

# FORTUNE BRANDS

(FO - \$61.80 - NYSE)



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**Fortune Brands, Inc. (FO – \$61.80 – NYSE)**

**Split! – Buy**

<u>Year</u>	<u>EPS</u>	<u>P/E</u>	<u>PMV</u>		
2012P	\$4.25	14.5x	\$79	Dividend: \$0.76	Current Return: 1.2%
2011P	3.55	17.5	68	Shares O/S: 152.6 million	
2010E	2.80	22.1	59	52-Week Range: \$63.51 - \$37.05	
2009A	2.43	25.4	54		

**SUMMARY AND OPINION**

Fortune Brands, headquartered in Deerfield, IL, is a diversified consumer products company operating in three segments: Spirits, Home & Security, and Golf. The company's spirits brands include Jim Beam, Sauza, Maker's Mark, Courvoisier, Cruzan and Effen. Home & Hardware brands include Moen faucets, MasterBrand cabinets, Therma-Tru doors, Simonton windows, Master Lock padlocks and Waterloo tool storage. The Golf segment (a/k/a Acushnet Company) produces clubs, balls, gloves and shoes through its Titleist, FootJoy and Pinnacle brands.

On December 8, 2010, the company announced that its Board of Directors approved in principle a separation of the company's three businesses as follows:

- Fortune Brands will continue as an independent, publicly-traded company focused solely on distilled spirits
- The home & security business will be spun off to shareholders in a tax-free transaction and become an independent, publicly-traded company
- The golf business will either be spun-off to shareholders or sold

Management will develop its plans over the next several months, and has not yet disclosed the timing or capital structure of the anticipated transactions. Current Chairman and CEO Bruce Carbonari will continue as Chairman of both companies. Matthew Shattock and Christopher Klein are expected to continue as CEOs of the independent spirits and home & security businesses, respectively.

We view the proposed business separation as the culmination of a long history of using financial engineering to the benefit of shareholders. The company evolved from its roots as a tobacco company to a diversified conglomerate, and now to a more focused consumer products company through a series of acquisitions, spin-offs and asset sales over the years.

We believe the plan has the potential to unlock value for shareholders, as one or more of the businesses may ultimately be attractive to strategic acquirors. With shares trading at a 22% discount to our 2012 PMV of \$79 per share, we recommend Buying FO shares.

**Table 1**

**Fortune Brands Earnings Model 2005 – 2014P**

											<b>CAGR</b>	
<b>FYE 12/31</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010E</b>	<b>2011P</b>	<b>2012P</b>	<b>2013P</b>	<b>2014P</b>	<b>'05-'10</b>	<b>'10-'14</b>
<b>Net sales</b>												
Spirits & Wine	\$ 1,642	\$ 2,761	\$ 2,607	\$ 2,481	\$ 2,470	\$ 2,609	\$ 2,739	\$ 2,849	\$ 2,963	\$ 3,082	9.7%	4.2%
Home & Hardware	4,153	4,694	4,551	3,759	3,007	3,239	3,563	3,919	4,154	4,403	-4.9	8.0
Golf	<u>1,266</u>	<u>1,313</u>	<u>1,405</u>	<u>1,369</u>	<u>1,218</u>	<u>1,225</u>	<u>1,229</u>	<u>1,266</u>	<u>1,304</u>	<u>1,343</u>	-0.7	2.3
Total	\$ 7,061	\$ 8,769	\$ 8,563	\$ 7,609	\$ 6,695	\$ 7,073	\$ 7,532	\$ 8,034	\$ 8,421	\$ 8,828	0.0	5.7
% Growth	14.9%	24.2%	-2.3%	-11.1%	-12.0%	5.6%	6.5%	6.7%	4.8%	4.8%		
<b>EBITDA</b>												
Spirits & Wine	\$ 480	\$ 808	\$ 803	\$ 719	\$ 696	\$ 665	\$ 712	\$ 749	\$ 785	\$ 823	6.7%	5.5%
Home & Hardware	763	856	749	491	270	356	428	509	582	660	-14.1	16.7
Golf	206	201	202	159	91	116	120	128	136	144	-10.8	5.4
Corporate	<u>(62)</u>	<u>(73)</u>	<u>(57)</u>	<u>(56)</u>	<u>(86)</u>	<u>(80)</u>	<u>(80)</u>	<u>(80)</u>	<u>(80)</u>	<u>(80)</u>	5.3	0.0
Total	\$ 1,388	\$ 1,791	\$ 1,697	\$ 1,313	\$ 971	\$ 1,058	\$ 1,180	\$ 1,307	\$ 1,423	\$ 1,547	-5.3%	10.0%
% Margin	19.7%	20.4%	19.8%	17.3%	14.5%	15.0%	15.7%	16.3%	16.9%	17.5%		
% Growth	12.2%	29.1%	-5.3%	-22.6%	-26.1%	9.0%	11.6%	10.7%	8.9%	8.8%		
EPS, continuing ops	\$ 4.62	\$ 5.30	\$ 5.07	\$ 3.79	\$ 2.43	\$ 2.80	\$ 3.55	\$ 4.25	\$ 4.95	\$ 5.70	-9.5%	19.4%
% Growth	12.0%	14.7%	-4.4%	-25.1%	-36.0%	15.3%	26.1%	20.3%	16.0%	15.1%		
Capex	\$ 205	\$ 181	\$ 250	\$ 176	\$ 158	\$ 190	\$ 202	\$ 215	\$ 225	\$ 236	-1.5%	5.6%
% of Sales	2.9%	2.1%	2.9%	2.3%	2.4%	2.7%	2.7%	2.7%	2.7%	2.7%		

