



Recommendation: I recommend buying Beclé (BMV: CUERVO) with a MXN60 target price at end of FY26 vs. current price of MXN31.99. (88% upside / 26% IRR).

Business Overview: 250-year-old family owned and controlled (87% of float within the family, 11th generation CEO) Beclé, also known as Cuervo, produces, sells, and distributes more than 30 spirit brands in more than 85 countries. The tequila portfolio is almost 70% of sales and Beclé is the market leader with almost 30% volume market share, more than 2.5x the next competitor. In recent years, the Mexico based company diversified its product mix and brand portfolio to include whiskey, rum, gin, vodka and mezcal to become a global leader in the spirits industry.

Competitive Advantage: Regulatory distribution rules (3-tier system) in the US create a unique dynamic of dual-sided economies of scale that strengthens barriers to entry and favors the incumbents. High fixed costs involved in managing a distribution center, and economies of density for the distributors operating in an area, lead distributors to favor large suppliers. **Distributors want to capitalize on their economies of scale > they favor large suppliers > large suppliers have an economies of scale advantage.**

Why does the opportunity exist: The market is so focused on short-term returns that it fails to recognize that the current headwinds are transitory, and by end of 2024 both will be materially subsided, expanding margins and topline. In the recent earnings the stock cratered 25% mainly due to margin contraction and an unfavorable near-term future.

- The Peso (MXN) appreciation to the USD (Cuervo does not hedge), reaching 7 years highs, putting pressure on margins as it sells for (70%) USD but produces mostly in MXN (COGS, employees, etc.).
- **High agave prices (also in MXN) and inventory levels mean that it will take at least 6 months before the margin expands. The market is fed up with waiting for the costs to change.**

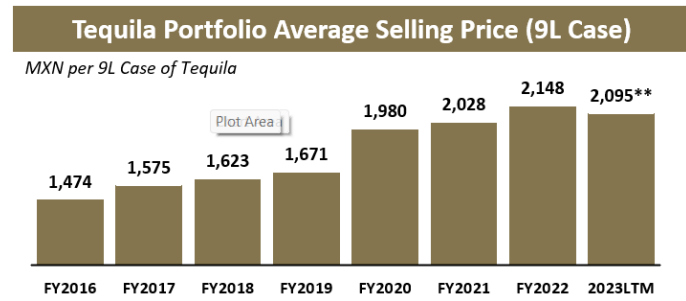
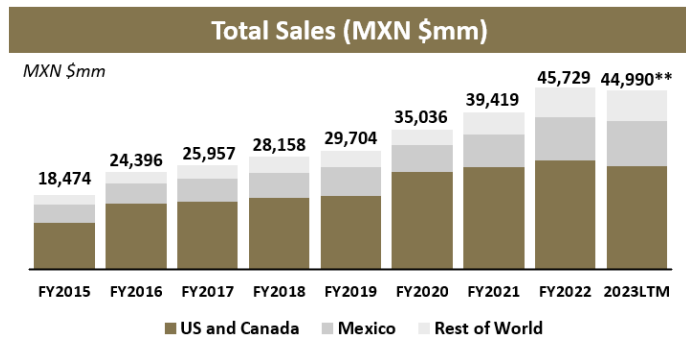
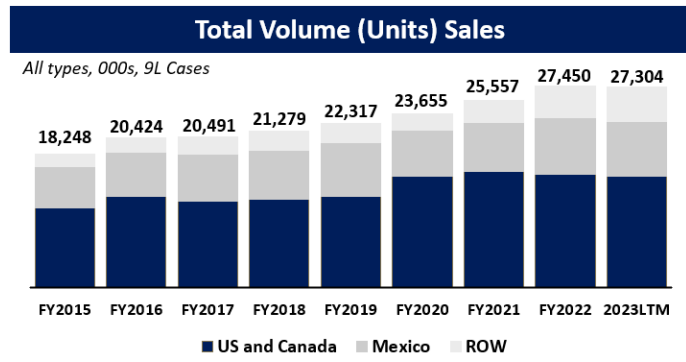
Thesis Point #1: The market underestimates both the sustainability and the impact of depressed future agave prices on the gross margin of Beclé, ultimately expanding margins significantly by end of FY2025 back to 2015 levels.

Thesis Point #2: Cuervo is set to capitalize on triple secular long-term tailwinds (spirits, tequila, premiumization).

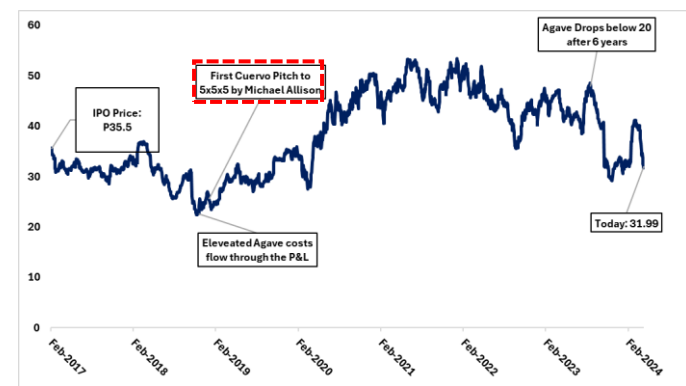
Thesis Point #3: Cuervo trades below Asset Value of Equity.

Risks and Mitigants:

- 1. Family Control.** In many instances owner-operator dynamics could increase value to shareholders due to favorable agency costs. In Beclé’s case, this could mean the next CEO is not well-suited for the job. On the other hand, it has grown for the past 250 years inside the family to become the undisputed number 1 global tequila player.
- 2. Consumer weakness.** The past few years have been a consumer liquidity (government money) on top of an already strong consumer due to long low interest rates and low unemployment rates. If consumer weakens, one of the first places they cut is experiences and high-end, luxury-like premium beverages. However, Cuervo is positioned well for consumer weakness, with its highest share of the value category – Jose Cuervo Especial estimated to have ~70% of value market share.
- 3. Upcoming competition with celebrity brands.** Celebrity tequila brands (and other competitors) pose a risk on the market share for Cuervo and other large incumbents. However, **I believe this is a net benefit for the incumbents.** Tequila is becoming more relevant exactly because celebrities endorse it.

