio. 2) STZ's investment in Canopy takes longer than anticipated to be accretive to EPS than we forecast. 3) Remaining wine & spirits business does not achieve investors' expectations.

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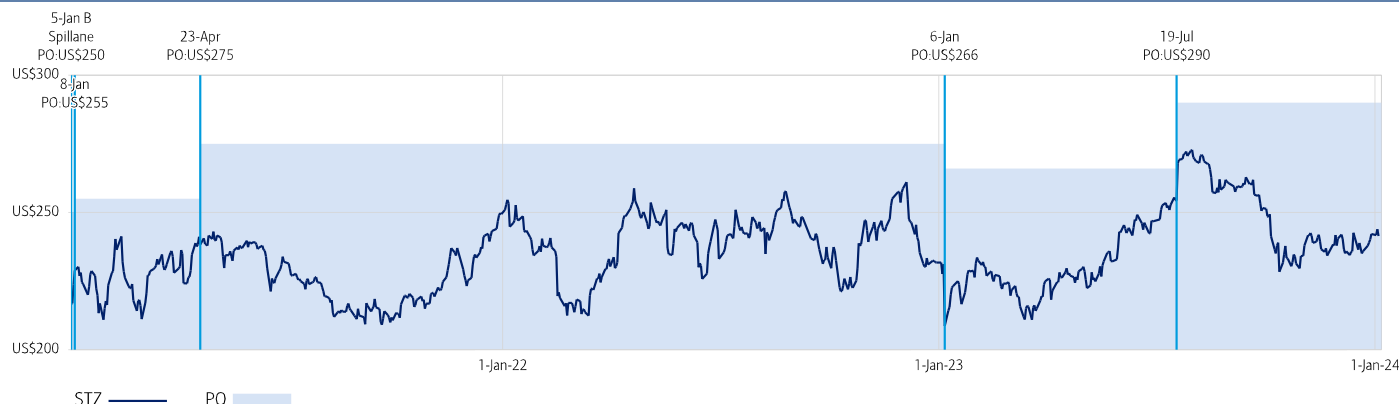
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Constellation (STZ) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	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)

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Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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