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

## COMPANY SEPARATION PLANNED

Fortune Brands, headquartered in Deerfield, IL, is a diversified consumer products company operating in three segments: Spirits, Home & Security, and Golf. On December 8, 2010, the company announced that its Board of Directors approved in principle a separation of the company's three businesses. The current plan to spin off the home & security business, either sell or spin off the golf business, and to then continue as an independent, publicly-traded company focused solely on distilled spirits.

Fortune has a long history of using financial engineering to unlock shareholder value. The company's history goes back to the 19<sup>th</sup> century, when it was founded as the American Tobacco Company by James Buchanan "Buck" Duke. Broken into four different companies in 1911, the company began diversifying its business lines in the late 1960s, and company name was changed to American Brands in 1985. By 1997, the company had sold or spun off all of its tobacco interests and was renamed Fortune Brands. In 2005, Fortune greatly expanded its spirits business, acquiring 25 brands from Pernod Ricard (as part of Pernod's acquisition of Allied Domecq) for \$5.25 billion.

### Exhibit 1

### Company History 1890 – 2010

Year	Event
1890	Company founded as the American Tobacco Company, a consolidation by James 'Buck' Duke of the American cigarette industry in response to declining volumes.
1911	Ordered to be dissolved due to violation of the Sherman Antitrust Act by the Supreme Court; split into American Tobacco Company, R.J. Reynolds, Liggett & Myers, and P. Lorillard, and divests stake in British American Tobacco.
1967	Acquired Jim Beam bourbon whiskey.
1970	Acquired Master Lock Company.
1976	Acquired Acushnet, owner of the Titleist golf brand.
1985	Company renamed American Brands.
1990	Acquired Moen faucets.
1994	American Tobacco (US tobacco division with brands including Carlton, Pall Mall and Lucky Strike) acquired by British American Tobacco for \$1 billion and integrated with BAT's Brown & Williamson division (which merged with RJ Reynolds in 2004 to form Reynolds American)
1995	Sold Franklin Life Insurance Company to American General Corp for \$1.2 billion
1997	Spun off remaining tobacco business as Gallaher Group plc, which owned cigarette brands including Benson & Hedges, Silk Cut and Sterling (acquired by Japan Tobacco in 2007). Company name changed to Fortune Brands.
2005	Spun off office products division Acco Brands (ABD – NYSE), which concurrently merged with General Binding Corporation in a reverse-Morris Trust transaction.
2005	Acquired 25 wine and spirits brands previously owned by Allied Domecq from Pernod Ricard for \$5.25 billion concurrently with Pernod's acquisition of Allied Domecq. Brands acquired include Sauza tequila, Maker's Mark bourbon, Courvoisier cognac, Canadian Club whisky, Laphroaig single-malt scotch whisky, Clos du Bois wine, leading regional and national brands and distribution networks in the U.K., Germany and Spain.
2008	Bruce A. Carbonari named Chairman & CEO. Sold wine business to Constellation Brands for \$885 million
2010	Sold Cobra golf brand to Puma for \$89 million. On October 8, 2010, William Ackman's Pershing Square Capital Management reported owning 16.7 million FO shares, or 10.9% of total shares outstanding. On December 8, 2010, announced intention to spin-off Home & Security business, and sell or spin-off Golf business.

