

# Gabelli & Company

INITIAL REPORT  
 HOLD

## Investment Summary

Best known for its Jack Daniel's Brand, Brown-Forman Corporation is the fifth-largest global manufacturer of premium spirits.

We recommend investors hold Brown-Forman shares:

- A pure-play, premium portfolio, led by the Jack Daniel's franchise. 100% of Brown-Forman's \$4 billion of revenue is derived from the sale of distilled spirits and wine, with a heavy skew towards aged and premium (over \$15 per 750ml price point) products, which have higher barriers to entry, more favorable growth prospects, and higher margins.
- Strong industry fundamentals. The \$300 billion global distilled spirits industry is benefitting from a number of positive trends including: a growing legal drinking age population, higher per capita consumption, and ongoing premiumization. Additionally, after decades of underperformance, Brown-Forman's primary category, American Whiskey, is growing faster than the overall market, driven by renewed interest among millennial consumers and increased global penetration.
- Long runway for international growth. 59% of Brown-Forman's revenue is generated outside the United States, yet the company has only 1% share of the global spirits market. Nearly 50% of all American whiskey, Brown-Forman's largest category, is sold in the US.
- Demonstrated ability to grow through premiumization and innovation. Since 2010, BF has grown the volumes of its Jack Daniels family of whiskey brands over 25%, while raising prices over 8%. More than one-half of this growth was sourced from new innovation, most notably Jack Daniels Tennessee Honey, which has grown to over one million cases since its launch in 2011.
- BF shares currently trade at a 13% discount to our 2015P PMV of \$101 per share, which is based on 18x 2015P EBITDA of \$1.2 billion, and grows to \$132 per share by 2018P. While we believe that Brown-Forman has significant strategic value, the Brown family's voting control, and stated desire to remain independent lessens the likelihood that our PMV is realized through a sale of the company.

## **Brown-Forman Corporation** **(BF'A | BF'B – NYSE)**

<u>Current Price:</u>	
Class A (voting)	\$88.08
Class B (non-voting)	\$89.00

<u>52 Week Range:</u>	
Class A	\$95.29 – \$65.46
Class B	\$97.15 – \$67.25

<u>Earnings Per Share:</u>	
2015P	\$3.70
2014E	3.40
2013A	3.06

<u>Price/Earnings Ratio:</u>	
2015P	24.1x
2014E	26.2
2013A	29.0

<u>Dividend:</u>	\$1.16
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<u>Current Return:</u>	1.3%
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<u>Capitalization (06/30/14):</u>	(\$ billions)
Common Stock (214 mil shares o/s)*	\$19.0
Net Debt	0.6
Total Capitalization	<u>\$19.6</u>

\* 85 mil. Voting Class A | 129 mil. Non-Voting Class B

Joseph A. Gabelli

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FYE 4/30	2013A*	2014E	2015P	2016P	2017P	2018P
Revenue	\$ 3,946	\$ 4,220	\$ 4,495	\$ 4,764	\$ 5,042	\$ 5,338
EBITDA	1,021	1,117	1,209	1,299	1,392	1,491
EPS	\$ 3.06	\$ 3.40	\$ 3.70	\$ 4.05	\$ 4.45	\$ 4.80

Source: Company reports, Gabelli & Company estimates.

\*FY2014 ended 4/30/2014

**-Please Refer To Important Disclosures On The Last Page Of This Report-**

**COMPANY OVERVIEW**

Founded in 1870 to sell Old Forester bourbon, Louisville, KY based Brown-Forman is a pure-play manufacturer and distributor of distilled spirits and wine. The company’s brand portfolio is anchored by its 11.5 million case Jack Daniel’s Tennessee Whiskey brand, but also includes Jack Daniel’s Tennessee Honey, Woodford Reserve, Early Times, and Old Forrester bourbons, el Jimador and Herradura tequilas, Southern Comfort and Chambord liqueurs, Finlandia vodka, Canadian Mist Canadian whisky, and Sonoma-Cutrer wines. In addition, Brown-Forman distributes Korbel Champagne, and produces and sells over 12 million cases of “ready to drink” (RTD) alcohol, primarily under the Jack Daniel’s and New Mix trademarks.

