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 Value Investing with Legends
 5x5x5 Portfolio Submission
 5/5/19

Company: Becele, S.A.B. de C.V. (BMV: Cuervo)
 Recommendation: Long

Price:	MXN 29.80	Mkt Cap:	\$ 106,537	<u>FYE December</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019E</u>	<u>2020E</u>	<u>2021E</u>
52 Wk High:	MXN 32.80	Debt:	9,745	Revenue:	\$ 24,396	\$ 25,958	\$ 28,158	\$ 30,456	\$ 32,941	\$ 35,629
52 Wk Low:	MXN 22.06	Pref. Stock:	-	<i>Growth</i>	6.4%	8.5%	8.2%	8.2%	8.2%	8.2%
FD Shrs OS:	3,575.1	Min. Int.:	55	<i>Gross Margin</i>	59.3%	62.1%	57.5%	57.9%	60.2%	62.5%
Float Shrs:	469.1	Cash:	12,290	EBITDA	6,040	7,161	6,074	7,025	8,632	10,423
Daily Vol (\$mils):	MXN 11.9	Ent. Val.:	\$ 104,046	<i>Margin</i>	24.8%	27.6%	21.6%	23.1%	26.2%	29.3%
Shrt Int (%Float):	1.9%			EPS	\$0.34	\$1.48	\$1.09	\$1.26	\$1.56	\$1.89
Dividend Yld:	1.7%	Net Debt/EBITDA	N/M	<i>Consensus EPS</i>				\$1.12	\$1.28	\$1.37
				EV/EBITDA				14.8	12.1	10.0

Note: Revenue & EBITDA in millions of Mexican Pesos, EPS in Mexican Pesos

Summary:

Becele, S.A.B. de C.V. (“CUERVO” or “the Company”) is the world leader in tequila. CUERVO supplies ~30% of worldwide tequila, which is 2.3x the second largest supplier. According to the Distilled Spirits Council (DISCUS), 2018 marked the ninth straight year of distilled spirits taking market share from beer and wine. DISCUS indicates that tequila has been compounding volumes at 7.1% over the last five years, which outpaces total distilled spirit volume growth of 2.3% during this same period. CUERVO IPO'd in Feb 2017 and is ~85% family owned. While the distilled spirits and tequila boom has been great for tequila supplier sales (9.2% 3Y and 8.2% 5Y CAGRs), the outsized demand caught agave farmers and suppliers off guard. Prices for agave have risen over 300% in the last few years and pressured CUERVO's operating margins from ~25% in 2015 to below 20% in 2018. Meanwhile, CUERVO has experienced delays in taking its business model from ~60% vertically integrated self-sourced agave to 90%, which would not only offset the third-party agave price increases but also allow CUERVO to expand its margins into the high 20/low 30% range. This would bring margins ahead of or on par with other spirits companies such as Brown-Forman, Diageo, Davide Campari-Milano, Pernod Richard, and Remy Cointreau, which collectively trade at an average premium of ~40% to CUERVO on a 2020 EV/EBITDA basis despite CUERVO's faster growth due to its exposure to tequila and Irish whiskey. While shorter term investors worry about the increasing third-party agave prices, my research and sources indicate that the current environment creates opportunity due to the following: 1) CUERVO will still be able to vertically integrate its agave supply and recover/expand margins. 2) tequila and spirits have strong secular tailwinds that will allow the categories to continue taking share from other spirits and beer/wine, respectively. 3) net cash balance sheet creates further opportunity. The hiring of Michael Keyes as CEO of Proximo (CUERVO's U.S. subsidiary) brings in an executive with over 30 years of experience in the distilled spirits industry and superior training from Brown-Forman, which is seen as a leader in capital allocation and shareholder returns.

Company/Industry Overview:

High Exposure to Tequila: CUERVO is a diversified international spirits company, with ~59% of its sales coming from tequila. The Jose Cuervo brand dominates the portfolio with ~34% of total sales and is the industry leader in tequila volumes with ~20% market share. CUERVO's portfolio is also made up of more premium tequilas such as 1800 (4th largest tequila brand), Gran Centenario, and Maestro Tequilero. The rest of the portfolio includes Bushmills Irish Whiskey (5% of sales),

Kraken rum (4% of sales), other spirits (~13% of sales) such as American whiskey, mezcal, gin, and vodka, and ready-to-drink/non-alcoholic (~19% of sales).

Tequila Taking Share of Total U.S. Spirits: According to data from DISCUS and the Beverage Information Group Handbook, spirits as a category have increased market share by sales against beer and wine from 32.9% in 2009 to 37.3% in 2018 and increased market share by volume against beer and wine from 30.2% in 2009 to 35.3% in 2018. During this same time, tequila has increased market share by sales against all other distilled spirits from 8.5% in 2009 to 9.9% in 2018 and increased market share by volume against all other distilled spirits from 5.9% in 2009 to 8.0% in 2018. Tequila's total sales have compounded at a 3-year annual rate of 9.2% and a 5-year annual rate of 8.2% compared to total spirit sales that have compounded at a 3-year annual rate of 4.5% and 5-year annual rate of 5.2%.