## REVIEW OF BUSINESS UNITS

### Spirits (2010E Net Sales – \$2.8 billion)

Fortune's spirits business, called Beam Global Wine & Spirits, owns leading brands such as Jim Beam bourbon whiskey, Sauza tequila, Maker's Mark super-premium bourbon whiskey, Courvoisier cognac, Cruzan rum and Effen vodka. The global spirits market is \$160 billion, and is marked by high margins, low capital requirements and high returns on capital for brand owners. Product ageing for certain spirit types (e.g., whiskeys and cognacs) and brand development which in some cases goes back over a century creates barriers to entry. Fortune's main product categories are whiskey (a \$36 billion market globally), tequila (\$3.5 billion), cognac (\$13 billion) and liqueurs (\$11 billion). Some of the company's top brands are displayed in Table 2.

**Table 2** **Fortune Brands – Major Spirits Brands**

(\$ and cases in millions)		2009 Net	2009	Retail Price per
Brand	Category	Sales (a)	Cases (b)	750 ml Bottle (c)
Jim Beam	Bourbon whiskey	\$550	5.1	\$16.99
Sauza	Tequila	200	2.7	17.99
Courvoisier	Cognac	200	1.0	29.99
Maker's Mark	Bourbon whiskey	150	0.9	25.99
DeKuyper (d)	Cordials	150	4.4	10.99
Canadian Club	Canadian whisky	150	2.0	16.99
Teacher's	Scotch whisky	100	1.7	17.99

(a) Source: Fortune Brands 2006 annual report.

(b) Source: Impact Databank. Based on depletions (shipments from wholesalers to distributors).

(c) Source: www.bevmax.com, January 3, 2011. Based on lowest-priced version of brand.

(d) Case volume figure is global. Fortune Brands owns a perpetual license to DeKuyper in the US.

Fortune entered the spirits business in 1967 with the acquisition of Jim Beam. With roots going back to 1795, when Jacob Beam sold his first barrel of whiskey, today Jim Beam is the leading bourbon whiskey globally<sup>1</sup> at over 5 million cases in 2009. At \$4 billion, bourbon is a relatively small portion of the global whiskey market, but it is uniquely American – one of the only types of distilled spirits exported from the US – and has grown in recent years, even through the economic downturn. Bourbon has specific requirements: it must be produced in the US, come from a grain mixture that is at least 51% corn (with the remainder typically being wheat, rye, and/or malted barley), distilled to no more than 160 proof, have no coloring or flavoring added, be aged in new, charred oak barrels, entered into the barrel at no more than 125 proof, and bottled at no less than 80 proof. In addition to Jim Beam, Fortune owns several other bourbon brands, including the super-premium Maker's Mark brand (with 880,000 cases in 2009), as well as small-batch bourbon brands Knob Creek, Basil Hayden's, Booker's and Baker's.