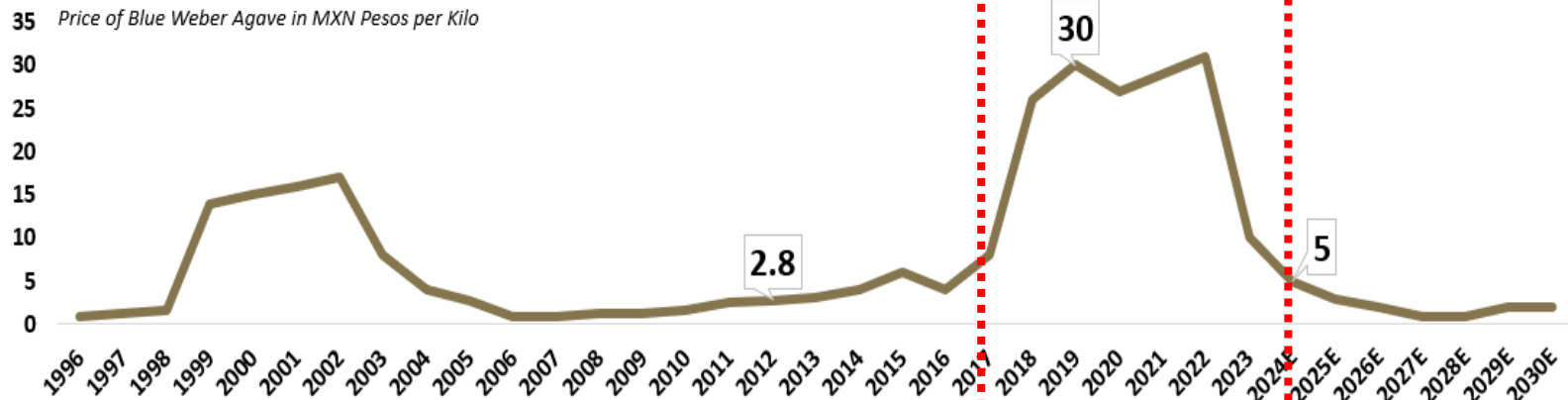


**Drop in 2023 is solely due to MXN appreciation. USD ASP and total sales increase was ~10%.



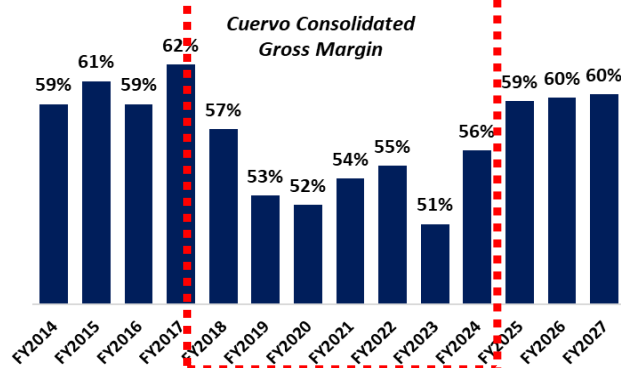


Main Thesis (#1): Agave prices dropped and will remain depressed for at least 7 years, expanding gross margins beginning 2H2024 and onwards.



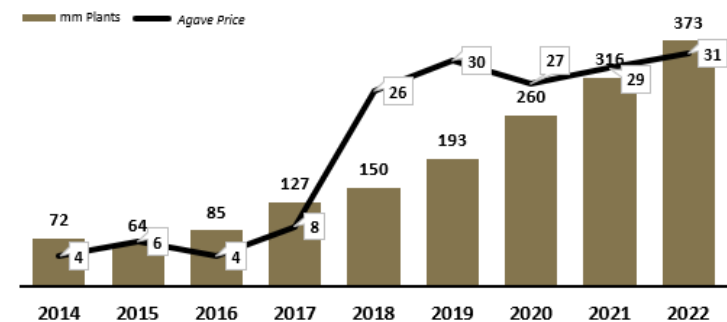
Here's why I believe agave prices will fall further and remain extremely depressed for at least 7 years:

- In 1998 agave prices shot up, incentivizing high plantations of agave. Subsequently, in 2004 agave prices dropped dramatically (**Agave takes 7 years to mature**). I believe we have the exact same case today (see Agave plantings data below).
- According to my calculations, this means that Agave will again be over supplied, dropping prices for a long period of time. We can see prices already went down dramatically through mid-year 2023. **My sources mentioned that Spot Agave Price is now at 6MXN** – much lower than what you will find online. There is no active market for Agave, so its current price is hard to figure out.
- For context, the amount of Agave used in 2023 is ~2.5M ton. I project Agave availability to be at 4-5M ton in 2024. **This means that we get a production capacity of about ~2x the amount of tequila produced in 2023.**



Plants Planted

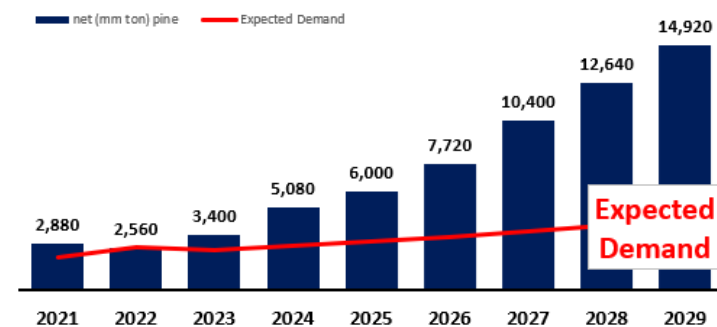
#mm plants planted each year (actual)



Source: CRT – Tequila Regulatory Council; Agave spot prices: various sources; My estimates; Company filings.

Estimation of Mature Agave Supply

Mm Ton Net Mature Pine Estimation



7 years of maturity

- It is important to note that **Agave farming and tequila making (distilling and bottling) must be done in Jalisco, Mexico and is strictly regulated by the CRT (Tequila Regulatory Council) – a government agency.** This gives complete visibility on agave supply.
- While you might expect an immediate effect, Cuervo currently has ~6 months of inventory and about 40% of their bottles are aged (premium tequila). Thus, I expect the full Agave effect to complete at FY2026. Nonetheless, once the market realizes the new agave prices, the stock is likely to react accordingly.



- My research suggests that marginal cost of production for agave is 6-8 MXN. While the low agave costs are good to all tequila manufacturers and is less beneficial to Cuervo due to them growing most of their own agave, the cost of Agave of the average selling price of a tequila bottle is small, not giving a real cost advantage to competition.

Now to the good part: Agave is ~42% of COGS so price impact on gross margins is huge - ~800bps.

I conducted a bottom-up estimation of the impact of agave prices on COGS, using available information I collected from primary research and different sources, including articles about tequila manufacturing and other reports. According to my calculations, because of the high drop in agave prices and the large proportion of agave to the total cost of tequila production, **unit economics gross margins are likely to expand from ~54% to ~62%**. This should translate to a material gross margin expansion, similar in scale to pre-2017 levels of 60% (on a consolidated basis).