**Table 1 Brown-Forman’s Brand Portfolio**

<i>(9L Cases, in Millions)</i>	Volume		Volume	Price/Mix	Underlying
	2010	2013*	CAGR	CAGR	CAGR
<b>Wine &amp; Spirits:</b>					
Jack Daniel's Tennessee Whiskey	10.0	11.5	4.8%		
Jack Daniel's Tennessee Honey	-	1.1	n/a		
Jack Daniel's Other	0.5	0.7	10.4		
<b>Jack Daniel's Family of Whiskey</b>	<b>10.5</b>	<b>13.2</b>	<b>8.0%</b>	<b>2.0%</b>	<b>10.0%</b>
el Jimador	1.2	1.2	0.2%	1.6%	1.0%
Finlandia	2.9	3.4	5.1	1.0	6.0
Southern Comfort	2.1	1.9	-3.7	-1.0	-4.4
Canadian Mist	1.7	1.6	-2.5	0.0	-2.7
Korbel Champagnes	1.3	1.3	-0.3	2.6	2.3
Super-Premium Other	1.0	1.2	6.9	2.3	8.7
Non-Premium Other	2.7	2.1	-8.4	1.9	8.0
<b>Ready to Drink:</b>					
Jack Daniel's	5.5	6.8	7.0	0.6	7.6
New Mix	4.6	5.0	2.2	3.3	3.9
Other	0.4	0.5	6.4	0.0	-0.6
<b>Total (9L Cases)</b>	<b>34.1</b>	<b>38.1</b>	<b>3.9%</b>	<b>3.3%</b>	<b>7.7%</b>
<b>Total (Drinks Equivalent)</b>	<b>24.5</b>	<b>27.1</b>	<b>3.4</b>		

Source: Company data, Gabelli & Company estimates  
\*FY2014 ended 4/30/2014

The company’s product-mix is skewed towards aged spirits (>50% of volumes) and premium price points (>80% of volumes), which provide higher margins and barriers to entry. Over the past several years, the company has been successful growing both the volume and value of its brands, delivering an underlying revenue CAGR of nearly 8%, with roughly one-half of that growth derived from improved price and mix. With the notable exceptions of Southern Comfort and Canadian Mist, which have struggled in recent years, this growth has been broad-based across its portfolio.

Brown-Forman’s products are sold globally, with 59% of its revenue generated outside of the United States. International growth has been a key driver of Brown-Forman’s success over the past decade, and non-US markets have represented 82% of revenue growth since 2004. Yet despite this success, Brown-Forman’s products still have significant distribution whitespace in international markets, most notably in Latin America and China, the world’s largest spirits market, where Brown-Forman has very limited presence. While Brown-Forman is the world’s fifth largest premium spirits company, it has only about 1% volume share and less than 5% value share of the global market.

**Table 2 2013 Revenue Split**

	<i>(\$ in Millions)</i>	
<b>North America:</b>		
United States	1,618	41%
Mexico	237	6
Canada	39	1
<b>Europe:</b>		
United Kingdom	395	10
Germany	197	5
Poland	158	4
Russia	79	2
France	79	2
Turkey	39	1
Rest of Europe	316	8
Australia	474	12
Rest of World	316	8
<b>Total</b>	<b>3,946</b>	<b>100%</b>

Source: Company data

**OWNERSHIP**

<i>(Millions of shares, as of 04/30/14)</i>	<b>Brown</b>		<b>Public</b>		<b>Total</b>
	<b>Family (a)</b>	<b>%</b>	<b>Float</b>	<b>%</b>	
Class A Shares (Voting)	57	67%	28	33%	85
Class B Shares (Non-Voting)	~32	25	97	75	129
<b>Total Shares</b>	<b>89</b>	<b>42%</b>	<b>125</b>	<b>58%</b>	<b>214</b>

*(a) Family Class B holdings are estimated*

*Source: Company filings, Gabelli & Company estimates*

Brown-Forman is a controlled company with a dual-class share structure – the Brown family holds 67% of the Class A voting stock, representing a 27% interest in the company. Family members also hold a substantial, but undisclosed, amount of Class B non-voting stock (we estimate ~25%, based on Form 4 filings). The family is actively involved in the company’s governance, holding four of the twelve seats on the Brown-Forman board of directors including its chairmanship (Geo. Garvin Brown IV). Outside of the board, a family shareholder committee seeks to engage family members in topics such as governance, philanthropy, stockholder education, and employment at the company. Yet despite the fact that there are over 100 living descendants of founder George Garvin Brown, the company employs only twelve family members, none of whom are named executive officers. Paul Varga, Brown-Forman’s CEO since 2005, has been employed by the company for over 25 years.