In 2005, Fortune greatly expanded its spirits and wine business by acquiring 25 brands previously owned by Allied Domecq from Pernod Ricard for \$5.25 billion concurrently with Pernod's acquisition of Allied Domecq. Brands acquired included Sauza tequila, Maker's Mark bourbon, Courvoisier cognac, Canadian Club whisky, Laphroaig single-malt scotch whisky, Clos du Bois wine, as well as other brands and distribution networks in the U.K., Germany and Spain. In 2007, the company sold its wine business to Constellation Brands for \$885 million, deciding to focus solely on distilled spirits. Fortune has also recently added some small spirits brands to its portfolio – in 2008, it acquired Cruzan rum from Pernod Ricard, and in 2009 it acquired Effen Vodka from Sazerac Company. Until 2008, Fortune used Future Brands, a distribution joint venture with Vin & Sprit Group (then-owner of Absolut vodka) to sell its products in the US, and Maxxium, a joint venture with Edrington, Rémy Cointreau and Vin & Sprit, to sell its products in most international markets. Pernod Ricard acquired Vin & Sprit in 2008 and pulled out of both joint ventures, and Rémy Cointreau exited Maxxium in 2009, at which time the partnership was dissolved. Fortune now distributes its own products in the US. Internationally, the company has an alliance with the Edrington Group (owner of The Macallan and Famous Grouse scotch whisky brands) to jointly distribute in most countries. In Australia, Fortune's products are distributed by Coca-Cola Amatil.

<sup>1</sup> Brown-Forman's Jack Daniel's brand, while very similar to bourbon and often included in category statistics, is bigger at 9.6 million cases in 2009, but is charcoal-filtered and therefore technically not a bourbon.

In 2010, Fortune's spirits business has maintained good operational performance despite a difficult environment. For the nine months ended September 30, 2010, the division's sales grew 7% to \$1.8 billion, driven by new products including Jim Beam Black, Red Stag by Jim Beam cherry-infused bourbon, and Maker's 46, as well as by strong growth in Europe. We expect full year 2010 EBITDA to decline slightly to \$665 million due to a step-up in costs associated with transitioning to its own distribution network in the US and a double-digit increase in brand investment. We expect results to improve in 2011 and beyond, based on continued growth in emerging markets, as well as a strengthening market in the US, where on-premise trends have recently turned positive.

We view Fortune's spirits business – especially its bourbon and tequila brands – as the company's "crown jewel", and would expect significant interest from strategic acquirors after the separation, although the company's tail brands would be less desirable. Overall, we would expect major industry players such as Diageo, Pernod Ricard and Bacardi to have interest in some aspect of Fortune's portfolio, although product overlap could result in either a joint bid or brand divestments. We could also envision smaller players (such as Brown-Forman) picking up some of Fortune's brands that may have to be sold off, such as Courvoisier cognac. Historically, spirits companies and brands have been sold at anywhere from 12-20x EBITDA; we use 13x for Fortune's spirits business, although the ultimate multiple could potentially be even higher in an acquisition.

### Home & Security (2010E Net Sales – \$4.7 billion)

Fortune's Home & Security segment sells a wide array of home products, including cabinets, faucets, windows, doors, and locks (see Table 3). The company generally enjoys the #1 or #2 position in most of its product lines. Moen (faucets) is the company's largest brand at \$850 million in sales, though cabinetry is its largest product category at about \$1.3 billion in sales. Products are sold through a combination of home builders, home centers, and dealers. Since most of its products are tied in some way to housing (whether as part of new construction or for "replace & remodel" purposes, which comprise about  $\frac{3}{4}$  of Fortune's business), performance has suffered in recent years due to the downturn in the housing market and general pullback in consumer spending during the recession. As a result, EBITDA declined to \$270 million in 2009, significantly down from peak EBITDA of \$856 million in 2006. The company responded by reducing its manufacturing footprint by 40%, implementing lean manufacturing processes, simplifying product platforms and improving purchasing and sourcing.

**Table 3** **Fortune Brands – Major Home & Hardware Brands**

<b>Brand</b>	<b>Category</b>	<b>2009 Net Sales (mm)</b>
Moen	Faucets	\$850
Master Lock	Padlocks	300
Aristokraft	Cabinets	300
Simonton	Windows	250
Therma-Tru	Doors	250
Waterloo	Tool storage	200
Kitchen Craft	Cabinets	200

