

The Duckhorn Portfolio, Inc.

Wine-ding down; move to Underperform as industry slowing continues

Rating Change: UNDERPERFORM | PO: 8.00 USD | Price: 9.10 USD

Premium Wine slows further, move to Underperform

Following our [December 2023 downgrade to Neutral](#) we downgrade Duckhorn (NAPA) shares to Underperform to reflect further softening of the premium wine segment. We lower our sales estimates in 2024-2026 by 0.5%, 2.3%, & 3.9% respectively and our target multiple to 7.5x CY25 EV/EBITDA (prior ~12x). This results in a new Price Objective of \$8 (\$11 prior). Premium Wine (\$15+/bottle) fundamentals slowed further in December, with a slight rebound in January (we believe weather + timing benefited). In a separate note, we highlight that [Constellation Brands \(STZ\) also called for a slowdown in the premium end of the wine market in early January](#). Further, our analysis (Exhibit 8) shows that NAPA will face increasingly difficult compares in its 2H24 (particularly in Decoy & Duckhorn). Until such time that a sales re-acceleration occurs, we believe shares are likely to be relative underperformers.

Putting public wine co valuations in context

Historically, public Wine entities have traded at low multiples given variability in crop and poor returns on capital. Former public wine companies (VinCorp, Golden State Vitners and Robert Mondavi) traded 5-7x EV/EBITDA in the early 2000's. We believe NAPA should trade at a premium versus those comps given its asset light nature (only ~10% of acreage owned) but recognizing slowing topline. Recent transaction multiples for higher growth brands (including NAPA's acquisition of Sonoma Cutrer) & TWE's acquisition of Daou Vineyards were closer to 13x.

Sonoma-Cutrer deal & BF/B stake cloudy NAPA exit path

As we noted in December, the [pending Sonoma-Cutrer acquisition](#) and related equity stake to go to BF/B makes the exit path for NAPA less clear. Prior to the announcement we believe NAPA was viewed by the investment community and potential strategics as a possible acquisition target. This appears less likely in an ownership structure where BF/B will own 21.5% of shares and does not have interest in long-term ownership of wine.

Upside Risks: Innovation launch, Consumer holding up

1) NAPA's launch of a low-alc Decoy Featherweight Sauvignon Blanc, shipping in FY24 which could boost sales in the short run. 2) If the US consumer holds up/strengthens this could benefit DTC business for higher end wines that are margin accretive.

Estimates (Jul) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.62	0.67	0.65	0.68	0.71
GAAP EPS	0.52	0.61	0.64	0.68	0.71
EPS Change (YoY)	6.9%	8.1%	-3.0%	4.6%	4.4%
Consensus EPS (Bloomberg)			0.67	0.73	0.81
DPS	0	0	0	0	0
Valuation (Jul)					
P/E	14.7x	13.6x	14.0x	13.4x	12.8x
GAAP P/E	17.5x	14.9x	14.2x	13.4x	12.8x
EV / EBITDA*	10.0x	8.8x	8.6x	8.3x	8.1x
Free Cash Flow Yield*	2.3%	-0.3%	4.8%	6.1%	6.0%

* For full definitions of *IQmethod*SM measures, see page 12.

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12658638

Timestamp: 13 February 2024 06:00AM EST

13 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Inv. Opinion	B-2-9	B-3-9
Inv. Rating	NEUTRAL	UNDERPERFORM
Price Obj.	11.00	8.00
2024E Rev (m)	415.6	413.6
2025E Rev (m)	432.2	422.2
2026E Rev (m)	449.5	432.0
2024E EPS	0.66	0.65
2025E EPS	0.70	0.68
2026E EPS	0.74	0.71

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Stock Data

Price	9.10 USD
Price Objective	8.00 USD
Date Established	12-Feb-2024
Investment Opinion	B-3-9
52-Week Range	8.34 USD - 16.63 USD
Mrkt Val (mn) / Shares Out (mn)	1,049 USD / 115.3
Free Float	42.7%
Average Daily Value (mn)	8.53 USD
BofA Ticker / Exchange	NAPA / NYS
Bloomberg / Reuters	NAPA US / NAPA.N
ROE (2024E)	7.7%
Net Dbt to Eqty (Jul-2023A)	24.0%
ESGMeter TM	Medium

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".

See page 10 for abbreviations

iQprofileSM The Duckhorn Portfolio, Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	6.4%	6.8%	6.5%	6.4%	6.3%
Return on Equity	8.5%	8.5%	7.7%	7.4%	7.2%
Operating Margin	27.7%	28.7%	28.2%	28.4%	28.8%
Free Cash Flow	24	(3)	50	64	63

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.0x	0.9x	1.2x	1.3x	1.3x
Asset Replacement Ratio	1.9x	2.6x	1.3x	1.3x	1.4x
Tax Rate	26.8%	26.4%	26.1%	25.5%	25.5%
Net Debt-to-Equity Ratio	25.8%	24.0%	17.4%	10.4%	4.3%
Interest Cover	15.2x	9.9x	7.6x	7.6x	7.9x

Income Statement Data (Jul)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	373	403	414	422	432
% Change	10.7%	8.2%	2.6%	2.1%	2.3%
Gross Profit	190	216	221	226	232
% Change	12.4%	13.5%	2.3%	2.3%	2.7%
EBITDA	128	144	147	153	158
% Change	13.4%	13.3%	1.8%	3.9%	3.1%
Net Interest & Other Income	(6)	(11)	(15)	(15)	(15)
Net Income (Adjusted)	71	77	75	78	82
% Change	15.0%	8.6%	-2.5%	3.9%	4.5%