**INDUSTRY OVERVIEW**

According to the WHO, global per capita alcohol consumption stands at 6.2 liters per person, per year, with distilled spirits accounting for about one-half of that consumption. The 3.1 billion case global spirits industry is valued at about \$300 billion according to International Wine and Spirits Research (IWSR), and has grown volumes at about a 5% CAGR and value at a 6% CAGR over the past five years. This growth is expected to continue, driven by population growth, and increasing consumer wealth, which has historically driven a shift from lower priced local and national spirits (which account for over half of global spirit consumption), to international spirits like premium whiskeys, vodkas, and brandies. Over the next five years, global spirit consumption is expected to grow at about a 2% CAGR, with certain categories, such as whiskey and tequila expected to grow faster.

Brown-Forman’s most important market, the United States, is a 206 million case market (6.7% of global volume), but accounts for over 20% of the global market’s value. This disparity exists because the US is the most important market for premium-spirits, accounting for over 40% global premium-spirit volumes. In certain categories, such as American whiskey and tequila, the US represents a much larger percentage of global volumes, suggesting both a higher premium skew and a larger than usual international growth opportunity – Brown-Forman’s portfolio is levered to such categories.

**Table 3** **Brown-Forman’s Key Category Volumes**  
**(9 Liter Cases, in Millions)**

	<b>World</b>	<b>US</b>	<b>US Share of World</b>	<b>BF Est.</b>	<b>BF Share of World</b>
Vodka	496	66	13%	3	1%
Liqueurs and Cordials	160	21	13%	2	1%
US Whiskey	37	18	49%	14	39%
Tequila	27	13	49%	2	6%
Canadian Whiskey	20	16	81%	2	8%
Other	2,352	72	3%	3	0%
<b>Total Spirits</b>	<b>3,092</b>	<b>206</b>	<b>6.7%</b>	<b>26</b>	<b>1%</b>

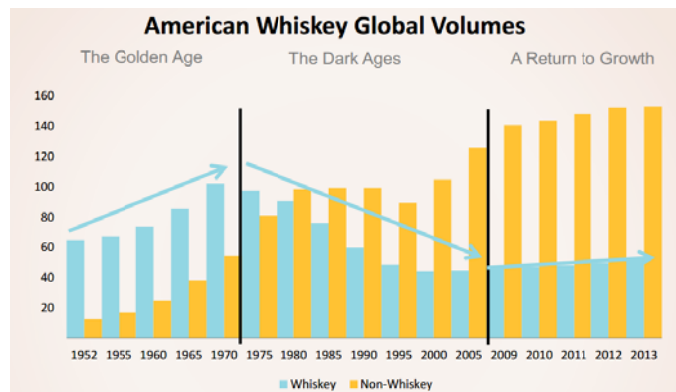
*Source: IWSR, Impact Databank, Company data, Gabelli & Company estimates*

• **AMERICAN WHISKEY – \$9.5 BILLION CATEGORY AT RETAIL**

Brown-Forman’s largest category, American whiskey, represented 37 million cases of volume in 2013, 18 million of which were sold in the United States. This level of volume is meaningfully below the category’s peak volume of about 100 million cases. Beginning in the early 1970’s, American whiskey suffered a 40-year period of declining volumes, driven by a shift in consumption from brown spirits to vodka and beer in the United States as baby-boomers rebelled against “their father’s drink.” In 2009, this trend reversed, and American whiskey has resumed its growth driven by both increasing international sales and renewed interest among millennial consumers, who are consuming less vodka and traditional American lagers. As the global leader in American whiskey, with nearly 40% market share, we believe that Brown-Forman will disproportionately benefit from this return to secular growth.

**Exhibit 1**

**American Whiskey Historical Volume**



Source: Brown-Forman company presentation

• **AMERICAN WHISKEY – JACK DANIEL’S**

The Lynchburg, TN based Jack Daniel’s distillery was founded in 1875 and purchased by Brown-Forman in 1956. Today, with estimated retail sales of \$4.4 billion, the 13.2 million case (excluding 6.8 million cases of RTD products) Jack Daniel’s brand is the largest American whiskey brand in the world, and the fourth-largest global premium spirits brand overall (behind only Smirnoff vodka, Johnnie Walker scotch, and Bacardi rum). Old No. 7 Jack Daniel’s Tennessee Whiskey, which retails for \$30-35 per liter in the United States, accounts for 11.5 million cases of the brand’s overall volume and is the core driver of Brown-Forman’s spirits portfolio, and its future growth. Over the next five years, we expect the Jack Daniel’s family of whiskey brands to grow volumes at a CAGR between 6 and 7%.