Rising Agave Prices: Tequila is a spirit that is made from blue agave plants. One of the competitive advantages that tequila suppliers have is that in order to be called "tequila", the spirit must be produced and bottled in the Mexican state Jalisco and limited surrounding regions. The blue agave plants take ~7-9 years to grow. One liter of 100% agave tequila requires ~7 kilos of agave whereas "mixto", which is ~51% agave tequila, requires half that amount. As the tequila boom has occurred over the last decade, 100% agave tequila has been a key driver. With the long growing cycle for agave, suppliers and farmers were not prepared for rapid increase in agave needed, so the price of third-party agave per kilo has increased from ~Mex\$3 in 2009 to ~Mex\$5 in 2015 to ~Mex\$25 in 2018. This is in comparison to self-sourced agave from partially vertically integrated tequila players such as CUERVO that can source some of their agave supply internally at ~Mex\$4-6 per kilo according to my sources from competitors.

Not All Players Acting Rationally: With all players in the industry experiencing margin contraction due to rising agave costs, it would seem logical that all players take some price to offset some of the pressure; however, Beam Suntory seems to be working off a different playbook. Beam is the owner of Sauza tequila, which various industry participants classified as on the higher end of value or the lower end of premium segments. Historically, Jose Cuervo Especial and Sauza have maintained ~\$1 difference in price; however, in the beginning of 2017, Cuervo increased its price by ~\$1 to cover some of the margin pressure and try to push its brand closer towards premiumization and Sauza maintained its pricing. According to the 2018 Beverage Information Handbook, the F.O.B. price of a 750ml bottle is \$11.55 compared to \$9.31 for Sauza. While this worked for Sauza in 2017 to grow volumes by 7.4% compared to Cuervo's -1.4% change in volumes, Cuervo still sold 51% more cases than Sauza (3,645 mm 9L cases for Cuervo vs. 2,414mm 9L cases for Sauza).

- One executive at a competitor had this to say about the situation, "Beam's pricing strategy isn't sustainable. No one has a lower cost to agave than Cuervo due to its vertical integration. Beam doesn't even have the second-best integration, so I imagine that they are really feeling the pressure on the margins due to the higher costs of agave. This heavy discounting is irrational in an era of premiumization in spirits. They are trying to use similar tactics with

Jim Beam whiskey against Jack Daniels. At the end of the day, it just hurts the industry and kills the brand.”

- Mid-level manager at distributor, “Sauza has been a little more aggressive on price in the last year to try and take share from Cuervo. While Sauza might have initially taken some share, Cuervo has been relatively flat to recovering, so I don’t think this is a good long-term strategy.”

Tequila Extremely Underpenetrated Outside U.S. and Mexico: According to Euromonitor, there were ~33.6M cases of tequila and mezcal sold globally in 2017. If you include drinks such as baijiu and soju, then tequila and mezcal had a 1.4% share of the global spirits market (2.7% market share excluding baijiu and soju). Tequila by volume is growing globally at 5.3% compared to 1.5% of total spirits including baijiu and soju. According to CUERVO, the total retail sales for tequila in the EU was ~\$51.1B and tequila was less than 1% of the total. While I wouldn’t expect global tequila sales to look similar to Mexico or the U.S., the small penetration rate, faster global growth rate than total spirits, and global spirits boom suggest potential international opportunity for CUERVO and tequila.

Investment Thesis

Cuervo Still Able to Achieve Vertical Integration Goals: As the largest and most vertically integrated supplier of tequila, CUERVO’s margins will only expand as they continue to increase their vertical integration from ~60% to ~90% over the next few years. Leading up to CUERVO’s IPO at the end of 2016 and early 2017 (IPO’d Feb 2017), the Company discussed taking its vertical integration from ~60% to 90% by 2019. This was to help offset some of the third-party agave pressures; however, the company ran into some operational issues when it took a gamble on agave prices and was wrong.

- Former mid-level manager, “We took a price increase around the time of the IPO and saw our growth in volumes kind of go flat. Part of the issue was that wholesalers pulled future purchases forward before the price increase. The other issue is that our competitors weren’t rising prices as well. Eventually to try and offset some of the agave costs, the company decided to harvest some of the younger agave, which is what everyone else in the industry was doing. It was a risk because it delayed the vertical integration but would pay off if agave prices came back to reasonable levels. Probably not the best decision. When we were private, we could be more flexible in our strategy and planning, but as a public company we had investors who were worried about shorter term results and issues... They will still get to their 90% vertical integration target, it just might now be 2021 or 2022, but I am confident that they will get there.”