Unit economics of a tequila bottle, 100%, 750c, 40% Vol., MXP		
750ml Bottle Selling Price		179
Current Margins		
Current GM	54%	5y average
Total COGS	82.3	(1-GM)*Price
a Internal Agave Cost	8.0	
b Spot Agave Price	30.0	
c Average Cost per kg	12.4	
d Agave per Avg. Bottle (kg)	2.8	3.5kg per avg. 100% tequila
e Total Agave Cost per Bottle	34.7	c*d
f Agave / COGS	42%	
g Other costs (glass, labor, etc.)	47.6	(1-f)*COGS
Future Margins incorporating new agave cost		
a Internal Agave Cost	8.0	
b Spot Agave Price	5.0	
c Average Cost per kg	7.4	
d Agave per Avg. Bottle (kg)	2.8	3.5kg per avg. 100% tequila
e Total Agave Cost per Bottle	20.7	c*d
f Other costs (glass, labor, etc.)	47.6	see above
g Total Cost	68.3	
GM (calculated)	61.8%	

*Assuming 80% integration

Agave Cost effect on Consolidated GM							
Integration							
Spot Price	50%	60%	70%	80%	90%	100%	
30	19	16.8	14.6	12.4	10.2	8	
20	14	12.8	11.6	10.4	9.2	8	
15	11.5	10.8	10.1	9.4	8.7	8	
10	9	8.8	8.6	8.4	8.2	8	
6	7	7.2	7.4	7.6	7.8	8	
5	6.5	6.8	7.1	7.4	7.7	8	
3	5.5	6	6.5	7	7.5	8	

Implied GM							
Integration							
Spot Price	50%	60%	70%	80%	90%	100%	
30	43.7%	47.1%	50.6%	54.0%	57.4%	60.9%	
20	51.5%	53.4%	55.3%	57.1%	59.0%	60.9%	
15	55.4%	56.5%	57.6%	58.7%	59.8%	60.9%	
10	59.3%	59.6%	59.9%	60.3%	60.6%	60.9%	
6	62.4%	62.1%	61.8%	61.5%	61.2%	60.9%	
5	63.2%	62.8%	62.3%	61.8%	61.4%	60.9%	
3	64.8%	64.0%	63.2%	62.4%	61.7%	60.9%	

- Cuervo is the biggest producer of Blue Webber Agave, and it grows most of the agave it consumes (**Integration in the tables above mean the amount of agave Cuervo grows out of total agave used**). Until 2020, the company disclosed their vertical integration but then stopped for strategic reasons. Rough estimates of their agave uses and plantings (they disclose inventory of plants), and different triangulations of gross margins in different regions led me to assume they are at roughly 80% vertical integration.



Thesis #2: Triple long-term secular tailwinds will fuel high single digit topline organic growth.

(1) Spirits Volume will continue to gain share over Wine and Beer.

- Over the past two decades, spirits volume consumption have taken share from wine and beer, growing at a 5.4% CAGR, compared to 3.6% for TBA (Total Alcoholic Beverages).
- The main force behind this growth is premiumization. In fact, per capita spirits consumption hardly moved, and it grew at the same rate of the population.
- Spirits are now relevant in more occasions.
 - L.A – Former CMO, Patron Tequila [Primary Research] *“The cocktail culture is hot, and it is taking more and more share from bottles and beer. Tequila is actually great for cocktails and tequila gets to more drinking occasions.”*
- Distributors (particularly relevant for the US market) are better incentivized selling spirits.
 - J.F – Trade Development Manager, Southern Glazer’s [Primary Research] *“Because spirits have much more margins, they spend a lot more on advertising compared to beer. This is one of the main reasons spirits have taken market share from beer over the past years, it goes hand in hand with the premiumization trend.”*
 - Compared to Beer, price per Litre is higher for spirits -> better for distributors.
 - Compared to Wine, there are no crops, age, etc. In this sense, wine is more boutique and with higher SKUs compared to spirits -> lower SKUs is better for distributors.

Alcoholic Beverages Sales CAGRs

	3y	5y	10y	20y
Spirits	9.0%	7.5%	5.8%	5.4%
Wine	3.2%	2.9%	3.1%	3.6%
Beer	2.6%	2.5%	2.1%	2.2%
Total	5.2%	4.5%	3.7%	3.6%

Spirits Categories Sales CAGRs

9L Cases	3y	5y	10y
Tequila	14.9%	9.4%	8.3%
Whiskey	4.2%	3.1%	4.1%
Vodka	0.8%	1.1%	1.6%
Rum	0.5%	(0.7%)	(0.5%)
Gin	0.2%	0.7%	(0.2%)

Source: DISCUS and IWSR; Volumes; 9L Case = 12 750ml bottles.

(2) Tequila to gain share and relevance in US and ROW over other spirits.

- Within spirits, tequila is gaining market share.
 - In 2010, tequila was 8% of total spirits volumes, and today tequila consumption has grown to 14%, on the expense of Rum, Gin, and most importantly, Vodka.
 - Vodka is the largest category of spirits, and tequila is likely to continue to gain volume shares over Vodka.
 - Director of Brand Innovation of Patron [Tegus, September 2023] *“I think that tequila is going to surpass vodka easily. That’s going to happen in the next couple of years.”*
 - According to DISCUS, tequila grew volumes by 11% and revenues by 17%, and 6% and 8% in 2022 and 2023 accordingly. Vodka declined in both volumes and revenue in both years.
 - Tequila is more profitable for both producers (Cuervo, Diageo, Brown-Forman, etc.) and distributors because of a higher average consumer price for tequila. This helps extract more value from consumers.
- Beclé in and of itself is competing well within that growing category.
 - According to IWSR, Beclé has increased market share volumes and sales through 2022, despite heavy competition from Diageo who bought Casamigos (Clooney’s \$1B fastest growing tequila brand).
- Beclé’s portfolio is highly concentrated on tequila (68% of sales mix) and thus is set to benefit from tequila gaining share the most. The more profitable, premium tequilas will take a higher share of the sales mix, potentially expanding margins.
- Increasing awareness to the Hispanic culture increases tequila relevance – it’s cool to drink tequila. According to US Census Bureau, the Hispanic population in the US is expected to double in the next 4 decades, increasing its share of the US population from 17.8% to 27.5%.
- The opportunity in the Rest of the World segment (ex. US and Mexico) is compelling.
 - While I agree we should not expect penetrations that are similar to those in the US, the size of the ROW segment is estimated to be ~6x larger than the size of the US spirits market.
 - ROW tequila penetration is low but growing rapidly. According to IWSR, tequila penetration is about 2% of spirits volumes in that region, up from ~1% in 2015.
 - Beclé increased volumes sales in ROW more than 2.5x in the past 7 years (faster than in US/Mexico).
 - Brand Manager in Diageo [Primary Research]: *“We are making a big bet in ROW currently, starting more with the English-speaking countries whose culture is more similar to that in the US. This is a long-term bet we [large suppliers] are all happy to make.”*



(3) Premiumization trend has room for growth.

○ The premium trend is value accretive to all sides of the equation and is supported by a larger consumer macro trend to eat better.