Jack Daniel’s Tennessee Whiskey is produced using the same techniques commonly associated with bourbon (made in the US, of at least 51% corn, distilled at less than 160 proof, barreled in new, charred oak barrels below 125 proof, aged for at least two years, and bottled at at least 80 proof), but is also mellowed (filtered) through hard sugar maple charcoal, resulting in its distinctive taste profile. As a spirit, Jack Daniel’s is uniquely versatile as it pairs the sippable taste credentials of bourbon with the mixability of vodka – Jack can be consumed straight, paired with a mixer (cola or ginger ale, most commonly), or used as an ingredient in a variety of cocktails. The brand’s marketing centers around its “American made” authenticity and Brown-Forman continues to invest in expanding domestic production capacity, most recently undertaking a \$100 million expansion of its Lynchburg distillery. In addition, the company self-manufactures all of the oak barrels used for its whiskey production in its Kentucky and (recently completed) Alabama cooperages.

**Table 4** **Top American Whiskey Brands**

(9L Cases, in Millions & \$ in Billions)

Brand	Owner	Volume	Volume Share %	Retail Value	Value Share %
Jack Daniel's	Brown-Forman	13.2	35.7%	\$ 4.4	46.4%
Jim Beam	Beam Suntory	6.9	18.7	1.7	17.9
Evan Williams	Heaven Hill	1.7	4.5	0.5	4.9
Maker's Mark	Beam Suntory	1.4	3.9	0.4	4.6
Wild Turkey	Gruppo Campari	1.3	3.5	0.4	4.4
Early Times	Brown-Forman	0.8	2.2	0.1	1.4
Others		11.7	31.6	1.9	20.3
<b>Total</b>		<b>36.9</b>	<b>100.0%</b>	<b>\$ 9.5</b>	<b>100.0%</b>

Source: IWSR, Impact Databank

– **Innovation**

Brown-Forman has been very successful innovating around the Jack Daniel's trademark in recent years. The most notable success has been Jack Daniel's Tennessee Honey, a premium priced (\$35-40 per liter) variant of Jack Daniel's whiskey that is infused with a honey flavored liqueur for a sweeter, mellower taste. The product, which was launched in 2011, has grown rapidly, reaching nearly 1.1 million cases of volume in 2013 and represented 38% of the brand's growth over the past three years, suggesting continued strong performance of the core franchise alongside the new product. Having proven the viability of flavored American whiskey with JDTH, Brown-Forman is in the process of launching the cinnamon flavored Jack Daniel's Tennessee Fire in select markets. The product, while still in its early stages, is showing promise as a premium entrant into the rapidly growing cinnamon flavor category, which is led by Sazerac's 2 million case Fireball Cinnamon Shot brand.

In addition to Tennessee Honey and Fire, Brown-Forman's innovation platform is focused on bringing more-premium variants of Jack Daniel's to market. Products such as Gentleman Jack (\$35 per 750ml, twice mellowed), Jack Daniel's Single Barrel (\$55-60 per 750-ml, higher proof, bolder flavor profile), while moderately more expensive to produce, are nicely accretive to margins. Such products, along with a variety of ultra-premium limited editions currently account for only about 650 thousand cases of volume and represent a significant growth opportunity for the brand.

– **Pricing**

While innovation and premium products will improve the mix and profitability of the Jack Daniel's portfolio over-time, straight price increases have, and will continue to play a role in Brown-Forman's growth strategy. Since 2007, the average retail price for a 750-ml bottle of Jack Daniel's Old No. 7, before taxes, has increased 27% from \$22 to \$28 in the United States, a 3.5% CAGR vs. 2-2.5% US inflation over the same period. In spite of this pricing, Jack Daniel's annual volumes have grown at a similar CAGR, increasing from 9 million cases to 11.5 million, suggesting that the brand enjoys real pricing power. While Brown-Forman has recently stated its intention to limit price increases in the near-term, focusing on volume growth instead, over the long-term, we believe that price will continue to be a driver of revenue for the brand.

**Exhibit 2** **Jack Daniel's Avg. US Retail Price per 750ml**

USD \$ USA, Jan 2007 to Aug 2014



Source: <http://www.wine-searcher.com>

## – International

Over the past twenty years Jack Daniel’s has transitioned from a brand sold almost entirely in the United States to one which sells roughly 60% of its volumes in international markets. Today, those sales are primarily in markets such as Australia, the UK, and other Western European countries, and the brand has very limited penetration in the emerging markets of Latin America and Asia. The ongoing development of Jack Daniel’s in these markets is likely to be a key driver of growth for the company going forward. Brown-Forman is taking a market by market approach to building its international franchise. In Brazil, for example, the company has built an owned distribution network, which it believes is necessary to develop Jack Daniel’s presence in a market where American whiskey, as a category, did not even exist a few years ago. Conversely in Russia, where spirit consumption is well established, and infrastructure investments are higher risk, Brown-Forman works with a partner to distribute its brands.