CUERVO doesn’t disclose what percentage of their COGS are agave. My sources estimate that the costs of agave are ~25-35% and that the Company has the lowest agave cost basis in the industry due to currently being the most vertically integrated as well as relationships with many of the agave farmers over time. Also, my research suggests that ~7 kilos of blue agave is needed to make 1L of

100% tequila. Using the companies split of “Jose Cuervo” to “other tequila” as the split between mixto (51% blue agave) and 100% agave tequila, my analysis to estimate agave costs as a percentage of COGS over time fits within the sources’ estimated ranges. If we assume that COGS ex-agave grows with revenue growth in the future, then the percentage of agave as a percentage of total COGS decreases back to the lower end of that range as the Company vertically integrates and sources more of its own agave. The 2017 and 2018 gross margins appear to align with former mid-level manager’s explanation that the company tried to strategically offset the margin pressure in 2017, but changed strategy in 2018 when agave prices continued to increase. Unfortunately, this also the most likely reason that the company won’t be fully integrated in 2019 and has pushed that goal back.

	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Internal Agave Price	5	5	5	5	5	6	6	6
% Growth		0%	0%	4%	4%	4%	4%	4%
Agave Spot Price	9	15	25	25	25	20	15	15
% Growth		67%	67%	0%	0%	-20%	-25%	0%
% of Vertical Integration	65%	65%	70%	70%	75%	80%	90%	90%
Agave % of COGS	25%	35%	37%	37%	33%	29%	24%	24%
Gross Margin	59%	62%	57%	58%	60%	62%	65%	65%

Strong Secular Tailwinds for Tequila and Spirits: Since 2009, distilled spirits as a category have increased market share by volume from 30.2% to 35.3% in 2018 and increase market share by value from 32.9% to 37.3% in 2018. Much of this trend has been driven by the millennial generation, preference for quality (“premiumization”), growth of craft distillers and craft cocktail bars, and increases in consumers spending. Many point to the millennial generation and its preferences for authenticity, experiences, and willing to pay up for these factors as a driving force for spirits. Some even claim that Netflix and the show Mad Men (NFLX acquired Mad Men rights in 2011) are responsible for making the cocktail cool again with the lead character Don Draper frequently sipping on old fashioned cocktails throughout the show. In looking at tequila drinkers by age group, millennials (age 21-34) consume ~35% of all tequila followed by Gen X (age 35-49) at ~28%, and Baby Boomers (age 50-69) consuming ~21%. Historically, people began drinking beer and wine and then transitioned to spirits as they got older and had more income. With the millennial generation and their willingness to pay for unique experiences, many believe that they are just jumping right into the spirits category and will over-index towards spirits throughout their drinking life.

Net Cash Balance Sheet Creates Further Opportunity: At the end of 2018, the Company had a net cash balance of Mex\$2,283. The Company raised Mex\$18,640 million (\$912.6M) during its Feb 2017 IPO. The company is looking to make strategic acquisitions to get into other quickly growing, premium brands. For example, the company purchased Pendleton Canadian whiskey for \$205M in December 2017. While the company didn’t disclose the details of the acquisition, the 2018 Liquor Handbook discloses that the company sold ~250,000 cases in 2017 and that it carries a wholesale price of \$12.33 per bottle and sold at a retail price of \$22.95, so it is a premium Canadian whiskey. Pendleton has a 5Y 8.9% volume CAGR, which is the fastest growing top 15 Canadian whiskey (#11) by volume and is five times faster than the Canadian whiskey category. CUERVO disclosed

that it is selling bottles for \$25.00 in the retail market (an ~9% increase in price). If we assume that price increase flows through to CUERVO, then I can estimate that the company paid ~17-23x EBITDA for the brand at a 22-30% EBITDA margin and not including any potential synergies. Looking at the public alcohol company comps, the multiple would seem fair since Pendleton is growing very quickly and follows the premiumization trend. It also allows CUERVO to continue building out its portfolio of brands. Another positive for Cuervo is that its new U.S. CEO of Proximo Michael Keyes comes from Brown-Forman. BF has been a great allocator of shareholder capital over time and should be a net positive in helping CUERVO allocate capital and build its whiskey portfolio over time.

Valuation: Tequila and whiskey are the fastest growing spirits in the U.S. and globally with no signs of slowing down. The stock trades at a discount of 40% to peers on 2020 EV/EBITDA due to its depressed margin structure. This margin issue is currently cyclical though and will become structurally higher as CUERVO continues moving towards its 90% internal agave vertical integration. My base case assumes that Cuervo is able to continue growing volume at 4% and get an additional 4% between price increases and continued mix (FY17 price grew 6%, FY18 price grew 4.5%). Given the Company is able to continue moving towards vertical integration and achieves 90% by 2022, the company would achieve a 33% EBITDA margin (compared to 34% for Brown-Forman and Diageo) and currently would trade at ~8.2x 2022E EBITDA. Assuming a conservative 17x EV/EBITDA multiple this would imply a 100% upside in 3 years. This multiple would still be an ~15% discount to industry peers who are more diversified in different spirits and have higher EBITDA margins. My bear case assumes volumes falling to 2% and price to 2%, which would have total sales growing inline with the 10-year CAGR of the spirits industry at 4%. I also assume that CUERVO only is able to obtain 80% vertical integration by 2022. This bear case would have EBITDA margins recovering to ~26% and the stock would today be trading at 12.2x 2022E EBITDA. While the company would still be compounding EBITDA growth at ~9% due to the margin expansion, this would certainly be a disappointing result for investors and most likely lag the S&P 500 with only 20% upside at 15x EBITDA. My bull case assumes topline growth of 10%, which would be driven by an acceleration of tequila adoption internationally and maintaining the strong growth in the U.S. while hitting the 90% integration target in 2022E. This bull case would have the stock currently trading at 7.1x 2022E EBITDA. At a 22x EV/EBITDA multiple (high end of peers), CUERVO would have 200% upside on 2022E EBITDA in the bull case.