- **Consumers** get to consume less volumes > less calories > hence they want higher quality and agree to pay more.
 - Oscar Iga, Director at Agave Spirits Institute [Primary Research] *"We see consumers asking more and more about the healthiness of the tequila. The beautiful thing about tequila is that it is produced from just one plant, the agave, and consumers perceive it to be a healthier choice."*
 - There is a large trend of consuming 100% tequila, additive free drinks.
- **Producers** get to increase margins, effectively selling the same liquid at a higher price.
 - J.A.B– Co-Founder, Celosa Rose Tequila [Primary Research] *"It doesn't cost more to produce the liquid of a \$200 bottle. The bottle definitely costs more, some bottles have a marble cap for example. But other costs (gross) are the same, so you get a much higher gross margin."*

Tequila Volume CAGRs

9L Cases	3y	5y	10y	20y
Value	3.3%	2.7%	3.3%	4.1%
Premium	9.1%	8.1%	7.0%	4.8%
High-End Premium	24.5%	22.1%	17.8%	13.7%
Super-Premium	25.4%	20.0%	16.2%	15.8%
Total	14.1%	11.7%	9.6%	7.2%

Tequila Sales CAGRs

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Value	4.4%	4.7%	4.4%	4.4%
Premium	13.0%	10.7%	7.8%	5.3%
High-End Premium	27.5%	24.4%	18.9%	14.8%
Super-Premium	27.7%	21.7%	16.6%	17.7%
Total	21.4%	17.2%	12.9%	10.2%

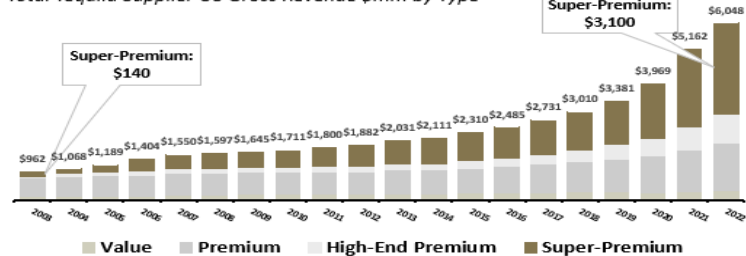
Retail prices per 750c Bottle: Value = ~\$12; Premium = \$12-\$20; High-End Premium = \$20-\$30; Super-Premium = \$30+. Source: DISCUS and IWSR

- **Distributors** get to sell a higher priced product, helping them increase margins themselves.
 - J.F – Trade Development Manager, Southern Glazer's [Primary Research] *"We can get up to 90% [mark-up] margins on the premium bottles. On-premise they can sell it for 4x the price they paid us as shots or in cocktails."*
- **Retailers** in turn get to sell higher priced products and take a higher absolute margin for the same shelf space.
 - A.N – Liquor Store owner [Primary Research] *"Of course I would rather sell a \$50 bottle over a \$20 bottle. When the customer trades up I am happy."*

○ All competitors focus on premiumization, which increases premium products' share .

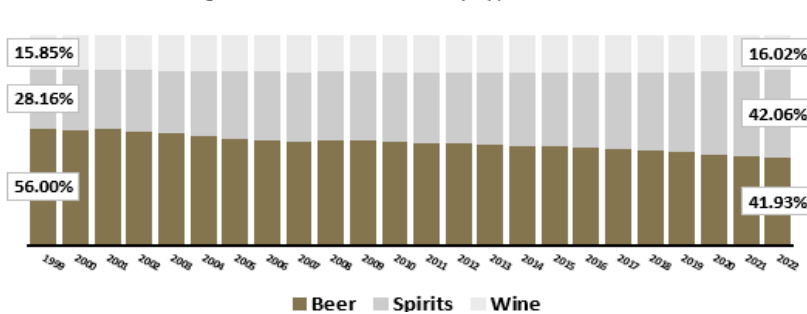
- Brand Manager in Diageo [Primary Research]: *"We see the largest growth within the super-premium category. Consumers are looking for a high quality, kind of luxury product but still at an affordable price range. At the \$25-\$35 they get both"*

Total Tequila Supplier US Gross Revenue \$mm by Type



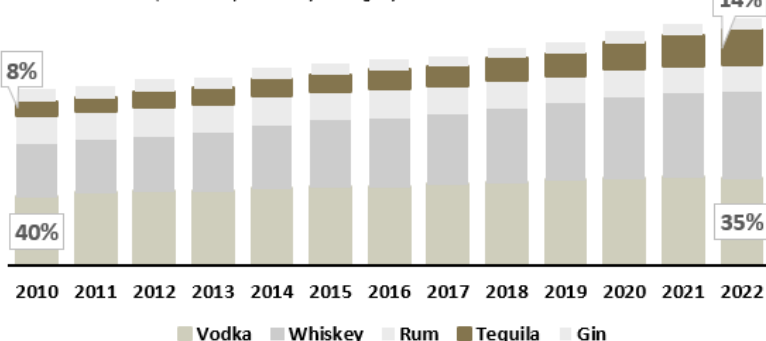
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US Alcoholic Beverage Market Share Revenue by Type



Tequila Taking Share from Vodka (Units)

US Total Volume (9L Cases) Share by Category



IWSR Market Share by volumes, MM 9L Cases							
2020		2021		2022			
# Manf.	Mkt Share	Volume	Manf.	Mkt Share	Volume	Manf.	Mkt Share
1	29.3%	10.4	Becle	28.5%	11.7	Becle	29.8%
2	10.3%	3.7	Diageo	12.3%	5.1	Diageo	12.4%
3	8.9%	3.2	Bacardi	9.4%	3.9	Bacardi	9.7%
4	8.6%	3.1	Beam Suntory	7.6%	3.1	Beam Suntory	6.8%
5	5.6%	2.0	Brown Forman	5.7%	2.3	Brown Forman	5.4%
6	5.2%	1.8	Sazerac	4.5%	1.9	Sazerac	4.2%
7	2.9%	1.0	Pernod Ricard	2.9%	1.2	Pernod Ricard	2.8%
8	2.8%	1.0	Campari	2.8%	1.2	Campari	2.8%
9	2.3%	0.8	Heaven Hill	2.3%	0.9	Heaven Hill	2.6%
10	2.1%	0.7	MGP	2.2%	0.9	MGP	2.0%
Total Top 10	78.0%	27.7		78.2%	32.2		78.5%
Total Market	100.0%	35.5		100.0%	41.2		100.0%



Thesis #3: Cuervo trades below its Asset Value of Equity.

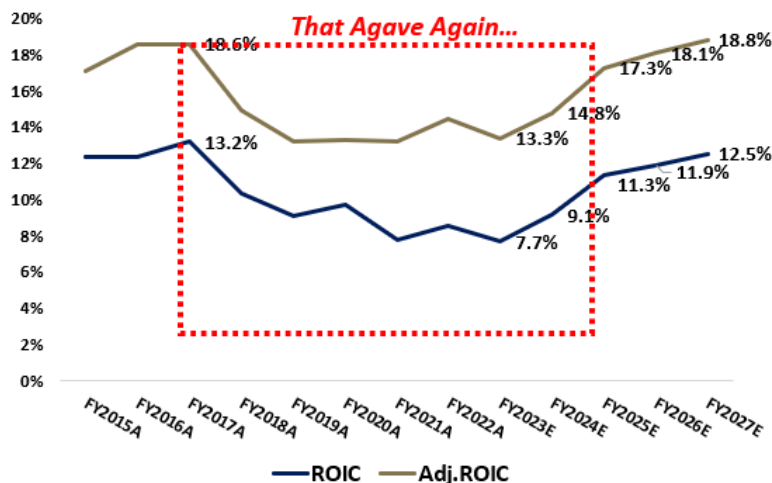
The brand portfolio is the most valuable asset of Bece. Using the Modern Value Investing framework, I conservatively estimated the brand portfolio value of Bece at about P\$85B (See appendix for full details). At current valuation, you get this brand portfolio at a significant discount.