In aggregate, Brown-Forman owns its route-to-market in eleven of its international markets: Australia, Brazil, Canada, China, Czech Republic, Germany, Korea, Mexico, Poland, Turkey, and most recently France, having just completed the conversion from third party distribution (Bacardi) last year. While the cost economics of an owned vs. third-party distribution system are roughly equivalent (assuming sufficient scale), owned distribution brings a dedicated, trained salesforce that is more likely to prioritize Brown-Forman brands in discussions with retailers. In Germany for example, Jack Daniel’s growth shifted from broadly flat to double-digit increases almost immediately after the changeover to owned distribution. Over time, we expect Brown-Forman to continue to invest in its owned route-to-market capabilities by converting key third-party markets.

## • AMERICAN WHISKEY – BOURBON



Supplementing Jack Daniel’s leading position in American whiskey, Brown-Forman owns three bourbon brands: Woodford Reserve and Old Forester bourbons, and Early Times Bourbon/Kentucky Whisky, which represent a combined volume of about 1.2 million cases. The brands are priced and marketed to target varying segments of the market with Woodford Reserve (\$35-40 per 750ml) representing Brown-Forman’s most premium offering, and Early Times and Old Forester sold at lower prices (\$15-25 per liter).

Woodford Reserve was founded as a “brownfield” operation in 1996, and sold nearly 250 thousand cases in 2013, a year in which brand sales grew 28%, at premium price points. The brand continues to be among the company’s fastest growing, recording 26% depletion growth in the most recent quarter, and is only in the very early stages of international expansion. Like Jack Daniels, Brown-Forman has sought to market increasingly premium variants of Woodford such as its highly successful Woodford Reserve Double-Oaked (\$55-60 per 750ml). The company is investing to support the growth of Woodford Reserve, and recently completed a \$35 million expansion of its production facilities, stating its belief that Woodford could eventually grow to be a million case brand.

The value priced Early Times Bourbon and Kentucky Whisky – so named (as opposed to bourbon) due to the use of used barrels for aging – sells over 800 thousand cases per year, making it the sixth largest US whiskey brand. Early Times has been successful targeting the lower-end of the US whiskey market, as well as select international markets, particularly the UK. Early Times is also used as a testing ground for the company’s whiskey innovations. Early Times Fire Eater, for example, served as a proof of concept for cinnamon flavored whiskey prior to the development of Jack Daniel’s Tennessee Fire.

Finally, Brown-Forman is investing to revitalize Old Forester, the company’s first brand, building a new \$30 million distillery and visitor center in Louisville, KY. While only selling a little over 100 thousand cases today, Old Forester was once a million case brand, and its growth has accelerated in recent years. The company believes that the renewed interest in the brand is driven by modern, young bourbon consumers, who are highly focused on craftsmanship and authenticity.

- **TEQUILA**

Brown-Forman entered the \$6.4 billion tequila category in 2007 with its \$776 million acquisition of Casa Herradura, the owner of the el Jimador and Herradura tequila brands, as well as the tequila-based New-Mix RTD brand. The two tequila brands, which together account for about 1.5 million cases of volume, have been broadly flat since Brown-Forman acquired them, with strong gains in the ultra-premium Herradura brand offset by increased competition and softer volumes for el Jimador in Mexico. However, Brown-Forman has been successful in increasing el Jimador’s presence in the US, more than doubling the brand to over 300 thousand cases since its acquisition.



Like Woodford Reserve, Herradura, which retails for \$30 to \$60 per bottle, and grew 20% in Brown-Forman’s most recent quarter, is a key driver of the company’s push towards a more premium portfolio. Premium tequila, as a category, grew volumes over 400% between 2002 and 2013 and now represents over 25% of the overall tequila market in the United States. Further, today over 80% of tequila is still sold in the United States and Mexico, suggesting a very large opportunity to expand the category internationally.