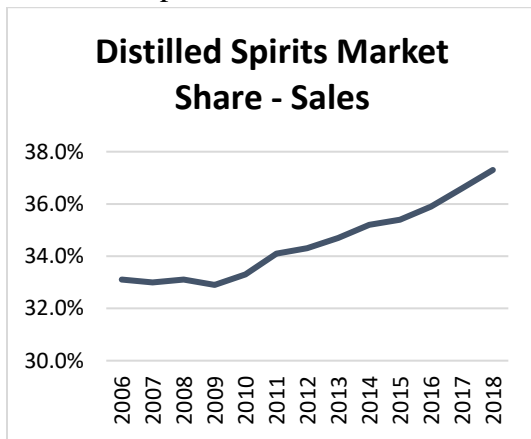
Risks: The major risks to this thesis are that the agave cost pressure continues and CUERVO cut too many young agave to reach higher vertical integration in the next few years. This would keep EBITDA margins depressed (~21%) near the industry lows. Another risk would be that management drastically overpays for an acquisition; however, I view this as less of a risk with the company's patience thus far and the controlling family being aligned with shareholders.

Likes	Dislikes
Industry Leader	Semi-Irrational Competitor
Net Cash Balance Sheet	At Mercy of Family Decisions
Secular Spirits/Tequila Tailwinds	Portion of Portfolio not Premium

Primary Research	
C-Level Executive	Tequila Competitor
SVP	Major Alcohol Competitor
Mid-Level Manager	Alcohol Distributor
Mid-Level Manager	Former Employee

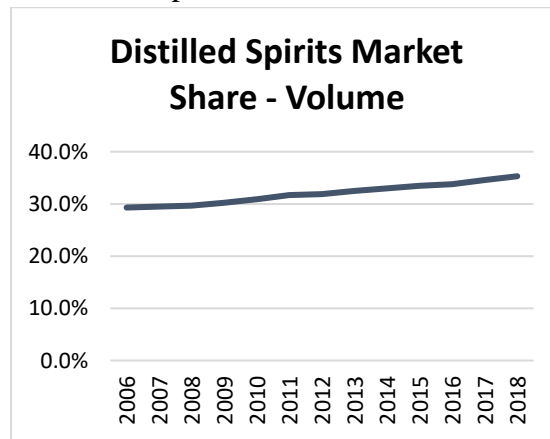
Appendix:

Exhibit 1: Spirits Market Share – Sales



Source: DISCUS

Exhibit 2: Spirits Market Share - Volume



Source: DISCUS

Exhibit 3: Tequila Sales CAGRs

	CAGRs			
	3 Year	5 Year	10 Year	15 Year
Sales (\$M)	15-18	13-18	08-18	03-18
Value	5.9%	4.4%	5.1%	4.4%
Premium	6.9%	5.0%	3.3%	3.7%
High-End Premium	16.2%	13.7%	10.7%	12.1%
Super Premium	10.0%	10.6%	9.2%	16.0%
Total	9.2%	8.2%	6.5%	7.9%

Source: DISCUS

Exhibit 4: Tequila Volume CAGRs

	CAGRs			
	3 Year	5 Year	10 Year	15 Year
Volume (9L cases, M)	15-18	13-18	08-18	03-18
Value	4.5%	3.6%	4.9%	4.5%
Premium	6.7%	5.9%	4.2%	3.9%
High-End Premium	16.1%	13.7%	11.0%	11.3%
Super Premium	9.7%	11.3%	8.9%	14.0%
Total	7.8%	7.1%	5.7%	5.8%

Source: DISCUS

Exhibit 5: Tequila U.S. Market Share - by Volume (Source: 2018 Liquor Handbook)