Free Cash Flow Data (Jul)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	71	77	75	78	82
Depreciation & Amortization	23	28	30	32	32
Change in Working Capital	(24)	(34)	(14)	(6)	(7)
Deferred Taxation Charge	4	0	0	0	0
Other Adjustments, Net	(6)	(1)	(2)	0	0
Capital Expenditure	(45)	(73)	(39)	(40)	(44)
Free Cash Flow	24	-3	50	64	63
% Change	-52.2%	NM	NM	27.6%	-1.2%
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	NA	NA	NA	NA	NA
Change in Debt	(26)	6	8	0	0

Balance Sheet Data (Jul)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	3	6	64	127	190
Trade Receivables	37	49	54	56	57
Other Current Assets	299	332	325	331	337
Property, Plant & Equipment	270	324	342	359	381
Other Non-Current Assets	642	637	628	618	609
Total Assets	1,252	1,348	1,412	1,491	1,573
Short-Term Debt	13	10	10	10	10
Other Current Liabilities	47	62	49	49	50
Long-Term Debt	214	224	231	231	231
Other Non-Current Liabilities	111	107	106	106	106
Total Liabilities	384	402	395	396	396
Total Equity	867	945	1,017	1,095	1,177
Total Equity & Liabilities	1,252	1,348	1,412	1,491	1,573

* For full definitions of iQmethodSM measures, see page 12.

Company Sector

Spirits, Wines & Ciders

Company Description

Duckhorn is a pure play luxury wine producer (\$15+ per 750ml bottle) based in Napa, California. The company sold around 1.3mm cases of wine in FY20 ranging from \$20 to \$200/bottle with highly relevant brands including Duckhorn, Decoy and Kosta Browne. Historically, 80-85% of sales have been in the off-premise channel, with 15-20% in on-premise.

Investment Rationale

We rate NAPA shares Underperform. We see downside to 2H24 sale estimates given that retail sales for premium wine (\$15+/bottle) continues to decelerate and NAPA faces difficult comparisons in 2H24 (particularly in Decoy & Duckhorn). We also believe that a take out appears less likely given that BF/B owns 21.5% of shares and does not have interest in long-term ownership of wine.

Stock Data

Average Daily Volume 937,868

Quarterly Earnings Estimates

	2023	2024
Q1	0.18A	0.15A
Q2	0.18A	0.19E
Q3	0.16A	0.17E
Q4	0.15A	0.15E

Lowering estimates

Exhibit 1: BofA estimate changes

We lower our FY24, FY25 and FY26 sales estimate by -0.5%, -2.4% and -4.3%, respectively

	Current BofA estimate					Prior BofA estimate					Variance				
	3Q24	4Q24	FY24	FY25	FY26	3Q24	4Q24	FY24	FY25	FY26	3Q24	4Q24	FY24	FY25	FY26
Net sales	\$99.4	\$105.1	\$413.6	\$422.2	\$432.0	\$100.4	\$106.1	\$415.6	\$432.2	\$449.5	-1.0%	-0.9%	-0.5%	-2.3%	-3.9%
Adj. EBITDA	\$37.1	\$35.1	\$147.1	\$152.9	\$157.6	\$37.4	\$35.3	\$147.7	\$155.7	\$162.7	-0.8%	-0.7%	-0.4%	-1.8%	-3.1%

Source: BofA Global Research

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Exhibit 2: BofA versus Visible Alpha Consensus

Our FY24, FY25 and FY26 sales forecast is below Visible Alpha Consensus

	Current BofA estimate					Visible Alpha Consensus					Variance				
	3Q24	4Q24	FY24	FY25	FY26	3Q24	4Q24	FY24	FY25	FY26	3Q24	4Q24	FY24	FY25	FY26
Net sales	\$99.4	\$105.1	\$413.6	\$422.2	\$432.0	\$105.8	\$108.9	\$423.0	\$463.4	\$498.0	-6.0%	-3.5%	-2.2%	-8.9%	-13.3%
Adj. EBITDA	\$37.1	\$35.1	\$147.1	\$152.9	\$157.6	\$40.1	\$37.1	\$152.4	\$169.8	\$183.2	-7.6%	-5.4%	-3.5%	-9.9%	-14.0%

Source: Visible Alpha Consensus, BofA Global Research

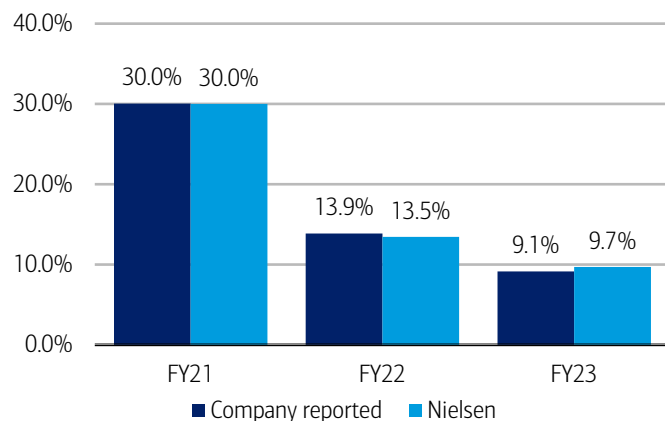
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Nielsen data analysis

NAPA discloses sales by Brand on an annual basis going to FY20. We analyzed full year sales for Decoy & Duckhorn relative to tracked channels in Nielsen. While NAPA has said historically that Nielsen only captures ~30% of its business, per our 2021 [initiation](#), we note that the correlation in growth rates between Nielsen tracked channels and company reported brand sales have been 99%. In terms of the other brands like Canvasback, Goldeneye (which are less tracked) the correlation to Nielsen data is also 99%.