- **VODKA**



Brown-Forman’s 3.4 million case Finlandia vodka brand, which it acquired in multiple stages between 2000 and 2005, is the sixth-largest premium vodka brand globally. The brand is also Brown-Forman’s most international brand with more than 90% of its sales generated outside the United States. The brand has successfully carved out a premium niche in large Central and Eastern European vodka markets such as Poland and Russia, which have been historically dominated by low-priced, commodity brands, but are gradually premiumizing. Following this strategy, Finlandia has successfully grown its volumes (~5% CAGR) over the past few years, even as the underlying global vodka market has declined. While the brand does have some presence in the highly-competitive United States vodka market, driving expensive organic growth in the US is not a large priority for the company.

- **LIQUEUR**

Brown-Forman acquired the 140 year old Southern Comfort liqueur brand in 1979 and grew it steadily over the next 20 years from just over one million cases to its peak of just under 2.5 million in 2007. While it remains the company’s third-largest brand by volume, “SoCo” has struggled since 2008, declining to about 1.9 million cases in 2013 as the brand’s shot-driven, on-premise consumption (20-25% of volumes) has weakened. That said, the company has been working to revitalize the brand, focusing on its credentials as a cocktail ingredient and stepping up marketing around the brand’s authenticity and uniqueness with its “Whatever’s Comfortable” campaign.



These initiatives appear to have been moderately successful, as the declines have slowed from the high-single digits to low-single digits over the past few years. While we do not expect any dramatic improvement in Southern Comfort performance, we do believe that the brand’s sales should stabilize and potentially return to growth over time. Further, while not actually a flavored whiskey, Southern Comfort’s appearance and flavor are similar to flavored whiskeys, and as they gain momentum, Southern Comfort may benefit from new interest in the category.

- **OTHER SPRITS AND WINE**

The remainder of Brown-Forman’s portfolio includes its \$160 million wine business: Sonoma-Cultre wines and Korbel champagne (owned by Korbel, distributed by BF), Canadian Mist and Collingwood (Canadian whisky), Chambord (liqueur and vodka), Tuaca (liqueur), and Maximus (vodka). These brands, which together account for about 4.5 million cases of Brown-Forman’s overall volume are, for the most part, managed for margin, as opposed to growth. Over the past few years, the company has been successful growing the price/mix contribution of these brands, driving higher-margin revenue growth, despite moderate volume declines.





**M&A**

Consolidation in the spirits industry can be a particularly attractive use of capital due to the very high-level of synergies (10%+ of target revenues) that are typically extracted by consolidating distribution, marketing, and support functions; deals can be quickly accretive, even at optically high multiples (the median acquisition multiple for spirit assets is 17.5x TTM EBITDA over the past 15 years). While our estimates do not include any benefit from acquisitions, we view potential deals as an opportunity for incremental growth for Brown-Forman in the coming years. The company's last major deal, the \$776 million purchase of its tequila portfolio, took place in 2007, and today the company's net debt/EBITDA stands at under 0.5x, providing ample balance sheet capacity for a meaningful transaction. Further, the company's strong cash generation – we expect over \$3.5 billion of after-tax free cash flow over the next five years (~\$2 billion after dividends) – would allow it to de-lever rapidly.

The company practices a “Four A’s” approach to acquisitions: attractive, affordable, available and advisable, noting that it views deal making opportunistically rather than as a necessity. Brown-Forman seeks to acquire brands that sell at premium-price points, have large international growth potential, and fill category gaps in the company's portfolio, which it has long identified as being scotch, Irish whisky, and US vodka. That said, Brown-Forman has historically been a relatively conservative acquirer, and we view smaller deals to be far more likely than a transformative transaction.

**VALUATION & PMV**

Brown-Forman's 2015P Private Market Value of \$101 is based on 18x \$1.2 billion 2015P EBITDA. We believe that this multiple is strongly supported by precedent transactions in the spirits industry, most notably the recent (January 2014) Suntory Holdings acquisition of Beam, Inc. for 20x TTM EBITDA. Beam's American whiskey skewed portfolio is highly comparable to Brown-Forman's, the company's margins are roughly equivalent, and we are confident that, were Brown-Forman to be acquired in an arms-length transaction, it would command an equivalent or higher valuation. Beam was, however, a 100% free-float company, and while we believe that Brown-Forman would have tremendous strategic value to an acquirer, the Brown family's controlling stake and stated desire to remain independent meaningfully reduces the likelihood that the company's PMV is realized through a sale of the business in the near to mid-term, in our view.