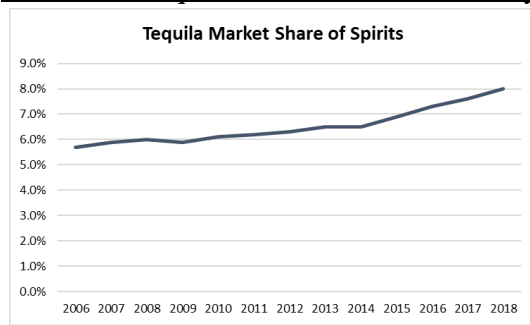


Exhibit 6: Base Case Income Statement

Becle Sab De CV
Cuervo.MX
Mexico Pesos, Millions

Fiscal Year	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
FY End	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23
Days	365	365	365	366	365	365	365	366	365	365	365
Net Sales	12,305.0	15,313.8	18,474.8	24,396.2	25,957.9	28,157.9	30,455.7	32,940.9	35,628.9	38,536.2	41,680.7
% Growth		24.5%	20.6%	32.1%	6.4%	8.5%	8.2%	8.2%	8.2%	8.2%	8.2%
COGS	5,304.6	6,237.0	7,224.3	9,935.8	9,836.7	11,974.9	12,824.8	13,107.3	13,374.6	13,475.8	14,545.6
% of Sales	43.1%	40.7%	39.1%	40.7%	37.9%	42.5%	42.1%	39.8%	37.5%	35.0%	34.9%
Gross Profit	7,000.4	9,076.8	11,250.6	14,460.4	16,121.2	16,183.0	17,630.9	19,833.6	22,254.3	25,060.4	27,135.1
Gross Margin	56.9%	59.3%	60.9%	59.3%	62.1%	57.5%	57.9%	60.2%	62.5%	65.0%	65.1%
Distribution	411.2	612.5	726.8	750.0	917.5	1,241.3	1,370.5	1,482.3	1,603.3	1,734.1	1,875.6
% Change		49.0%	18.7%	3.2%	22.3%	35.3%	10.4%	8.2%	8.2%	8.2%	8.2%
% of Sales	3.3%	4.0%	3.9%	3.1%	3.5%	4.4%	4.5%	4.5%	4.5%	4.5%	4.5%
AMP	2,593.6	3,455.5	4,122.7	6,038.9	5,643.8	6,580.2	6,975.0	7,393.5	7,837.1	8,307.3	8,805.8
% Change		33.2%	19.3%	46.5%	-6.5%	16.6%	6.0%	6.0%	6.0%	6.0%	6.0%
% of Sales	21.1%	22.6%	22.3%	24.8%	21.7%	23.4%	22.9%	22.4%	22.0%	21.6%	21.1%
Other Expenses (income)	6.5	75.9	104.3	(152.4)	201.0	59.3	0.0	0.0	0.0	0.0	0.0
% of Sales	0.1%	0.5%	0.6%	-0.6%	0.8%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%
G&A	1,497.1	1,557.4	1,676.6	2,235.1	2,623.2	2,759.0	2,869.3	2,984.1	3,103.5	3,227.6	3,356.7
% Change		4.0%	7.7%	33.3%	17.4%	5.2%	4.0%	4.0%	4.0%	4.0%	4.0%
% of Sales	12.2%	10.2%	9.1%	9.2%	10.1%	9.8%	9.4%	9.1%	8.7%	8.4%	8.1%
EBIT	2,492.1	3,375.5	4,620.2	5,588.8	6,735.7	5,543.3	6,416.1	7,973.6	9,710.4	11,791.4	13,097.0
% Change		35.5%	36.9%	21.0%	20.5%	-17.7%	15.7%	24.3%	21.8%	21.4%	11.1%
Margin	20.3%	22.0%	25.0%	22.9%	25.9%	19.7%	21.1%	24.2%	27.3%	30.6%	31.4%
D&A	186.9	283.9	244.1	451.3	425.3	530.7	609.1	658.8	712.6	770.7	833.6
% of Sales	1.5%	1.9%	1.3%	1.8%	1.6%	1.9%	2.0%	2.0%	2.0%	2.0%	2.0%
EBITDA	2,678.9	3,659.5	4,864.3	6,040.0	7,161.0	6,074.0	7,025.2	8,632.5	10,423.0	12,562.1	13,930.6
% Change		36.6%	32.9%	24.2%	18.6%	-15.2%	15.7%	22.9%	20.7%	20.5%	10.9%
Margin	21.8%	23.9%	26.3%	24.8%	27.6%	21.6%	23.1%	26.2%	29.3%	32.6%	33.4%
Equity Method	0	0	0	0	8	10	10	10	10	10	10
Financial, net	(60.5)	(416.1)	(2,998.5)	924.7	772.8	387.0	400.0	400.0	400.0	400.0	400.0
EBT	2,552.5	3,791.7	7,618.7	4,664.1	5,954.9	5,146.3	6,006.1	7,563.6	9,300.4	11,381.4	12,687.0
% of Sales	20.7%	24.8%	41.2%	19.1%	22.9%	18.3%	19.7%	23.0%	26.1%	29.5%	30.4%
Taxes	995.3	1,153.3	2,310.3	1,513.4	757.8	1,245.6	1,441.5	1,815.3	2,232.1	2,731.5	3,044.9
Tax Rate	39.0%	30.4%	30.3%	32.4%	12.7%	24.2%	24.0%	24.0%	24.0%	24.0%	24.0%
Consolidated Net Income	1,557.2	2,638.4	5,308.5	3,150.7	5,197.1	3,900.7	4,564.6	5,748.4	7,068.3	8,649.8	9,642.1
% of Sales	12.7%	17.2%	28.7%	12.9%	20.0%	13.9%	15.0%	17.5%	19.8%	22.4%	23.1%
EPS				MXN 0.34	MXN 1.48	MXN 1.09	MXN 1.26	MXN 1.56	MXN 1.89	MXN 2.27	MXN 2.50
% Change					340.7%	-26.4%	15.3%	24.1%	21.1%	20.6%	9.8%
S/O				9,390.4	3,515.1	3,582.9	3,636.7	3,691.2	3,746.6	3,802.8	3,859.8
SBC dilution							2%	2%	2%	2%	2%