Item	Estimate*
Book Value	57,622
Adjustments to Goodwill	(11,211)
FY2023 AMP Spend	10,223
Brand Portfolio**	85,192
AV of Equity	131,603
Market Value of Equity	104,498
AV per Share	36.65
Current Share Price	31.11

*All numbers in MXN

** Brand Portfolio Value = FY2023 AMP Spend / 12%

Source: Capital IQ; My estimates



*ROIC defined as $\text{NOPAT} / (\text{Debt} + \text{Equity} - \text{Cash})$. See appendix for Adj. ROIC.

Valuation Framework

Key Drivers

- I used a granular model, assuming volume and prices for each geography to come up with my **revenue** assumptions.
 - Volume and prices were affected by the product mix, generally tequila taking more share of the product mix as the premiumization continues and RTD (Ready To Drink) and non-alcoholic beverages take a smaller part of the of the overall pie.
 - RTD and non-alcoholic were pulled forward by Covid – people started to drink at home while on-premise drinking was limited. Management also believes it will decline closer to pre-covid levels.
 - Volume was affected by the expected drinking-age population growth in the regions.
 - Price growth in the regions was also affected by inflation expectations (particularly in Mexico).
- For **gross margin**, I triangulated the future margin by estimating:
 - Future agave prices and their impact on COGS.
 - Down-cycle agave prices impact on consolidated gross margins.
 - Down-cycle agave prices impact on gross margin in Mexico.
 - Premiumization trend > higher price per product > higher gross margins per product.
- For **EBITDA margin**, the main driver was an increase in AMP (Advertising, Marketing and Promotions) due to higher investment in intangibles because of premiumization.
- I did not model any FX effects.
 - I do want to stress that the FX environment had usually been a net tailwind with the strengthening of the dollar.
- I did not model any multiple expansion, even though one might be warranted (bull case) when economics improve.

Capital Allocation. In the past few years because of the increase in demand for tequila, Cuervo invested in a new (3rd) tequila distillery, expanded storage capacity, and invested in Agave plantations. If demand was relatively stable, maintenance capex was relatively low at ~2% of sales. One of their distilleries is over 200 years old!

Future Capital Allocation. Bece is about to finish building its third (and very large) distillery in Mexico and almost all of the capex for it is behind. In the near future, Bece will continue with its dividend (30% payout ratio) and debt pay down. It will take Bece at least another 3-4 years before it can acquire another brand. Its important to note that because of technical reasons Bece cannot buy back stocks because the float is too small.



Resources Used: Company filings, Presentations, Transcripts, Capital IQ, FactSet, Distilled Spirits Council of the United States (DISCUS), International Wine and Spirits Research (IWSR), Taste Tequila, Paper: Development of a Predictive Model for Agave Prices Employing Environmental, Economic, and Social Factors: Towards a Planned Supply Chain for Agave-Tequila Industry at mdpi.com, SipSource, Wine and Spirits Wholesalers of America (WSWA), OECD, IMF, CRT, US Census Bureau, Tequila Matchmaker, INEGI, Statista, Euromonitor.

Primary Research: Conducted calls and virtual meetings with 18+ industry professionals (suppliers, distributors, retailers, etc.). See appendix for a comprehensive list.

Summary: You get the opportunity to buy a great business with favorable secular tailwinds at the same price Mr. Market offered it to you at the IPO, exactly 7 years ago. What has changed in these 7 years? The business had 7 years that it could only dream of. The only caveat? The margin compressed due to inflated Agave prices (that happened only because demand sky-rocketed!) and due to abnormal currency dynamics (Mexico currently has 11% interest rates > Peso appreciated > margins compressed). The good news? There is a clear path to margin reverting to normalized levels. I believe this is a rare opportunity of a **Heads I Win, Tails I Don't Lose**.

The Business Doubled!			
	IPO	Today	% Change
Total Revenue (LTM)	24,396	44,989	84.4%*
Tequila Revenue (LTM)	13,894	31,982	130.2%
Avg. 9L Case Selling Price (ASP)	1,474	2,094	42.1%
Tequila Volume (LTM 000 9L Cases)	9,424	15,266	62.0%
Tequila Market Share Volume	30.0%	29.8%	-0.7%
Agave Spot Price	4.0	6.0	50.0%
Effective Agave Cost	6.0	12.0	50.0%
EBITDA Margin (LTM)	24.9%	16.4%**	-34.2%
EBITDA (LTM)	6,075	7,370**	21.3%
EV/EBITDA Multiple (NTM)	18.0x	12.6x	-30.0%
ROIC (LTM)	18.3%	11.9%	-35.0%
USD to MXN (\$1USD = MXN)	19.6	17.1	-12.8%
Market Cap	127,840	111,680	-12.6%
Number of Shares	3,591	3,591	0.0%
Price Per Share (MXN)	35.6	31.1	-12.6%

All numbers are in MXN (Mexican Peso). Maintenance Capex is estimated at ~2% of Sales

*Without that recent Peso appreciation, its +100%

**400bps is assigned to FX. Past 5 years average was 21.1%. 21% puts you at ~9,500.

Appendix

Comparables (\$Mn)	Market Cap	Enterprise Value	Net Debt /EBITDA	EV / EBITDA NTM	5y avg	P/E LTM	NTM	Gross % LTM	EBITDA % LTM	ROIC 10y avg	5y avg	2025E EV/EBITDA
Davide Campari (BIT:CPR)	12,146	14,143	2.8x	16.7x	21.8x	32.7x	27.3x	58.3%	23.3%	10.5%	10.5%	14.2x
Brown-Forman (NYSE:BF.B)	23,414	26,231	2.2x	18.8x	25.7x	24.4x	25.4x	60.8%	30.3%	29.4%	25.8%	18.3x
Rémy Cointreau (ENXTPA:RCO)	5,092	5,722	1.9x	15.1x	22.4x	26.2x	24.3x	71.3%	23.4%	13.2%	14.3%	13.4x
Diageo (LSE:DGE)	78,214	100,385	3.0x	14.4x	18.3x	19.1x	18.3x	60.5%	32.3%	16.9%	17.2%	13.7x
Pernod Ricard (ENXTPA:RI)	39,024	52,257	3.6x	13.2x	16.6x	18.1x	17.0x	59.9%	27.5%	10.3%	10.5%	13.0x
Mean				15.5x	20.5x	24.2x	22.6x	60.3%	25.6%	15.6%	14.9%	13.9x
Median				15.1x	20.0x	24.4x	23.8x	60.2%	25.5%	13.3%	12.8%	13.6x
Becle (BMV:CUERVO)	6,675	7,884	2.8x	15.1x	18.0x	24.4x	23.2x	50.7%	16.5%	13.3%	11.3%	10.7x