*Source: Fortune Brands; Gabelli & Company, Inc. estimates.*

In the first-half of 2010, the business finally rebounded, driven by innovative new products such as Moen eco-friendly faucets and shower heads and energy efficient windows and doors. Performance was also boosted by the first-time homebuyer's tax credit. With the tax credit expiring in April, second half trends moderated, but we still expect a significant rebound in full year 2010 EBITDA to over \$350 million. The company has said that it expects new construction spending to be up in the range of 5-10% for the year, with overall "replace & remodel" spending relatively flat, and spending for cabinetry and other big-ticket items off low- to mid-single digits. That said, we think the market for home products has significant room to grow from current levels: for example, according to the 2010 Freedonia Cabinet Survey, the market for cabinetry products declined to \$10.6 billion in 2009 from \$15 billion in 2006, but is expected to grow back to over \$15 billion by 2014. Fortune also recently secured increased product placement for cabinets at home centers, which should help the company to gain share going forward. Some products, such as faucets, will naturally have to be replaced from time to time, and sales should increase when home remodel work and new construction sales increase again as consumers gain more confidence. Ultimately, long term demographic trends will lead to increased housing needs in the US, so while we are not projecting a return to peak EBITDA, we do expect a substantial increase from current levels of profitability over the next several years.

### Golf (2010E Net Sales – \$1.2 billion)

Fortune's golf business consists primarily of the Titleist, Pinnacle, and Foot Joy brands. Over two-thirds of the segment's revenues are derived from "consumables" such as golf balls, gloves and shoes. Fortune enjoys leading market share in all three categories. In the golf club market, which is more fragmented, Titleist enjoys about a 10% share. Fortune sold its underperforming Cobra golf club brand to Puma on April 16, 2010 for \$89 million (the company acquired the brand in 1996 for \$712 million).

This business has also felt the effects of the economic downturn, with 2009 EBITDA of just \$91 million, down from over \$200 million in 2007, as rounds of play declined and big-ticket club set purchases were postponed by consumers. With continued growth in Asia and a now more stable US golf market, we believe that Fortune's remaining golf brands may be highly desirable to a larger sporting goods acquiror, such as Nike or Adidas. The Titleist brand would give an acquiror instant credibility within the sport (its balls are overwhelmingly preferred by professional golfers, and clubs are highly regarded).

### VALUATION

We expect the most likely outcome of the business separation is that the golf business will be sold and the home & security business will be spun off. While some potential acquirors may have other near-term priorities (Diageo may seek to buy the 66% of Moët Hennessey it doesn't own from LVMH, and Pernod needs to further de-lever following its acquisition of Vin & Sprit in 2008), ultimately we expect Fortune's spirits business will be acquired by one or more strategic buyers. We use private market multiples of 13x, 9x and 10x for the spirits, home & security, and golf divisions, respectively. After deducting net debt, this results in a private market value of \$79 per share in 2012. With shares currently trading at a 22% discount to our 2012 PMV, and the catalyst of a business separation unfolding in the back half of 2011, we recommend buying FO shares.

**Table 4 Fortune Brands – Private Market Value Analysis**

(\$ in millions, except per share amounts)