Exhibit 7: Base Case Statement of Cash Flow

Fiscal Year	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
FY End	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23
Days	365	365	365	366	365	365	365	366	365	365	365
Statement of Cash Flow											
Profit before taxes		3,792	7,619	4,664	5,955	5,146	6,006	7,564	9,300	11,381	12,687
D&A		284	244	451	425	531	609	659	713	771	834
Loss (profit) of PP&E		(13)	11	17	4	57	0	0	0	0	0
Interest Expense		39	136	394	485	432	400	400	400	400	400
Other		130	(2,389)	2,034	(91)	(206)	(1,441.5)	(1,815.3)	(2,232.1)	(2,731.5)	(3,044.9)
A/R		(915)	(1,034)	(1,104)	(716)	(1,248)	(6)	(1,333)	(220)	(1,405)	(352)
Inventory		(800)	(966)	(1,556)	(2,103)	(3,823)	(644)	1,807	408	9	(1,727)
A/P		12	817	632	(356)	460	(143)	239	(121)	160	256
Other Working Capital		453	(2,214)	(2,090)	(720)	(1,720)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
CFO		2,982	2,224	3,442	2,883	(371)	2,781	5,520	6,248	6,585	7,052
Capex		(840)	(544)	(829)	(1,066)	(827)	(700)	(700)	(700)	(700)	(700)
M&A		0	(10,904)	0	(190)	(218)	0	0	0	0	0
Other		80	4,681	(298)	101	(3,495)	0	0	0	0	0
CFI		(760)	(6,767)	(1,127)	(1,155)	(4,540)	(700)	(700)	(700)	(700)	(700)
Debt		(45)	6,594	0	0	0	0	0	0	0	0
Equity		(152)	0	(995)	16,049	(231)	0	0	0	0	0
Dividends		(209)	(2,057)	0	(2,600)	(1,819)	(1,819)	(1,819)	(1,819)	(1,819)	(1,819)
Other		(30)	(91)	(332)	(380)	(419)	0	0	0	0	0
CFE		(436)	4,446	(1,327)	13,069	(2,469)	(1,819)	(1,819)	(1,819)	(1,819)	(1,819)
Change in Cash (ex-FX)		1,786	(97)	989	14,797	(7,380)	262	3,001	3,729	4,066	4,533
FX		0	0	0	67	(601)	0	0	0	0	0
M&A Cash		0	79	0	3	3	0	0	0	0	0
Total Change in Cash		1,786	(18)	989	14,867	(7,978)	262	3,001	3,729	4,066	4,533
FCF (CFO-capex)		2,142	1,680	2,613	1,817	(1,198)	2,081	4,820	5,548	5,885	6,352
% Change			-21.6%	55.6%	-30.5%	-165.9%	-273.7%	131.6%	15.1%	6.1%	7.9%
Per Share				\$0.28	\$0.52	(\$0.33)	\$0.57	\$1.31	\$1.48	\$1.55	\$1.65
% Change					85.7%	-164.7%	-271.2%	128.2%	13.4%	4.5%	6.4%

