FitchRatings

RATING ACTION COMMENTARY

Fitch Downgrades Becle's IDRs to 'BBB'; Outlook Stable

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Fitch Ratings - Monterrey - 06 Nov 2023: Fitch Ratings has downgraded Becle, S.A.B. de C.V.'s Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) and senior unsecured notes to 'BBB' from 'BBB+'. The Rating Outlook on the IDRs is Stable.

The rating downgrade reflects a deterioration in Becle's leverage metrics beyond Fitch's previous projections as a result of lower operational performance and negative FCF, as well as higher debt levels. Fitch expects the company's EBITDA net leverage will be around 2.5x over 2023-2025. This level compares with our prior range of 1.5x-2.0x across the rating cycle.

The Stable Outlook incorporates that Becle's operating performance will improve in 2024-2025 as pressures in cash flow generation are expected to ease. Fitch also believes the company's higher than historical short-term debt levels will be refinanced in 4Q23.

KEY RATING DRIVERS

Higher Leverage: Fitch expects Becle's EBITDA net leverage to remain around 2.5x over the next 18 to 24 months versus the 1.5x previously estimated. During 2023, the company increased its total debt by around MXN8.8 billion to fund its negative FCF leading to an EBITDA net leverage of around 3.0x as of 3Q23, as calculated by Fitch. Higher net working capital requirements related to inventory and payments to suppliers in 2023 have limited the capacity to generate sufficient cash flow from operations (CFO) to cover capex and dividends. Our projections incorporate that Becle's leverage improvement will be mainly driven by gradual EBITDA expansion.

Negative FCF: Becle's FCF is expected by Fitch to be more negative than prior projections across the rating horizon. This will limit the company capacity to deleverage through debt reduction. For 2023, Fitch expects that Becle will generate a negative FCF of close to

MXN7 billion due to a decline of around 25% to 28% on EBITDA, higher interest expenses and net working capital needs, and capex and dividend of around MXN4 billion and MXN1.8 billion, respectively. An improvement in FCF is projected until 2024-2025; however, it is anticipated to remain negative in lower levels until the company recovers the capacity to generate annual CFO of around MXN5.0 billion. Sustained levels of negative FCF above Fitch projections could lead to additional negative rating actions.

Profitability Pressured: Fitch projects that Becle's EBITDA margin will fall to around 15% to 16% in 2023 due to mainly to the negative effect of Mexican peso appreciation against the U.S. dollar and inflationary pressures on input costs. This level compares with an average EBITDA margin of 20% for the last four years. For 2024-2025, Fitch forecasts that EBITDA margin will increase to around 18% to 19% as result of pricing strategies, better sales mix due to the implementation of its premiumization strategy, the effect of lower agave prices and lower inputs costs as inflation ease, as well as cost-reduction initiatives. For the first nine months as of Sept. 30, 2023, Becle's EBITDA margin, as calculated by Fitch, was around 15%.

Revenue Growth Resume in 2024: Fitch expects a negative trend in Becle's revenues in 2023 as a result of weaker volume demand of non-tequila categories in U.S., Canada and Mexico and the negative effect of Mexican peso appreciation against the U.S. dollar. Fitch projects revenues in Mexican pesos to decrease around 3% to 4% in 2023 and then to resume an annual growth of approximately 7% over 2024-2025. Low to mid-single-digit volume growth and higher average sales prices are anticipated to support this positive trend. For the first nine months as of Sept. 30, 2023, Becle's revenues declined around 2% compared to the same period of 2022.

Strong Tequila Brand: Becle's ratings reflect the strong brand recognition of its Jose Cuervo tequila, which is the world's leading tequila by sales volume. The company has twice the tequila sales volume of its closest competitor. Jose Cuervo and other family brands have significant geographic diversification, with sales in more than 85 countries, and are the market leaders by volume in the U.S. and Mexico, the world's most significant tequila markets. Approximately 83% of its net revenues are generated in the U.S., Canada and Mexico. Becle has a significant presence in the super- and ultra-premium tequila categories and the tequila category represents close to70 % of its total revenues.