Exhibit 3: Year over year change in sales for total Decoy & Duckhorn

Company reported results and Nielsen data are highly correlated

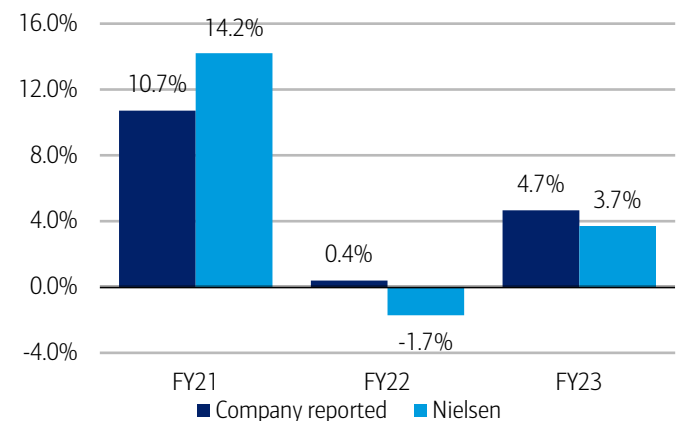


Source: NielsenIQ

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Exhibit 4: Year over year change in sales for NAPA's other brands

Company reported results and Nielsen data are highly correlated

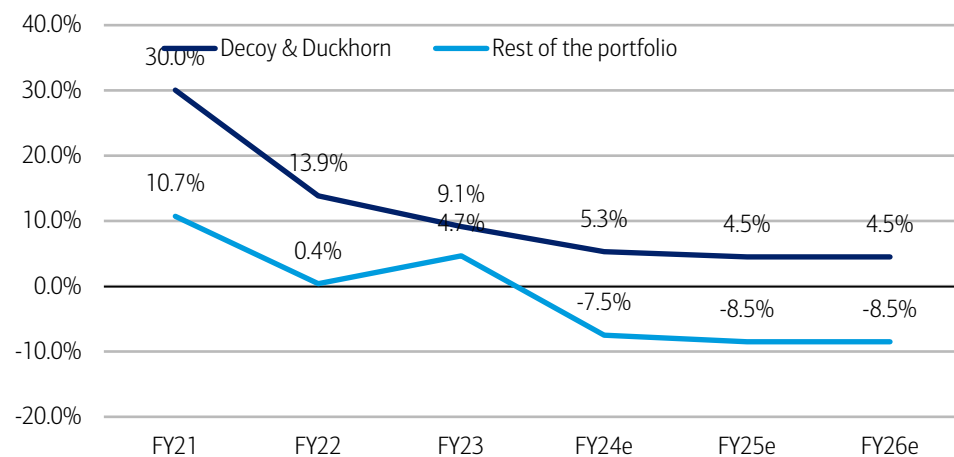


Source: NielsenIQ

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Exhibit 5: BofAe sales forecast by brand

For FY24, FY25 and FY26 we expect Decoy & Duckhorn to grow sales +5.3%, +4.5% and +4.5%, respectively

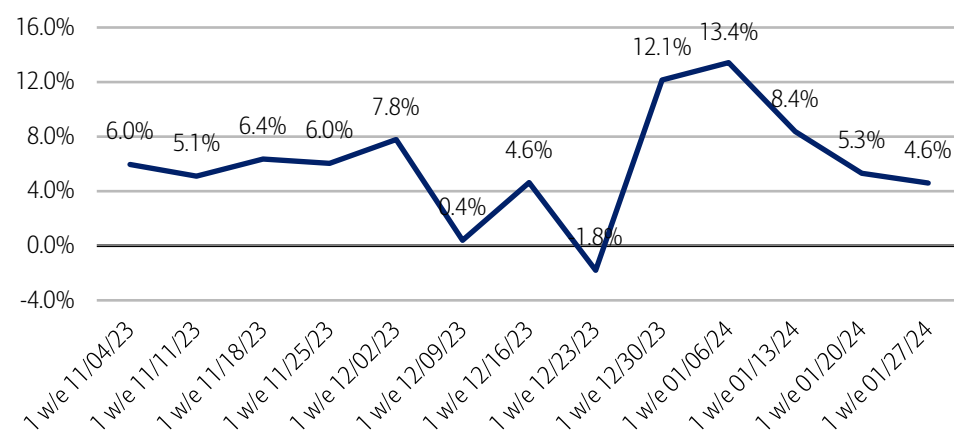


Source: BofA Global Research

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Exhibit 6: Year over year change in weekly retail sales for total Decoy & Duckhorn

Retail sales growth slowed after New Year's Eve buying benefit

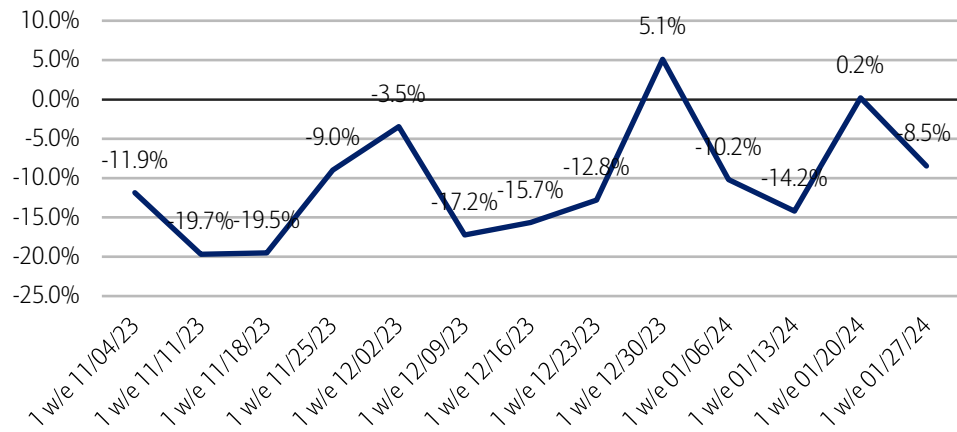


Source: NielsenIQ

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Exhibit 7: Year over year change in weekly retail sales for NAPA's other brands