Further, Brown-Forman shares currently trade at 16x and 24x 2015 EBITDA and EPS, respectively, which represent a meaningful premium to both its publicly-traded peers (See Table 6), and to the company's own historical average trading multiples (11-12x FY1 EBITDA and 17-18x FY1 EPS). Given this premium, and the absence of an identifiable catalyst, we do not believe that Brown-Forman's 13% discount to PMV represents a sufficient margin of safety to recommend investors purchase shares.

**Table 5** **Brown-Forman Private Market Value**  
**2013A – 2018P**

*(\$ in millions except per share data)*

<b>FYE 4/30</b>	<b>2013A*</b>	<b>2014E</b>	<b>2015P</b>	<b>2016P</b>	<b>2017P</b>	<b>2018P</b>
<b>Spirits &amp; Wine</b>						
EBITDA	\$ 1,021	\$ 1,117	\$ 1,209	\$ 1,299	\$ 1,392	\$ 1,491
Valuation Multiple	18.0x	18.0x	18.0x	18.0x	18.0x	18.0x
Segment Value	18,378	20,112	21,759	23,382	25,054	26,842
Total Private Market Value	\$ 18,378	\$ 20,112	\$ 21,759	\$ 23,382	\$ 25,054	\$ 26,842
Less: Net Debt	(568)	(460)	(343)	(196)	(37)	134
Less: Options Payments (a)	(117)	(141)	(165)	(191)	(217)	(245)
Equity Private Market Value	\$ 17,693	\$ 19,510	\$ 21,251	\$ 22,995	\$ 24,800	\$ 26,731
Shares outstanding	213	212	210	208	206	204
<b>PMV per share</b>	<b>\$ 83</b>	<b>\$ 92</b>	<b>\$ 101</b>	<b>\$ 111</b>	<b>\$ 121</b>	<b>\$ 131</b>
<i>Current discount to PMV</i>	<i>-7.4%</i>	<i>3.4%</i>	<i>12.1%</i>	<i>19.6%</i>	<i>26.2%</i>	<i>32.2%</i>