Income Statement - Summary	Historical									Forecast				CAGR 2023-2026	
	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	Tom	Cons.
Net Revenue	18,475	24,396	25,958	28,158	29,705	35,036	39,419	45,729	44,355	47,069	51,083	54,881	58,789	7.4%	8.0%
YoY Growth	20.6%	32.1%	6.4%	8.5%	5.5%	17.9%	12.5%	16.0%	-3.0%	6.1%	8.5%	7.4%	7.1%		
Consensus Estimates - Net Revenue										47,606	52,286	55,845	N/A		
Gross Margin	11,251	14,460	16,121	16,183	15,666	18,246	21,274	25,087	22,481	26,083	29,473	32,353	34,793	12.9%	12.3%
YoY Growth		23.9%	11.5%	0.4%	-3.2%	16.5%	16.6%	17.9%	-10.4%	16.0%	13.0%	9.8%	7.5%		
Margin		59.3%	62.1%	57.5%	52.7%	52.1%	54.0%	54.9%	50.7%	55.4%	57.7%	59.0%	59.2%		
Consensus Estimates - Gross Margin										24,322	28,333	31,874			
Consensus Estimates - Gross Margin %										51.1%	54.2%	57.1%			
Adjusted EBITDA (No Adjustments)	4,864	6,075	7,171	6,074	6,096	7,607	7,938	9,843	7,312	10,402	12,750	14,303	15,517	25.1%	20.4%
YoY Growth	32.9%	24.9%	18.0%	-15.3%	0.4%	24.8%	4.4%	24.0%	-25.7%	42.3%	22.6%	12.2%	8.5%		
Margin	26.3%	24.9%	27.6%	21.6%	20.5%	21.7%	20.1%	21.5%	16.5%	22.1%	25.0%	26.1%	26.4%		
Incremental Margin	38.1%	20.5%	70.1%	-49.9%	1.4%	28.4%	-7.6%	30.2%	184.1%	113.8%	58.5%	40.9%	31.1%		
Consensus Estimates - Adjusted EBITDA										8,647	10,962	12,777	N/A		
Consensus Estimates - Adjusted EBITDA %										18.2%	21.0%	22.9%			
Adjusted EPS		\$ 1.48	\$ 1.12	\$ 1.03	\$ 1.43	\$ 1.40	\$ 1.63	\$ 1.31		\$ 1.76	\$ 2.19	\$ 2.48	\$ 2.70	23.6%	16.2%
YoY Growth	N/A	N/A	N/A	-24.1%	-7.9%	38.5%	-2.5%	16.7%	-19.5%	34.0%	24.5%	13.1%	9.0%		
Margin	N/A	N/A	20.0%	14.3%	12.5%	14.7%	12.7%	12.8%	10.6%	13.4%	15.4%	16.2%	16.5%		
Consensus Estimates - Adjusted Earnings Per Share										\$ 1.39	\$ 1.80	\$ 2.06	N/A		

7 years of depressed margins...



Modern Value Asset Value Calculation

<i>ROIC/ROTC Calc.</i>	FY2015A	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023E	FY2024E	FY2025E	FY2026E	FY2027E
EBIT	4,620	5,624	6,736	5,547	5,417	6,893	7,121	8,890	7,967	9,566	12,353	13,518	14,759
ETR	25.4%	27.4%	28.0%	15.2%	15.5%	16.8%	27.1%	28.6%	27.3%	26.0%	26.0%	26.0%	26.0%
NOPAT	3,446	4,082	4,847	4,704	4,579	5,734	5,190	6,352	5,794	7,079	9,141	10,004	10,922
NWC	6,927	10,194	11,547	14,184	15,826	15,635	14,101	20,180	22,426	12,113	14,569	15,564	17,076
PPE	3,997	4,641	5,280	5,506	8,991	12,521	14,226	16,753	17,124	18,008	19,058	20,298	21,721
Debt	8,490	10,207	9,829	9,793	11,539	12,417	21,226	20,638	24,075	23,067	21,067	19,067	17,067
Equity	23,647	28,052	46,985	47,872	48,592	54,745	58,443	58,423	55,913	62,902	69,653	76,670	84,383
Cash	4,139	5,128	19,996	12,028	9,628	7,950	12,791	4,521	4,292	8,356	9,815	11,633	13,928

EBIT Based ROTC	42.3%	37.9%	40.0%	28.2%	21.8%	24.5%	25.1%	24.1%	20.1%	31.8%	36.7%	37.7%	38.0%
EBIT Based ROIC	16.5%	17.0%	18.3%	12.2%	10.7%	11.6%	10.6%	11.9%	10.5%	12.3%	15.3%	16.1%	16.9%
Nopat Based ROIC	12.3%	12.3%	13.2%	10.3%	9.1%	9.7%	7.8%	8.5%	7.7%	9.1%	11.3%	11.9%	12.5%
Nopat Based Adj.ROIC	17.1%	18.6%	18.6%	14.9%	13.2%	13.3%	13.2%	14.4%	13.3%	14.8%	17.3%	18.1%	18.8%

Using concepts taught in Modern Value by Prof. Tano Santos, I arrive at Adjusted EBIT and Adjusted ROIC/ROTC

YEAR	FY2015A	FY2016A	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023E	FY2024E	FY2025E	FY2026E	FY2027E
Brand Value*	27,485	40,259	37,627	54,835	53,539	55,734	72,408	84,687	85,192	88,980	97,781	104,953	112,077
AMP	4,123	6,039	5,644	6,580	6,425	6,688	8,689	10,162	10,223	10,678	11,734	12,594	13,449
Maintenance AMP**	1,832	2,684	2,508	3,656	3,569	3,716	4,827	5,646	5,679	5,932	6,519	6,997	7,472
Growth AMP	2,290	3,355	3,136	2,925	2,855	2,972	3,862	4,517	4,544	4,746	5,215	5,598	5,977
Adj. EBIT	6,453	8,308	9,244	9,203	8,986	10,608	11,948	14,536	13,646	15,498	18,872	20,515	22,231
Adj. NOPAT	4,775	6,148	6,841	6,810	6,650	7,850	8,842	10,756	10,098	11,469	13,965	15,181	16,451
Capex	585	1,034	1,066	811	2,038	3,544	2,197	3,728	3,572	2,535	1,950	2,194	2,438
Growth	341	583	631	281	1,353	2,830	1,380	2,775	2,503	1,314	581	743	896
Maintenance (D&A)	244	451	435	531	685	714	817	953	1,069	1,221	1,369	1,451	1,541
Adj. ROTC	57.3%	53.9%	52.9%	46.1%	34.3%	34.2%	40.2%	36.6%	32.4%	49.3%	55.2%	56.0%	56.0%
Adj. ROIC	21.1%	22.4%	22.8%	18.8%	16.4%	16.3%	16.6%	17.8%	16.5%	18.5%	21.8%	22.7%	23.6%

*Using a capitalization factor of 12% on AMP we get to Estimated Brand Value

**Amortizing the brand for 15 years using straight line

AMP = Advertising, Marketing, Promotion

AV Valuation	Notes
Book Value	57,622 <i>BV of Equity</i>
Adjustment to GW	(11,211) <i>*I halved the intangibles book value to adjust for the poor performance of acquired brands.</i>
Brand Portfolio	85,192 <i>*Using a capitalization factor of 12% on AMP we get to Estimated Brand Value</i>
AV of Equity	131,603
Market Value of Equity	111,716
Per Share	36.65