Sales are declining high single digits



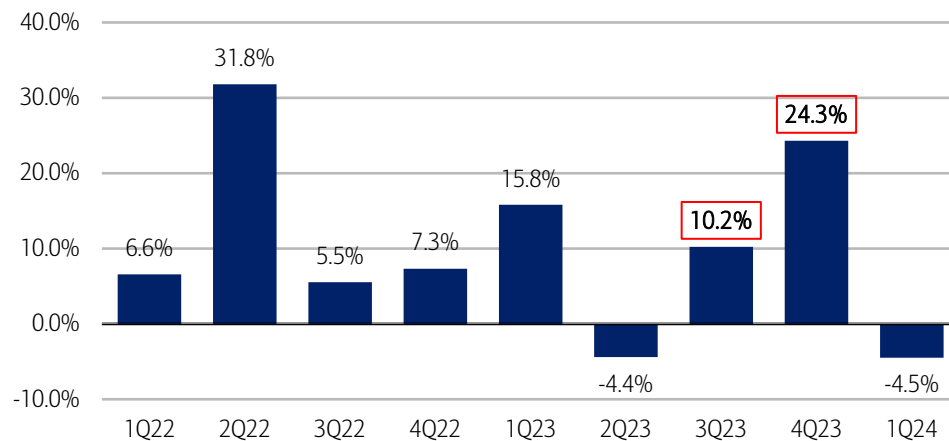
Source: NielsenIQ

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On a quarterly basis – NAPA does not disclose sales by brand but by channel. We note that in its largest channel Wholesale outside of California (68% of FY23 sales) this a) correlates 32% to branded sales from the Nielsen data (correlation is 82% if you exclude 4Q20, 1Q21 and 2Q21), we believe a large % is Decoy & Duckhorn and b) this segment faces increasingly difficult compares in 2H24.

Exhibit 8: Year over year change in sales for Wholesale outside of CA

NAPA faces tough comparisons in 2H24. 3Q23 and 4Q23 sales were up +10.2% and +24.3%, respectively



Source: Company filings

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Given that the correlation in growth rates between Nielsen tracked channels and company reported brand sales are strong we use scanner data to generate our net sales forecast. Our net sales forecast for total Decoy and Duckhorn to grow +5.3% y/y and other brands to decline -7.5% y/y in FY24 assumes that Decoy and Duckhorn and other brands will grow/decline +4.5% and -8.5% in 2H24 which is in line with recent scanner data.

Exhibit 9: Growth rates from Nielsen and NAPA for Decoy and Duckhorn and other brands

FY24, FY25 and FY26 includes our sales growth forecast for Decoy and Duckhorn and the rest of NAPA's portfolio

	FY21	FY22	FY23	1H24	2H24e	FY24e	FY25e	FY26e
From Nielsen								
Decoy + Duckhorn	30.0%	13.5%	9.7%	6.0%	4.5%	5.3%	4.5%	4.5%
Rest of the portfolio	14.2%	-1.7%	3.7%	-6.8%	-8.5%	-7.5%	-8.5%	-8.5%
Company reported								
Decoy + Duckhorn	30.0%	13.9%	9.1%	n/a	n/a	5.3%	4.5%	4.5%
Rest of the portfolio	10.7%	0.4%	4.7%	n/a	n/a	-7.5%	-8.5%	-8.5%

Source: Nielsen, BofA Global Research

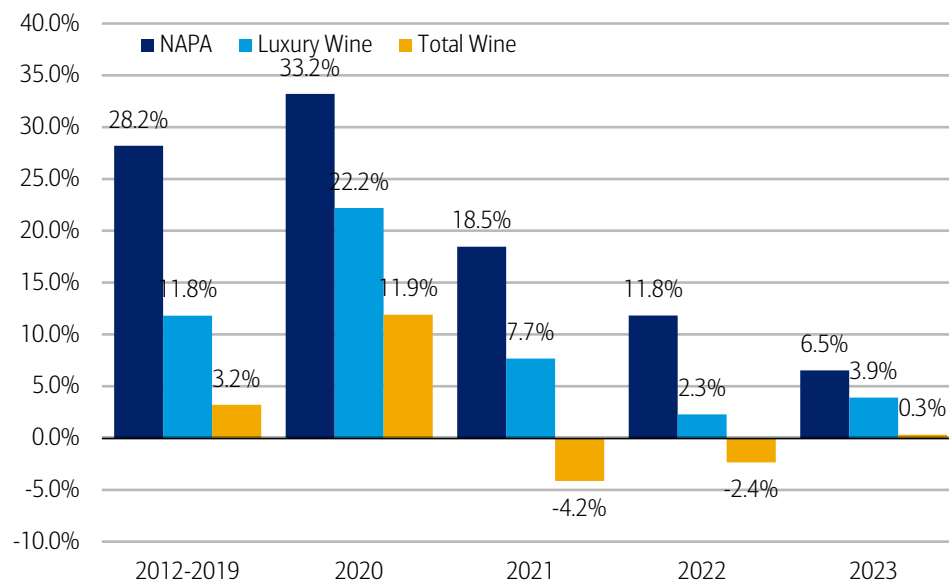
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Luxury wine weakness could continue to persist

NAPA exclusively competes in the luxury wine category (retails \$15 and over per bottle). 2023 luxury wine retail sales grew +3.9% y/y which is significantly below its average pre-COVID (2012-2019) growth rate of +11.8%. We expect category growth to remain below its historical growth rate as demand continues to normalize on an elevated base. BF/B is facing a similar dynamic where demand for U.S. spirits is trending below its historical mid-single digit growth rate after two years of strong growth. BF/B expects demand to revert to its historical growth rate between 6 to 12 months.