	<u>2010E</u>			<u>2011P</u>			<u>2012P</u>			<u>2013P</u>			<u>2014P</u>		
<b>Spirits</b>															
Net sales	\$	2,609	5.6%	\$	2,739	5.0%	\$	2,849	4.0%	\$	2,963	4.0%	\$	3,082	4.0%
EBITDA (margin)		665	25.5		712	26.0		749	26.3		785	26.5		823	26.7
Valuation Multiple		<u>13x</u>			<u>13x</u>			<u>13x</u>			<u>13x</u>			<u>13x</u>	
Segment Value		8,649			9,259			9,741			10,208			10,696	
<b>Home and Security</b>															
Net sales	\$	3,239	7.7%	\$	3,563	10.0%	\$	3,919	10.0%	\$	4,154	6.0%	\$	4,403	6.0%
EBITDA (margin)		356	11.0		428	12.0		509	13.0		582	14.0		660	15.0
Valuation Multiple		<u>10x</u>			<u>9x</u>			<u>9x</u>			<u>8x</u>			<u>8x</u>	
Segment Value		3,563			3,848			4,585			4,652			5,284	
<b>Golf</b>															
Net sales	\$	1,225	0.6%	\$	1,229	0.3%	\$	1,266	3.0%	\$	1,304	3.0%	\$	1,343	3.0%
EBITDA (margin)		116	9.5		120	9.8		128	10.1		136	10.4		144	10.7
Valuation Multiple		<u>10x</u>			<u>10x</u>			<u>10x</u>			<u>10x</u>			<u>10x</u>	
Segment Value		1,164			1,205			1,279			1,356			1,437	
<b>Corporate</b>															
EBITDA	\$	(80)		\$	(80)		\$	(80)		\$	(80)		\$	(80)	
Valuation Multiple		<u>8x</u>			<u>8x</u>			<u>8x</u>			<u>8x</u>			<u>8x</u>	
Segment Value		(639)			(639)			(639)			(639)			(639)	
Total Private Market Value	\$	12,736		\$	13,673		\$	14,966		\$	15,577		\$	16,778	
Less: Net Debt		(3,594)			(3,158)			(2,668)			(2,087)			(1,405)	
Less: Options Payments (a)		(53)			(99)			(171)			(242)			(354)	
Less: Noncontrolling interests		<u>(18)</u>			<u>(18)</u>			<u>(18)</u>			<u>(18)</u>			<u>(18)</u>	
Equity Private Market Value	\$	9,072		\$	10,397		\$	12,110		\$	13,231		\$	15,001	
Shares Outstanding		153			153			153			153			153	
<b>PMV per share</b>	<b>\$</b>	<b>59</b>		<b>\$</b>	<b>68</b>		<b>\$</b>	<b>79</b>		<b>\$</b>	<b>86</b>		<b>\$</b>	<b>98</b>	
Current Market - Discount to PMV		-4.3%			9.0%			21.9%			28.5%			36.9%	

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

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

**Table 5 Fortune Brands – Comparable Spirits & Wine Company Analysis**

(in millions, except per share data)