Primary Research

Bull/Bear/Base Cases

#	Position, Company	Function		BASE (From Model)		BULL		BEAR
1	Co-Founder, Casa Lobos Tequila	Spirits Entrepreneur						
2	Group Brand Manager - Jose Cuervo	Cuervo	Total Revenue	58,789	5.0%	61,729	-5.0%	55,850
3	Marketing Manager - Cuervo	Cuervo						
4	Associate Brand Manager, Tequila, Diageo	Competitor	COGS	40.8%	-2.0%	38.8%	8.0%	48.8%
5	Tequila Patron Regional Manager	Competitor	R&D	0.0%	-1.0%	-1.0%	1.0%	1.0%
6	Division Sales - RNDC	Distributor	S&M	0.0%	-1.0%	-1.0%	1.0%	1.0%
7	Region President - RNDC	Distributor	SG&A	35.8%	-1.0%	34.8%	1.0%	36.8%
8	Trade Dev - Southern Glazer	Distributor	Other	-3.0%	0.0%	-3.0%	0.0%	-3.0%
9	Strategy at Southern Glazer's	Distributor	EBITDA Margin	26.4%		31.4%		15.4%
10	Head of procurement Proximo	Cuervo	2027 EBITDA	15,517		19,379		8,597
11	EVP Wholesalers of America	Industry	2027 Multiple	15.0 x	3.0 x	18.0 x	-3.0 x	12.0 x
12	Former CMO, Patron Tequila	Competitor	Enterprise Value	232,750		348,821		103,168
13	Co-Founder, Celosa tequila	Spirits Entrepreneur	Cash	14,471		14,471		14,471
14	Buy Side Analyst	Analyst	Debt	23,897		23,897		23,897
15	Associate Brand Manager, Astral at Diageo	Competitor	Operating Leases	8,203		8,203		8,203
16	Director of Drink at New Chapter Consulting	Industry	Net Debt	17,629		17,629		17,629
17	Director of Agave Spirits Institute	Industry	Equity Value	215,121		331,192		85,539
18	Liquor Store Owner	Retailer	S/O	3591.0		3591.0		3591.0
			2027 Stock Price - MXN	59.91		92.23		23.82
			FX - MXN/MXN	1.00		1.00		1.00
			2027 Stock Price - MXN	59.91		92.23		23.82
			Current Price - MXN	31.99		31.99		31.99
			Total Return	87.3%		188.3%		-25.5%
			Years to 2027	2.70		2.70		2.70
			Annualized Return	26.2%		48.0%		-10.3%
			+1-2% Div Yield					

Financial Summary (Base Case)

Income Statement Summary	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028
Net Revenue	15,314	18,475	24,396	25,958	28,158	29,705	35,036	39,419	45,729	44,355	47,069	51,083	54,881	58,789	63,513
COGS	6,237	7,224	9,936	9,837	11,975	14,039	16,790	18,145	20,642	21,874	20,986	21,611	22,529	23,996	25,904
Gross Profit	9,077	11,251	14,460	16,121	16,183	15,666	18,246	21,274	25,087	22,480	26,083	29,473	32,353	34,793	37,609
	59.3%	60.9%	59.3%	62.1%	57.5%	52.7%	52.1%	54.0%	54.9%	50.7%	55.4%	57.7%	59.0%	59.2%	59.2%
SG&A	5,625	6,526	8,997	9,184	10,581	10,415	11,445	14,208	16,232	16,164	16,881	18,131	19,677	21,057	22,555
Other	76	104	(160)	201	60	(160)	(92)	(55)	(34)	78	-	-	-	-	-
EBIT	3,376	4,620	5,624	6,736	5,543	5,410	6,893	7,121	8,890	6,238	9,202	11,342	12,676	13,737	15,054
Adjusted EBIT (No Adjustments)	3,376	4,620	5,624	6,736	5,543	5,410	6,893	7,121	8,890	6,238	9,202	11,342	12,676	13,737	15,054
Add back: D&A	284	244	451	435	531	685	714	817	953	1,074	1,200	1,408	1,628	1,780	1,926
EBITDA	3,659	4,864	6,075	7,171	6,074	6,096	7,607	7,938	9,843	7,312	10,402	12,750	14,303	15,517	16,980
	23.9%	26.3%	24.9%	27.6%	21.6%	20.5%	21.7%	20.1%	21.5%	16.5%	22.1%	25.0%	26.1%	26.4%	26.7%
EBT	3,792	7,619	4,688	5,955	5,146	5,147	6,854	6,908	8,231	6,188	8,566	10,658	12,056	13,142	14,494
Current tax	1,034	1,936	1,285	1,670	782	796	1,152	1,874	2,350	1,454	2,227	2,771	3,135	3,417	3,769
Net Income to Common Shareholders	2,636	5,308	3,148	5,193	4,025	3,712	5,146	5,020	5,856	4,716	6,319	7,867	8,901	9,705	10,706
Adjustments for Convertible Securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Diluted Net Income to Common Shareholders	2,636	5,308	3,148	5,193	4,025	3,712	5,146	5,020	5,856	4,716	6,319	7,867	8,901	9,705	10,706
Adjusted Earnings Per Share (No Adjustments) - WAD				1.48 Ps.	1.12 Ps.	1.03 Ps.	1.43 Ps.	1.40 Ps.	1.63 Ps.	1.31 Ps.	1.76 Ps.	2.19 Ps.	2.48 Ps.	2.70 Ps.	2.98 Ps.
Consensus Estimates - Adjusted Earnings Per Share											1.39 Ps.	1.80 Ps.	2.06 Ps.	N/A	N/A
Shares Outstanding - WAB				3,509.0	3,585.0	3,588.0	3,591.0	3,591.0	3,591.0	3,591.0	3,591.0	3,591.0	3,591.0	3,591.0	3,591.0
Cash Flow Summary															
Operating Cash Flow before WC	3,128	2,880	4,742	4,640	4,690	5,799	6,872	4,455	6,088	3,759	8,141	9,856	10,988	11,836	12,869
Change in Working Capital	(216)	(1,508)	(2,980)	(2,218)	(4,869)	(3,430)	(3,127)	(176)	(7,832)	(2,992)	(1,201)	(1,776)	(1,681)	(1,729)	(2,090)
Operating Cash Flow after WC	2,912	1,372	1,762	2,422	(179)	2,369	3,745	4,279	(1,744)	767	6,940	8,080	9,307	10,107	10,779
Cash Flow Per Diluted Share before WC				1.3 Ps.	1.3 Ps.	1.6 Ps.	1.9 Ps.	1.2 Ps.	1.7 Ps.	1.0 Ps.	2.3 Ps.	2.7 Ps.	3.1 Ps.	3.3 Ps.	3.6 Ps.
Cash Flow Per Diluted Share				0.7 Ps.	(0.0)Ps.	0.7 Ps.	1.0 Ps.	1.2 Ps.	(0.5)Ps.	0.2 Ps.	1.9 Ps.	2.2 Ps.	2.6 Ps.	2.8 Ps.	3.0 Ps.
Consensus Estimates - Cash Flow Per Diluted Share											N/A	N/A	N/A	N/A	N/A
Capex	(845)	(585)	(1,034)	(1,049)	(1,000)	(2,227)	(3,636)	(5,250)	(3,814)	(3,212)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
Consensus Estimates - Capex											N/A	N/A	N/A	N/A	N/A
Payments for Leases	-	-	-	-	-	(422)	(473)	(590)	(806)	(1,082)	(765)	(861)	(879)	(896)	(914)
Acquisitions	-	(10,826)	(66)	(217)	(4,449)	-	(1,580)	(464)	(93)	(584)	-	-	-	-	-
Divestiture	26	58	-	4	8	12	16	10	-	-	-	-	-	-	-
Dividend Paid	(209)	(2,057)	-	(2,600)	(1,819)	(1,962)	(544)	(1,546)	(1,510)	(1,764)	(1,764)	(1,764)	(1,764)	(1,764)	(1,764)
Dividend Per Share				- Ps.	0.5 Ps.	0.5 Ps.	0.3 Ps.	0.4 Ps.	0.4 Ps.	0.5 Ps.	0.5 Ps.	0.5 Ps.	0.5 Ps.	0.5 Ps.	0.5 Ps.
Net Debt Issuance (Repayment)	(45)	6,594	-	-	-	-	-	16	-	8,766	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
Net Share Issuance (Buybacks)	(152)	-	(965)	16,050	(231)	134	115	8,529	-	-	-	-	-	-	-
FCF (excluding Leases), Pre Div	2,066	787	727	1,373	(1,179)	(280)	(364)	(1,561)	(6,364)	(3,527)	4,175	5,218	6,429	7,211	7,865