*(a) After-tax payments to buy out option holders at Private Market Value.*

*Source: Company reports, Gabelli & Company estimates.*

*\*FY2014 ended 4/30/2014*

**Table 6 Publicly Traded Spirits Companies**

Spirits Industry (in millions, except per share data)		Brown-Forman (BF'B - NYSE)*		Constellation Brands (STZ - NYSE)*		Davide Campari (CPR - MI)		Diageo (DGE - LN)		Pernod Ricard (RI - FR)		Remy Cointreau (RCO - FR)*		Stock Spirits (STCK - LN)	
12-Month High/Low	\$ 97.15 \$ 71.27	\$ 94.77 \$ 63.56	€ 6.44 € 5.04	£ 20.48 £ 16.90	€ 92.48 € 78.82	€ 75.12 € 50.42	€ 3.98 € 2.74								
<b>Capitalization</b>	FYE 4/30	FYE 2/28	FYE 12/31	FYE 6/30	FYE 6/30	FYE 3/31	FYE 12/31								
Balance Sheet as of:	7/31/14	8/31/14	3/31/14	Pro Forma	6/30/14	3/31/14	12/31/13								
Shares Outstanding	213	193	576	2,501	264	48	200								
Options/Converts	2	10	3	3	1	-	3								
Fully Diluted Shares Outstanding	215	202	579	2,504	265	48	203								
Price as of 10/24/2014	\$ 89.00 (class B)	\$ 88.28 (class A)	€ 5.49	£ 17.72	€ 87.84	€ 55.86	€ 4.00 £ 3.15								
<b>Equity Market Capitalization</b>	\$ 19,075	\$ 17,859	3,174	44,359	23,283	2,697	811								
Total Debt and Preferred Stock	1,018	7,192	1,206	11,484	8,830	600	176								
Minority Interest	-	-	5	2,339	157	1	-								
Cash and Equivalents	(460)	(104)	(379)	(693)	(477)	(186)	(130)								
Hidden Assets	-	-	-	(2,152)	-	-	-								
<b>Total Enterprise Value (TEV)</b>	\$ 19,633	\$ 24,946	€ 4,005	£ 55,337	€ 31,793	€ 3,112	€ 857								
<b>Consolidated:</b>															
<b>Net Revenues</b>	2015P \$ 4,495 6.5%	\$ 6,291 4.9%	€ 1,637 6.4%	£ 11,794 4.6%	€ 8,361 5.2%	€ 1,034 7.0%	€ 357 8.0%								
(growth)	2014E 4,220 6.9%	5,998 10.8%	1,538 0.9%	11,277 9.9%	7,945 -7.3%	966 -6.4%	330 -3.0%								
	2013A 3,946 4.3%	5,411 70.6%	1,524 13.7%	10,258 -9.2%	8,575 4.4%	1,032 -13.6%	341 16.4%								
5-Yr CAGR 13-18P	6%	6%	5%	6%	2%	4%	6%								
<b>EBITDA</b>	2015P \$ 1,209 26.9%	\$ 1,904 30.3%	€ 380 23.2%	£ 3,966 33.9%	€ 2,384 33.6%	€ 201 19.4%	€ 84 23.6%								
(margin)	2014E 1,117 26.5%	1,781 29.7%	343 22.3%	3,762 33.3%	2,259 34.1%	181 18.8%	76 22.9%								
	2013A 1,021 25.9%	1,324 24.5%	329 21.6%	3,499 34.1%	2,416 33.9%	167 16.2%	84 24.6%								
5-Yr CAGR 13-18P	8%	12%	9%	6%	2%	10%	7%								
<b>EPS</b>	2015P \$ 3.70 8.8%	\$ 4.73 11.6%	€ 0.32 16.1%	£ 1.12 5.9%	€ 5.08 14.0%	€ 2.16 17.7%	€ 0.25 25.0%								
(growth)	2014E 3.40 11.0%	4.24 30.5%	0.27 8.1%	1.06 11.0%	4.46 -3.3%	1.84 13.0%	0.20 188.6%								
	2013A 3.06 11.5%	3.25 48.6%	0.25 -5.0%	0.95 -7.2%	4.61 1.9%	1.63 -47.4%	0.07 688.8%								
5-Yr CAGR 13-18P	9%	15%	14%	7%	6%	15%									
<b>TEV/EBITDA</b>	2015P 16.2 x	13.1 x	10.5 x	14.0 x	13.3 x	15.5 x	10.2 x								
	2014E 17.6	14.0	11.7	14.7	14.1	17.2	11.3								
	2013A 19.2	18.8	12.2	15.8	13.2	18.6	10.2								
<b>P/E</b>	2015P 24.1	18.7	17.2	15.8	17.3	25.8	16.0								
	2014E 26.2	20.8	20.0	16.8	19.7	30.4	20.0								
	2013A 29.0	27.2	21.6	18.6	19.1	34.3	57.7								
<b>Total Debt/EBITDA</b>	0.5 x	4.2 x	3.7 x	2.9 x	3.7 x	3.6 x	1.7 x								
<b>EBITDA/Interest</b>	42.8	5.3	5.6	9.0	4.5	7.3	1.5								
<b>Net Debt/TEV</b>	2.8 %	29.9 %	21.7 %	19.7 %	27.3 %	14.3 %	5.7 %								
<b>Additional Information:</b>	Louisville, KY	Victor, NY	Milan, Italy	London, UK	Paris, France	Paris, France	Buckinghamshire, UK								
Dividend	\$ 1.16 1.3%	\$ - 0.0%	€ 0.08 1.5%	£ 0.32 1.8%	€ 0.82 0.9%	€ 0.90 1.6%	€ - 0.0%								

Source: Company reports, Gabelli & Company estimates  
\* 2014 and 2015 estimates represent company reported FY2015 and FY2016

**Other Companies Mentioned:**

Constellation Brands	(STZ - NYSE)	Pernod Ricard	(RI - Paris)
Davide Campari	(CPR - Milan)	Rémy Cointreau	(RCO - " )
Diageo	(DGE - London)	Stock Spirits	(STCK - London)

I, **Joseph A. Gabelli**, the Research Analyst who prepared this report, hereby certify that the views expressed in this report accurately reflect the analyst's personal views about the subject companies and their securities. The Research Analyst has not been, is not and will not be receiving direct or indirect compensation for expressing the specific recommendation or view in this report.

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**Important Disclosures**

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Analysts' ratings are largely (but not always) determined by our "private market value," or PMV methodology. Our basic goal is to understand in absolute terms what a rational, strategic buyer would pay for an asset in an open, arms-length transaction. At the same time, analysts also look for underlying catalysts that could encourage those private market values to surface.

A **Buy** rated stock is one that in our view is trading at a meaningful discount to our estimated PMV. We could expect a more modest private market value to increase at an accelerated pace, the discount of the public stock price to PMV to narrow through the emergence of a catalyst, or some combination of the two to occur.

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A **Sell** is a stock that may be trading at or above our estimated PMV. There may be little upside to the value, or limited opportunity to realize the value. Economic or sector risk could also be increasing.

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