Exhibit 10: Year over year change in retail sales

Retail sales for luxury wine is growing well below its pre COVID growth rate of +11.8% y/y and the gap between NAPA and luxury wine has come down over time



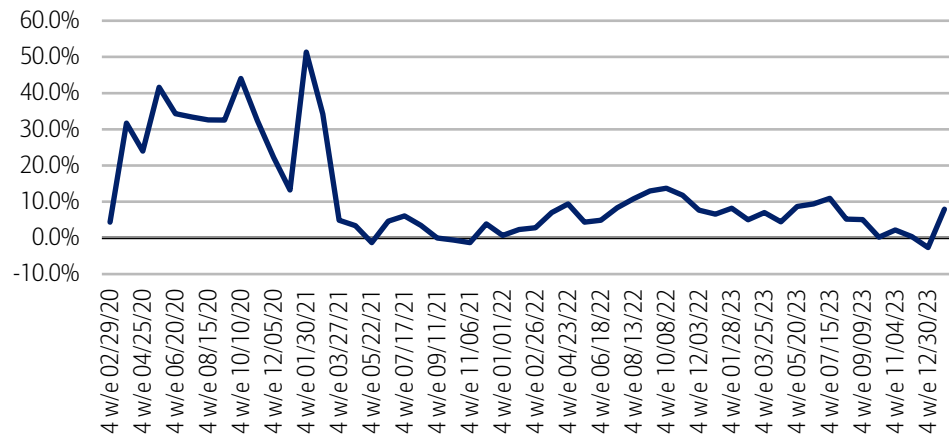
Source: 2012-2020 data from IRI and 2021-2023 data from NielsenIQ
Luxury wine defined as \$15 and over per bottle

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We also highlight that STZ is seeing softer demand for its premium wine and spirit (W&S) brands which includes Meiomi, Kim Crawford and The Prisoner. Using retail sales data from Nielsen we estimate that retail sales between calendar 3Q and 4Q decelerated from mid-single digits to flat. While retail sales for the month of January increased +7.9% we think sales benefitted from weather and New Year's Eve timing.

Exhibit 11: Year over year change in retail sales for STZ's premium wine brands

Retail sales between calendar 3Q and 4Q decelerated from mid-single digits to flat



Source: NielsenIQ

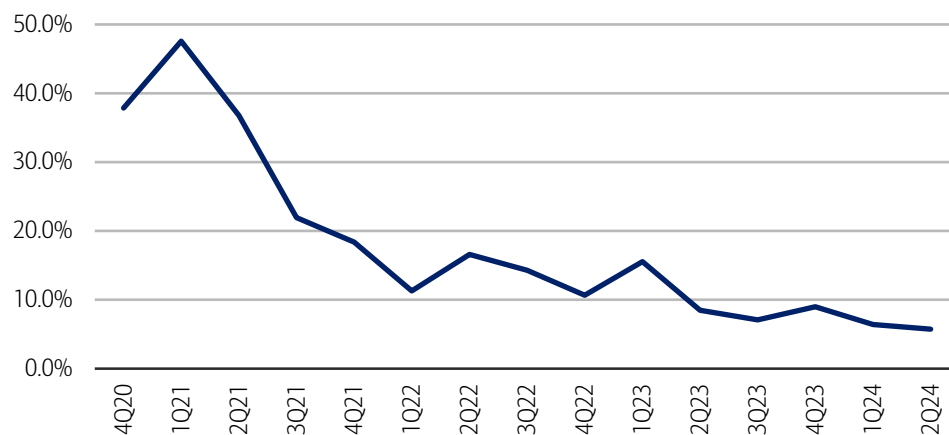
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Thoughts heading into FY2Q24 results

Our 2Q24 adj. EBITDA forecast of \$40.3mm remains unchanged. Our decision to lower our FY24 sales forecast has to do with NAPA having to face increasingly difficult 2H24 comparisons and we don't expect sales to re-accelerate over the medium term. Key drivers behind our forecast: 1) Sales to grow +3.0% y/y (volumes +2.0%, price/mix +1.0%) which is in line with NAPA's outlook of low single digit which is being hindered by pull forward of shipments into 1Q and a slowing consumer environment. Nielsen shows that year over year retail sales for total Decoy and Duckhorn was largely unchanged versus the prior quarter. 2) Gross margins of 54.5% which is +100bps higher versus last year. 3) SG&A of \$25.6mm which is in line with the prior quarter.