<i>(in millions, except per share data)</i>	Fortune Brands (FO - NYSE)		Brown-Forman (BF'B - NYSE)		Campari <i>(b)</i> (CPR - IT)		Constellation Brands (STZ - NYSE)		Diageo <i>(c)</i> (DGE - LN)		Pernod Ricard <i>(b)</i> (RI - FP)		Rémy Cointreau <i>(b)</i> (RCO - FP)		
12-Month High/Low	\$ 63.51	\$ 37.05	\$ 73.00	\$ 48.93	€ 5.02	€ 3.46	\$ 22.52	\$ 14.60	£ 12.40	£ 9.88	€ 72.50	€ 54.89	€ 54.45	€ 33.18	
<b>Capitalization</b>	FYE 12/31		FYE 4/30		FYE 12/31		FYE 2/28		FYE 6/30		FYE 6/30		FYE 3/31		
Balance Sheet as of:	9/30/10		10/31/10		6/30/10		11/30/10		6/30/10		6/30/10		9/30/10		
Shares Outstanding	153		147		581		208		2,486		264		48		
Options / Converts	1		1		2		1		6		4		11		
Fully Diluted Shares Outstanding	154		148		584		209		2,492		268		49		
Price as of: 1/6/2011	\$ 61.80		\$ 69.12		€ 4.90		\$ 19.84		£ 12.28	\$ 75.79	€ 68.74		€ 53.10		
<b>Equity Market Capitalization</b>	\$ 9,499		\$ 10,243		€ 2,861		\$ 4,148		£ 30,602	\$ 47,217	€ 18,422		€ 2,589		
Net Debt and Preferred Stock	3,606		464		671		3,711		6,954		10,584		485		
Minority Interest	0		0		2		0		779		185		1		
Hidden Assets	0		0		(1)		(230)		(2,060)		0		(138)		
<b>Total Enterprise Value (TEV)</b>	\$ 13,105		\$ 10,707		€ 3,533		\$ 7,628		£ 36,275	\$ 55,991	€ 29,191		€ 2,937		
<b>Calendar Year: <i>(a)</i></b>															
<b>Net Revenues</b> <i>(growth)</i>	2012P	\$ 8,034	6.7%	\$ 3,538	5.4%	€ 1,241	2.7%	\$ 2,667	4.2%	£ 15,006	6.4%	€ 8,215	6.0%	€ 995	5.0%
	2011E	7,532	6.5%	3,355	3.2%	1,208	6.0%	2,560	-23.3%	14,101	5.9%	7,748	6.1%	948	7.1%
	2010E	7,073	5.6%	3,249	1.4%	1,140	13.0%	3,336	-0.8%	13,313	5.5%	7,306	2.3%	885	12.9%
<b>EBITDA</b> <i>(margin)</i>	2012P	\$ 1,307	16.3%	\$ 885	25.0%	€ 341	27.5%	\$ 910	34.1%	£ 3,646	24.3%	€ 2,330	28.4%	€ 219	22.0%
	2011E	1,180	15.7%	827	24.6%	331	27.4%	876	34.2%	3,383	24.0%	2,173	28.0%	203	21.5%
	2010E	1,058	15.0%	790	24.3%	310	27.2%	885	26.5%	3,151	23.7%	2,017	27.6%	182	20.6%
<b>EPS</b> <i>(growth)</i>	2012P	\$ 4.25	20.3%	\$ 3.80	10.1%	€ 0.33	6.0%	\$ 2.05	7.9%	£ 0.95	11.8%	€ 5.00	9.9%	€ 2.80	9.8%
	2011E	3.55	26.1%	3.45	7.8%	0.31	10.6%	1.90	5.6%	0.85	13.3%	4.55	12.3%	2.55	15.9%
	2010E	2.80	15.3%	3.20	7.5%	0.28	15.3%	1.80	8.0%	0.75	10.7%	4.05	15.0%	2.20	21.9%
<b>TEV/EBITDA</b>	2012P	10.0 x		12.1 x		10.3 x		8.4 x		10.0 x		12.5 x		13.4 x	
	2011E	11.1		13.0		10.7		8.7		10.7		13.4		14.4	
	2010E	12.4		13.6		11.4		8.6		11.5		14.5		16.1	
<b>P/E</b>	2012P	14.5 x		18.2 x		14.9 x		9.7 x		12.9 x		13.7 x		19.0 x	
	2011E	17.5		20.0		15.8		10.4		14.4		15.1		20.8	
	2010E	22.1		21.6		17.4		11.0		16.4		17.0		24.1	
<b>Total Debt/EBITDA</b>		4.1 x		0.9 x		3.7 x		4.2 x		2.8 x		5.5 x		3.4 x	
<b>EBITDA/Interest</b>		5.7 x		55.4 x		9.2 x		3.9 x		20.3 x		4.5 x		3.3 x	
<b>Net Debt/TEV</b>		27.4 %		4.3 %		18.9 %		48.6 %		19.2 %		36.3 %		16.5 %	

Source: Company data, Gabelli & Company, Inc. estimates.

(a) If company's fiscal year differs from a 12/31 year end by one quarter or more, figures are adjusted to match calendar year end.

#### Companies Mentioned:

Acco Brands	(ABD	\$8.43	NYSE)
Brown-Forman	(BF'B	\$69.12	"")
Campari	(CPR	€4.90	Milan)
Coca-Cola Amatil	(CCL	A\$10.96	Sydney)
Constellation Brands	(STZ	\$19.84	NYSE)
Diageo	(DEO	\$75.79	NYSE)
Pernod Ricard	(RI	€68.74	Paris)
Rémy Cointreau	(RCO	€53.10	"")
Reynolds American	(RAI	\$33.85	NYSE)

#### Price Performance Since Initial Recommendation Fortune Brands



Source: Public data. As of January 7, 2008 FO was rated a BUY. On July 1, 2008 we placed a HOLD on FO. On October 27, 2008 we placed a BUY on FO. On January 30, 2009 we placed a HOLD on FO.

I, **Kevin Dreyer**, 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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#### Ratings

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.

A **Hold** is a stock that may be trading at or near our estimated private market value. We may not anticipate a large increase in the PMV, or see some other factors at work.

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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