Exhibit 8: Base Case Balance Sheet

Fiscal Year	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
FY End	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23
Days	365	365	365	366	365	365	365	366	365	365	365
Balance Sheet											
Cash		4,158	4,139	5,128	19,996	12,028	12,290	15,291	19,020	23,086	27,619
A/R		4,258	5,293	6,396	7,260	8,508	8,514	9,847	10,066	11,472	11,824
Inventory		3,867	4,352	5,943	7,419	8,353	8,513	7,245	7,412	7,356	8,585
Other Current Assets		2,325	1,282	2,258	1,923	2,321					
Total Current Assets		14,608	15,066	19,725	36,598	31,210					
Long-term Inventory		860	3,213	3,178	3,878	6,859	7,344	6,804	6,229	6,276	6,775
PP&E		2,342	3,997	4,641	5,280	5,506					
Intangibles		5,946	10,405	11,771	11,365	15,049					
Goodwill		383	5,506	5,992	6,274	5,968					
Other		585	450	380	1,537	2,195					
Total Assets		24,724	38,636	45,688	64,933	66,787					
Short-term Notes Payable		1,037	46	53	48	48					
A/P		958	1,775	2,407	2,106	2,566	2,423	2,662	2,541	2,701	2,958
Accruals		1,159	1,270	1,708	2,087	2,348					
Other Liabilities		2,175	955	288	862	113					
Debt		2	8,490	10,207	9,781	9,745	9,745	9,745	9,745	9,745	9,745
Environmental Reserve		83	97	118	125	121					
Other Liabilities		0	0	95	119	314					
Deferred income tax		1,318	2,357	2,759	2,820	3,472					
Equity		17,991	23,647	28,052	46,985	48,061	50,807	54,736	59,985	66,816	74,639
Total Liabilities + Equity		24,724	38,636	45,688	64,933	66,788					
DSO			94	88	96	102	102	102	102	102	102
DIH			208	190	248	240	240	220	200	200	200
Long-Term Inventory			162	117	144	209	209	190	170	170	170
DPO			69	77	84	71	71	71	71	71	71

Exhibit 9: Agave Analysis

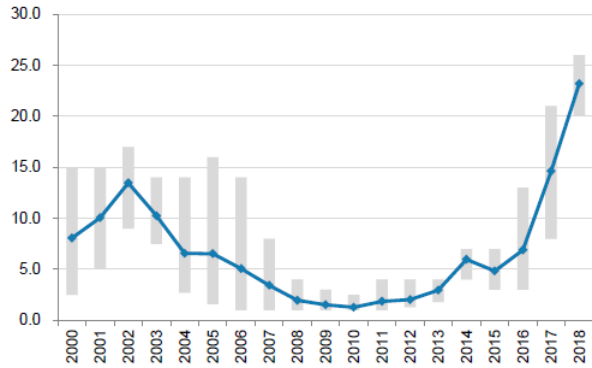
	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Internal Cost per Kilo	5	5	5	5.20	5.41	5.62	5.85	6.08
Inflation				4%	4%	4%	4%	4%
Spot Price	9	15	25	25	25	20	15	15
% Growth		66.7%	66.7%	0.0%	0.0%	-20.0%	-25.0%	0.0%
Tequila Cases (thou)	9,418	9,788	9,961	10,359	10,774	11,205	11,653	12,119
% Growth				4.0%	4.0%	4.0%	4.0%	4.0%
Liters Per Case	9	9	9	9	9	9	9	9
Liters of Tequila	84,761	88,089	89,648	93,233	96,963	100,841	104,875	109,070
Mixto	70%	70%	70%	70%	70%	70%	70%	70%
Mixto Liters	59,333	61,662	62,753	65,263	67,874	70,589	73,412	76,349
Kilos in Mixto	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Kilos Used	207,664	215,817	219,636	228,422	237,559	247,061	256,944	267,221
Integration	65%	65%	70%	70%	75%	80%	90%	90%
Cuervo Agave	134,982	140,281	153,746	159,895	178,169	197,649	231,249	240,499
Price Paid (thou)	674,908	701,405	768,728	831,456	963,539	1,111,641	1,352,645	1,463,020
Sourced	35%	35%	30%	30%	25%	20%	10%	10%
Third Party	72,682	75,536	65,891	68,527	59,390	49,412	25,694	26,722
Price Paid (thou)	654,142	1,133,039	1,647,274	1,713,164	1,484,743	988,245	385,415	400,832
100% Agave	30%	30%	30%	30%	30%	30%	30%	30%
100% Agave Liters	25,428	26,427	26,894	27,970	29,089	30,252	31,462	32,721
Kilos in 100% Agave	7	7	7	7	7	7	7	7
Kilos Used	177,998	184,986	188,260	195,790	203,622	211,767	220,237	229,047
Integration	65%	65%	70%	70%	80%	80%	90%	90%
Cuervo Agave	115,698	120,241	131,782	137,053	162,897	169,413	198,214	206,142
Price Paid (thou)	578,492	601,204	658,909	712,676	880,949	952,835	1,159,410	1,254,017
Sourced	35%	35%	30%	30%	20%	20%	10%	10%
Third Party	62,299	64,745	56,478	58,737	40,724	42,353	22,024	22,905
Price Paid (thou)	560,693	971,176	1,411,949	1,468,427	1,018,109	847,067	330,356	343,570
Cuervo Price (thou)	1,253,400	1,302,610	1,427,637	1,544,132	1,844,488	2,064,476	2,512,054	2,717,038
Third Party Price (thou)	1,214,834	2,104,216	3,059,222	3,181,591	2,502,852	1,835,311	715,771	744,402
Total Price (mm)	2,468	3,407	4,487	4,726	4,347	3,900	3,228	3,461
% Growth		38.0%	31.7%	5.3%	-8.0%	-10.3%	-17.2%	7.2%
Total COGS (mm)	9,936	9,837	11,975	12,825	13,107	13,375	13,476	14,546
Agave as a % of COGS	25%	35%	37%	37%	33%	29%	24%	24%