Exhibit 12: Year over year change in fiscal retail sales for total Decoy & Duckhorn from Nielsen

Retail sales continue to decelerate



Source: NielsenIQ

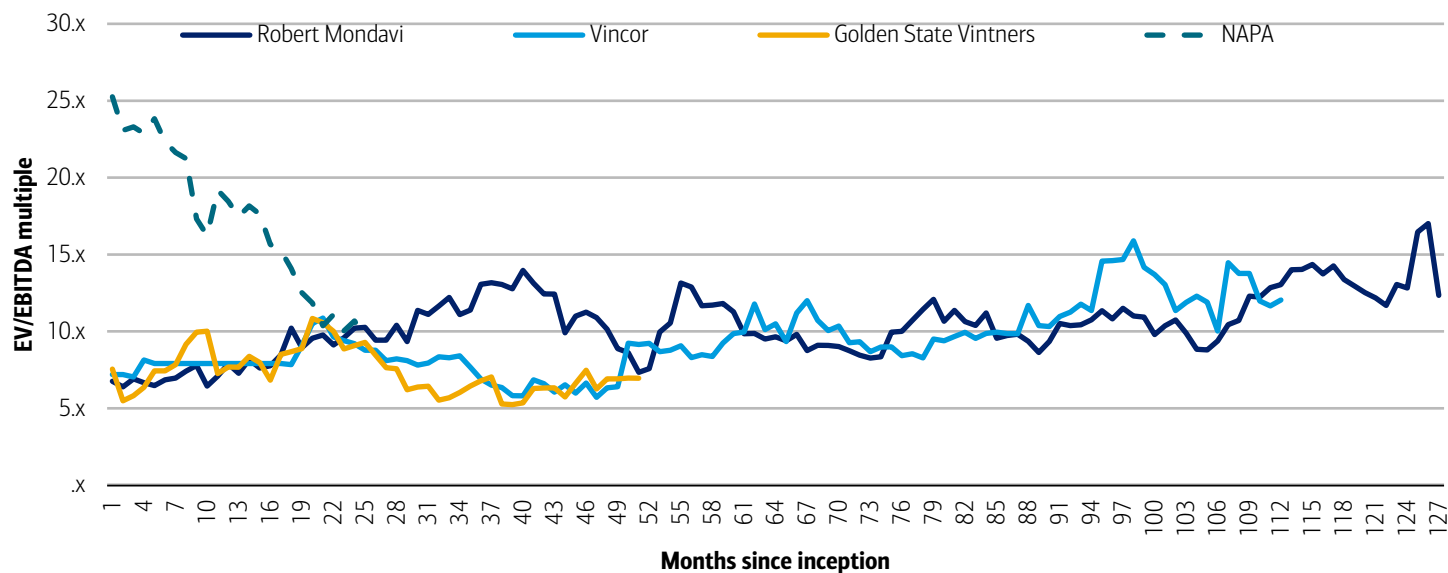
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Valuation

Exhibit 13: Monthly EV/EBITDA multiples for NAPA and former public wine companies

Our \$8 PO for shares of NAPA is based on 7.5x CY25e EV/EBITDA. Former public wine companies traded as low as 5.0x to 7.0x given variability in crop and poor returns on capital. We believe NAPA should trade at a premium versus those companies given its asset light nature, but recognizing slowing topline



Source: Bloomberg

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Exhibit 14: NAPA comparables

NAPA trades at a discount versus peers

Ticker	Market cap	Net debt	EV	YoY change in calendar EBITDA							EV/EBITDA					
				2019	2020	2021	2022	2023	2024	2025	2019	2020	2021	2022	2023	2025
BFB	\$27,726.6	\$2,737.0	\$30,463.6	6.7%	-6.0%	6.2%	11.5%	8.7%	-1.3%	4.8%	25.2x	26.8x	25.3x	22.7x	20.9x	20.2x
STZ	\$45,216.5	\$12,826.6	\$58,043.1	5.3%	5.5%	-1.8%	9.7%	4.6%	7.6%	9.7%	19.0x	18.0x	18.3x	16.7x	16.0x	14.8x
DGE	\$81,359.2	\$23,578.2	\$104,937.4	-5.9%	-0.6%	19.2%	12.1%	-1.7%	-1.4%	4.4%	19.6x	19.7x	16.5x	14.8x	15.0x	14.6x
CPR	\$13,191.3	\$1,389.2	\$14,580.5	10.9%	-16.7%	28.8%	28.2%	7.0%	15.1%	13.0%	28.1x	33.8x	26.2x	20.5x	19.1x	16.6x
RCO	\$5,450.1	\$579.5	\$6,029.6	-8.9%	1.6%	32.6%	28.5%	-18.7%	-3.3%	11.9%	21.3x	21.0x	15.8x	12.3x	15.1x	14.0x
RI	\$42,806.6	\$11,070.0	\$53,876.6	0.7%	-0.1%	14.7%	15.3%	4.4%	3.0%	6.2%	18.4x	18.5x	16.1x	14.0x	13.4x	12.2x
TWE	\$5,875.5	\$933.1	\$6,808.7	2.2%	-10.1%	-0.6%	5.3%	10.4%	15.8%	13.5%	14.0x	15.6x	15.7x	14.9x	13.5x	10.3x
Weighted average				0.4%	-1.1%	12.8%	13.3%	2.5%	2.7%	6.8%	20.4x	20.8x	18.5x	16.3x	15.8x	14.5x
NAPA	\$1,054.8	\$223.3	\$1,278.1		17.3%	16.6%	4.9%	12.8%	3.7%	3.4%	14.3x	12.2x	10.5x	10.0x	8.8x	8.3x