Balance Sheet	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028
Current Assets															
Cash and cash equivalents		3,126	5,128	19,996	12,028	9,628	7,646	12,791	4,521	6,367	6,248	7,229	9,501	12,631	16,500
Trade receivables - Net		3,401	6,396	7,260	8,536	9,295	9,214	10,284	11,812	11,229	11,916	12,933	13,894	14,883	16,079
Inventories, net		2,485	5,943	7,419	8,162	10,353	11,486	13,027	19,549	16,935	17,972	19,504	20,954	22,447	24,250
Other current assets		3,996	2,258	1,923	2,502	2,374	3,281	2,057	3,602	3,563	3,714	3,936	4,147	4,364	4,626
Total Current Assets		13,007	19,725	36,598	31,228	31,650	31,627	38,159	39,483	38,094	39,850	43,602	48,497	54,325	61,455
Non-Current Assets															
Non-current inventories, net		5,449	3,178	3,878	6,859	7,710	10,855	12,455	13,545	16,107	16,107	16,107	16,107	16,107	16,107
Property, plant and equipment - Net		2,824	4,641	5,280	5,506	6,945	10,169	11,855	14,074	15,743	16,884	17,969	19,021	20,020	20,969
Intangible assets		3,536	11,771	11,365	14,664	14,230	15,447	20,628	18,849	16,919	16,716	16,517	16,319	16,124	15,932
Goodwill		3,069	5,992	6,274	6,354	6,253	6,891	6,992	6,022	5,536	5,536	5,536	5,536	5,536	5,536
Right-of-use assets						2,046	2,352	2,371	2,679	2,813	5,372	8,243	9,034	9,814	10,581
Deferred income tax				944	1,454	1,314	2,357	1,935	2,086	2,432	2,432	2,432	2,432	2,432	2,432
Other non-current assets		190	380	593	646	577	1,882	1,145	1,128	1,580	1,580	1,580	1,580	1,580	1,580
Total Non-Current Assets		15,068	25,963	28,335	35,483	39,075	49,955	57,380	58,383	61,131	64,628	68,385	70,030	71,613	73,138
Total Assets		28,075	45,688	64,933	66,711	70,725	81,582	95,540	97,866	99,225	104,478	111,987	118,527	125,938	134,593
Current Liabilities															
Bank loan										47	47	47	47	47	47
Short-term, Senior-Notes		43	53	48	48	46	49	102	96	84	84	84	84	84	84
Trade payables		1,528	2,407	2,106	2,594	2,183	3,062	4,594	8,442	4,486	4,760	5,166	5,550	5,945	6,423
Total other liabilities		1,579	1,996	2,949	2,449	4,013	4,979	6,673	6,340	6,525	6,923	7,512	8,070	8,643	9,337
Lease liabilities - current						446	617	788	623	664	664	664	664	664	664
Dividends payable											-	-	-	-	-
Total Current Liabilities		3,150	4,457	5,103	5,092	6,687	8,708	12,158	15,502	11,806	12,479	13,474	14,415	15,384	16,555
Non-Current Liabilities															
Long-term Senior Notes		8,490	10,207	9,781	9,745	9,345	9,907	18,495	17,508	23,766	21,766	19,766	17,766	15,766	13,766
Lease liabilities - non-current						1,703	1,844	1,840	2,410	2,486	4,479	6,820	7,176	7,539	7,909
Environmental reserve			118	125	121	118	126	140	142	127	127	127	127	127	127
Other long-term liabilities			95	119	314	191	508	693	305	231	231	231	231	231	231
Deferred income taxes		1,227	2,759	2,820	3,568	4,089	5,743	3,770	3,576	3,170	3,170	3,170	3,170	3,170	3,170
Total Non-Current liabilities		9,717	13,179	12,844	13,748	15,445	18,129	24,939	23,941	29,780	29,773	30,114	28,470	26,833	25,203
Total Liabilities		12,867	17,636	17,947	18,840	22,133	26,837	37,096	39,443	41,586	42,252	43,588	42,885	42,217	41,759
Shareholders' Equity															
Capital stock, net		6,493			11,623	11,514	11,284	11,284	11,284	11,284					
Stock issue premium		334			16,426	15,365	14,487	14,487	14,487	14,487					
Capital stock		6,827	10,052	28,049	28,049	26,879	25,770	25,770	25,770	25,770					
Capital allowances					5,603	5,758	4,303	4,303	4,303						
Capital gains (losses)					8,985	11,880	18,616	22,090	26,553						
Retained earnings		8,222	12,118	12,745	14,588	17,639	22,919	26,393	30,855	33,803					
Other comprehensive income		158	5,853	6,137	5,168	4,002	5,978	6,188	1,680	(2,069)					
Total SE		15,207	28,022	46,931	47,805	48,520	54,666	58,351	58,306	57,504	62,071	68,224	75,446	83,506	92,599
NCI		-	30	54	67	73	79	93	117	135	155	175	195	215	235
Total Liabilities & SE		28,075	45,688	64,933	66,711	70,725	81,582	95,540	97,866	99,225	104,478	111,987	118,527	125,938	134,593