Exhibit 10: Comps Table

Company	Ticker	EV	Debt	Mkt Cap	Revenue	EBITDA Margin	1 Year Growth Rates				EV/EBITDA		P/E	
							Revenue %	EBITDA %	EPS %	ROIC	2019	2020	2019	2020
Brown-Forman	BF	512,818	47,996	467,571	60,063	34.0%	8.5%	5.3%	8.0%	20.2%	22.8x	21.9x	28.2x	28.6x
Diageo		2,208,690	258,678	1,898,928	306,998	34.4%	0.9%	7.3%	12.5%	13.4%	19.5x	18.5x	23.5x	23.4x
Davide Campari-Milano		231,368	24,428	221,213	38,859	25.4%	-2.4%	-3.7%	-16.1%	7.9%	23.2x	21.2x	35.7x	33.4x
Pernod Richard		1,025,357	177,864	873,943	200,940	28.8%	-0.3%	2.4%	13.3%	7.7%	17.0x	15.6x	22.2x	22.0x
Remy Cointreau		133,625	10,520	126,276	24,436	21.7%	2.9%	1.2%	16.5%	9.2%	22.3x	19.9x	31.1x	31.6x
Becle SAB De CV		105,856	9,793	108,854	28,158	21.6%	8.5%	-15.4%	-26.6%	7.0%	15.9x	13.9x	25.4x	23.2x
Median		372,093	36,212	344,392	49,461	27.1%	1.9%	1.8%	10.2%	8.6%	20.9x	19.2x	26.8x	26.0x

Note: EV, Debt, Mkt Cap, Revenue in millions of Mexican Pesos

Exhibit 11: Agave Prices Per Kilo



Note: In Mex\$

Source: Morgan Stanley

Exhibit 12: ROIC (Base Case)

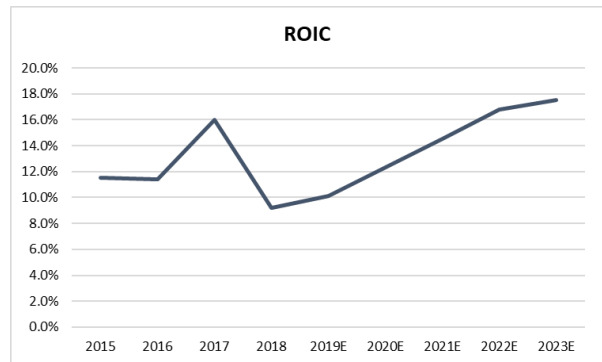


Exhibit 13: CUERVO Geographic Breakdown

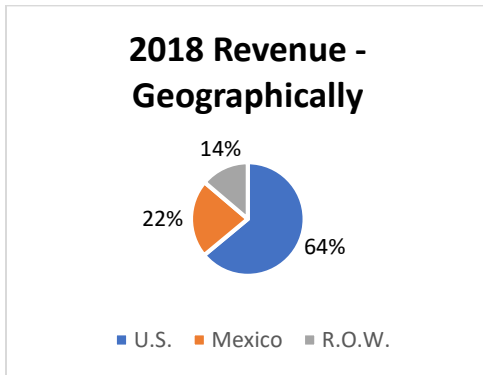


Exhibit 14: MEX/USD

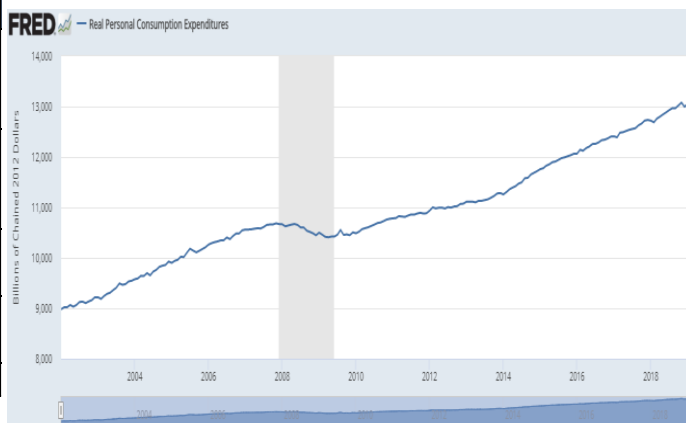


Exhibit 15: Valuation Cases

FY22	Bear	Base	Bull
EBITDA	8,468	12,562	14,610
EV/EBITDA	12.2x	8.2x	7.1x
Normalized	15.0x	17.0x	22.0x
EV	127,017	213,555	321,423
Debt	9,745	9,745	9,745
Cash	18,770	23,086	24,924
Equity	136,042	226,896	336,603
S/O	3,803	3,803	3,803
Price	35.77	59.67	88.52
Current	29.80	29.80	29.80
Δ	20%	100%	197%

Note: Doesn't include dividend return

Exhibit 16: Real Personal Consumption Expenditures



Source: FRED