Source: Bloomberg, Visible Alpha and BofA Global Research

BF/B, STZ and NAPA estimates are from BofA

DGE, CPR, RCO, RI and TWE estimates are from Visible Alpha Consensus

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Income statement

Exhibit 15: BofA Income Statement

BofA forecasting FY24 adj. EBITDA of \$147.1mm

Income Statement	Jul-19	Jul-20	Jul-21	Jul-22	Jul-23	Oct-23	Jan-24	Apr-24	Jul-24	Jul-24	Jul-25	Jul-26
(Millions, except for per share data)	FY19	FY20	FY21	FY22	FY23	1Q24	2Q24e	3Q24e	4Q24e	FY24e	FY25e	FY26e
Sales forecast												
YoY change in volumes	11.5%	19.9%	32.1%	9.4%	5.6%	-3.4%	2.0%	8.0%	4.0%	2.4%	2.1%	2.3%
YoY change in price/mix	11.3%	-7.7%	-7.7%	1.3%	2.6%	-1.8%	1.0%	1.0%	1.0%	0.2%	0.0%	0.0%
Sales growth	23.8%	10.9%	24.9%	10.7%	8.2%	-5.2%	3.0%	9.0%	5.0%	2.6%	2.1%	2.3%
Net Sales	\$243.1	\$269.5	\$336.6	\$372.5	\$403.0	\$102.5	\$106.6	\$99.4	\$105.1	\$413.6	\$422.2	\$432.0
Cost of Goods Sold	108.4	123.2	167.2	182.1	186.9	49.4	48.5	45.2	49.4	192.5	196.0	199.7
Gross Profit	\$132.8	\$147.4	\$169.4	\$190.4	\$216.1	\$53.2	\$58.1	\$54.2	\$55.7	\$221.1	\$226.1	\$232.2
Selling, general & administrative	60.7	66.1	75.1	87.3	100.4	25.7	25.6	24.9	28.4	104.5	106.2	107.6
Operating income (adjusted)	\$72.1	\$81.3	\$94.3	\$103.1	\$115.7	\$27.5	\$32.5	\$29.3	\$27.3	\$116.6	\$119.9	\$124.6
Interest expense	20.9	17.9	13.6	6.8	11.7	4.0	3.8	3.8	3.8	15.3	15.8	15.8
Other expense (income), net	(0.1)	0.2	(0.9)	(1.0)	(1.0)	0.1	(0.3)	(0.3)	(0.3)	(0.7)	(1.0)	(1.0)
Earnings before income taxes (adjusted)	\$51.3	\$63.2	\$81.7	\$97.3	\$105.0	\$23.4	\$29.0	\$25.8	\$23.8	\$102.1	\$105.1	\$109.9
Income tax expense	12.8	15.5	19.7	26.1	27.7	6.2	7.5	6.7	6.2	26.7	26.8	28.0
Adjusted Net income	\$38.5	\$47.7	\$61.9	\$71.3	\$77.3	\$17.2	\$21.5	\$19.1	\$17.6	\$75.4	\$78.3	\$81.9
Net income attributable to NCI	(0.0)	(0.0)	0.0	(0.0)	0.0	(0.0)	-	-	-	(0.0)	-	-
Adjusted Net income attributable to Duckhorn	\$38.5	\$47.7	\$61.9	\$71.2	\$77.4	\$17.2	\$21.5	\$19.1	\$17.6	\$75.4	\$78.3	\$81.9
Non-recurring items	(16.4)	(15.2)	(6.0)	(11.1)	(7.4)	(1.6)	-	-	-	(1.6)	-	-
GAAP Net income	\$22.1	\$32.5	\$55.9	\$60.1	\$69.9	\$15.5	\$21.5	\$19.1	\$17.6	\$73.7	\$78.3	\$81.9
GAAP EPS	\$0.21	\$0.31	\$0.52	\$0.52	\$0.61	\$0.13	\$0.19	\$0.17	\$0.15	\$0.64	\$0.68	\$0.71
Adjusted EPS	\$0.37	\$0.46	\$0.58	\$0.62	\$0.67	\$0.15	\$0.19	\$0.17	\$0.15	\$0.65	\$0.68	\$0.71
Weighted avg diluted shares	103.4	103.4	107.6	115.4	115.4	115.3	115.3	115.3	115.3	115.3	115.3	115.3
EBITDA Analysis												
Adjusted Operating Income	\$72.1	\$81.3	\$94.3	\$103.1	\$115.7	\$27.5	\$32.5	\$29.3	\$27.3	\$116.6	\$119.9	\$124.6
(+) other expense (income)	(0.1)	0.2	(0.9)	(1.0)	(1.0)	0.1	(0.3)	(0.3)	(0.3)	(0.7)	(1.0)	(1.0)
Adjusted EBIT	\$72.2	\$81.1	\$95.3	\$104.1	\$116.7	\$27.4	\$32.8	\$29.6	\$27.6	\$117.3	\$120.9	\$125.6
Depreciation / Amortization	25.1	22.8	21.3	23.4	27.8	7.3	7.5	7.5	7.5	29.8	32.0	32.0
Comparable Adjusted EBITDA	\$88.9	\$95.6	\$112.5	\$127.5	\$144.5	\$34.7	\$40.3	\$37.1	\$35.1	\$147.1	\$152.9	\$157.6
Margin analysis												
Adjusted Gross Margin (excludes purchase accounting)	54.6%	54.7%	50.3%	51.1%	53.6%	51.9%	54.5%	54.5%	53.0%	53.5%	53.6%	53.8%
SG&A as a % of sales	25.0%	24.5%	22.3%	23.4%	24.9%	25.1%	24.0%	25.0%	27.0%	25.3%	25.2%	24.9%
Adjusted Operating margin	29.7%	30.2%	28.0%	27.7%	28.7%	26.8%	30.5%	29.5%	26.0%	28.2%	28.4%	28.8%
Adjusted EBITDA margin	36.6%	35.4%	33.4%	34.2%	35.9%	33.9%	37.8%	37.3%	33.4%	35.6%	36.2%	36.5%
Pre-tax margin	21.1%	23.4%	24.3%	26.1%	26.1%	22.8%	27.2%	26.0%	22.7%	24.7%	24.9%	25.4%
Net margin (continuing ops)	15.9%	17.7%	18.4%	19.1%	19.2%	16.7%	20.1%	19.2%	16.8%	18.2%	18.6%	18.9%
Effective tax rate	24.9%	24.6%	24.2%	26.8%	26.4%	26.6%	26.0%	26.0%	26.0%	26.1%	25.5%	25.5%
YoY % change												
Net sales	23.8%	10.9%	24.9%	10.7%	8.2%	-5.2%	3.0%	8.9%	5.0%	2.6%	2.1%	2.3%
COGS	n/a	13.7%	35.7%	8.9%	2.6%	-7.5%	0.7%	12.0%	9.7%	3.0%	1.9%	1.9%
Gross profit	n/a	11.0%	14.9%	12.4%	13.5%	-3.0%	5.0%	6.6%	1.1%	2.3%	2.3%	2.7%
SG&A	n/a	9.0%	13.5%	16.3%	15.0%	4.2%	4.4%	10.8%	-1.5%	4.1%	1.7%	1.3%
Adjusted Operating income	n/a	12.7%	16.1%	9.3%	12.2%	-9.0%	5.4%	3.2%	4.0%	0.8%	2.8%	3.9%
Adjusted EBITDA	14.3%	7.4%	17.7%	13.4%	13.3%	-2.7%	3.7%	3.5%	2.5%	1.8%	3.9%	3.1%
Income before income taxes	n/a	23.2%	29.2%	19.2%	7.9%	-15.7%	1.5%	0.9%	3.2%	-2.8%	3.0%	4.5%
Income tax expense	-135.0%	21.7%	27.1%	32.1%	6.2%	-14.7%	1.2%	2.0%	-2.5%	-3.6%	0.6%	4.5%
Net income	-35.8%	23.7%	29.9%	15.0%	8.6%	-16.1%	1.5%	0.6%	5.3%	-2.5%	3.9%	4.5%
Adjusted EPS	n/a	23.7%	24.8%	7.3%	8.5%	-16.2%	1.5%	0.6%	5.4%	-2.5%	3.9%	4.5%

Source: BofA Global Research

BofA GLOBAL RESEARCH



Abbreviations:

DTC: Direct to consumer
BFB: Brown-Forman Corporation
STZ: Constellation Brands, Inc.
DGE: Diageo
CPR: Davide Campari Milano
RCO: Remy Cointreau
RI: Pernod Ricard
TWE: Treasury Wine Estates

Price objective basis & risk

The Duckhorn Portfolio, Inc. (NAPA)

Our \$8 PO is based on 7.5x our CY25 EPS estimate. This is in line with where former public wine companies (VinCorp, Golden State Vitners and Robert Mondavi) traded in the early 2000's given variability in crop and poor returns on capital. We believe NAPA should trade at a premium versus those comps given its asset light nature (only 10% of acreage owned) but recognizing slowing topline.

Upside risks: 1) NAPA's innovation launch of a low-alc Decoy Sauvignon Blanc, shipping in FY24 which could boost sales in the short run. 2) If the US consumer holds up/strengthens this could benefit Direct to Consumer business for higher end wines that are margin accretive.

Downside risks: 1) further slowing of the premium/luxury wine category, 2) greater sourcing of demand from Spirits relative to wine, 3) agricultural/weather events that could disrupt wine production/supply, 4) price discounting by competitors.

Analyst Certification

I, Peter T. Galbo, CFA, 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
BUY				
	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
NEUTRAL				
	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 Nutrition 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

iQmethodSM 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 & 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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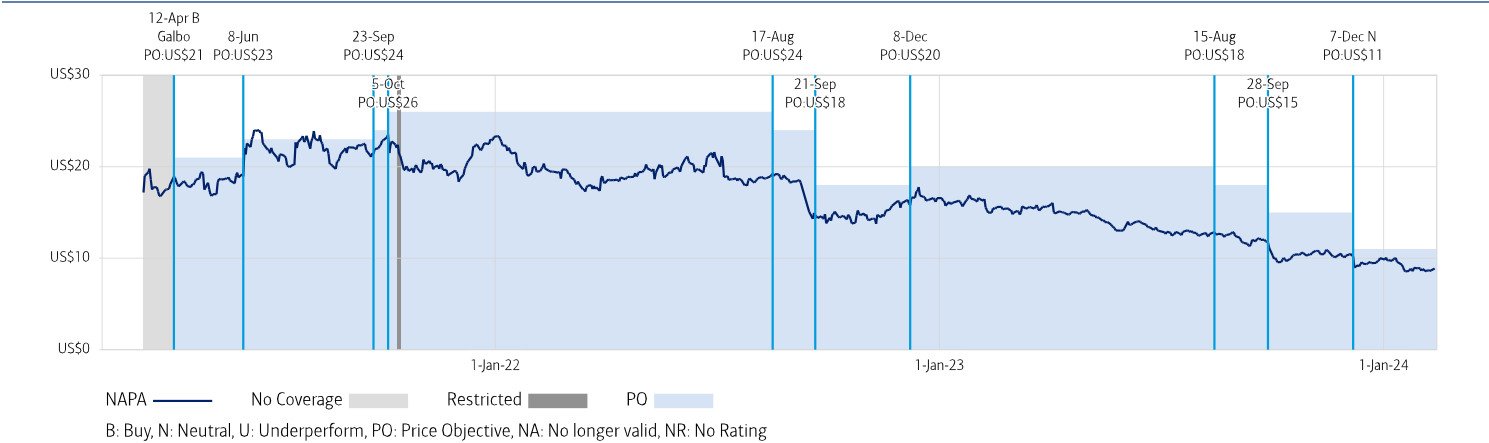
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Disclosures

Important Disclosures

Duckhorn (NAPA) Price Chart



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

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)

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

^{R1} 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 ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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