Gradual Growth in Other Spirits: Fitch incorporates Becle's strategy to improve its product portfolio by incorporating and developing new brands in premium categories. Its Bushmills whiskey is the third largest brand of Irish whiskey in terms of sales volume in the world. Also, its premium rum brand, Kraken, has been growing and approximately half of its sales volume is coming from countries outside the U.S., where it was originally launched. Its portfolio includes other spirits including American whiskey, vodka, gin, mezcal and ready-to-drink (RTD) alcoholic and non-alcoholic drinks. These categories represent close to 30% of its total revenues.

DERIVATION SUMMARY

Becle's ratings reflect its solid business position as the world's largest tequila producer and the strong brand recognition of Jose Cuervo. Its operations are geographically diversified, with a strong presence in the U.S., Canada and Mexico, and are complemented by a portfolio in the whiskey, rum, vodka and mixers categories. Becle's ratings are comparable with peers rated by Fitch, such as Diageo plc (A-/Stable), Pernod Ricard S.A. (BBB+/Stable) and Bacardi Limited (BBB-/Stable). The company's business profile is weaker than that of Diageo, Pernod Ricard and Bacardi, given its lower size and scale, as well as its less diversified portfolio of spirits and globally known brands.

Becle's financial profile is also considered to be weaker in the midterm when compared to its peers. The company's projected EBITDA margin is around 18%-19%, which is lower than Diageo's 33% and Pernod Ricard's 29%. Becle has also a weaker FCF generation in recent years when compared to Diaego and Pernord Ricard. Becle's projected net leverage at around 2.5x is considered to be similar than those of Diageo at 2.9x and Pernod Ricard at 3.1x.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within the Rating Case for the Issuer Include

--Revenue decline around 3%-4% in 2023 and growth of 7% in 2024-2025;

--EBITDA margins around 15%-16% in 2023, and 18%-19% in 2024-2025;

--Capex around MXN4 billion in 2023, and MXN3.2 billion in 2024-2025;

--Dividends of MXN1.8 billion in 2023-2025;

--Negative FCF in 2023-2025.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Larger scale and greater product diversification;

--Improving profitability consistently above 20%;

--Sustained positive FCF margin;

--EBITDA net leverage below 1.5x on sustained basis.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--Sustained deterioration in operating performance, leading to lower sales and EBITDA margin below 15%;

--Sustained negative FCF that erodes its financial profile and liquidity position;

--EBITDA net leverage above 2.5x on sustained basis.

LIQUIDITY AND DEBT STRUCTURE

Manageable Liquidity: Becle's liquidity position is expected to be pressured temporarily as it faces MXN9.1 billion of short-term debt with only MXN4.0 billion of cash balance as of Sept. 30, 2023. The company has already financing alternatives to extend the maturities and Fitch expects that Becle will close its refinancing process and extend its debt maturity profile by December 2023. Its next significant debt maturities coming due are USD150 million in 2025 and USD800 million in 2031.

ISSUER PROFILE

Becle is the world's largest tequila producer in terms of volume and has a diversified portfolio of spirits that include rum, vodka, pre-mixed cocktails, and whiskey. Becle owns many recognizable brands, including Jose Cuervo, 1800, Maestro Dobel, Bushmills, Three Olives, Hangar 1 and Pendleton, among others.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Becle, S.A.B. de C.V.	LT IDR	BBB Rating Outlook Stable	Downgrade	BBB+ Rating Outlook Stable
	LC LT IDR	BBB Rating Outlook Stable	Downgrade	BBB+ Rating Outlook Stable
senior unsecured	LT	BBB	Downgrade	BBB+

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Corporate Rating Criteria - Effective from 28 October 2022 to 3 November 2023 (pub. 28 Oct 2022) (including rating assumption sensitivity)

Sector Navigators: Addendum to the Corporate Rating Criteria - Effective from 12 May 2023 to 3 November 2023 (pub. 12 May 2023)

Climate Vulnerability in Corporate Ratings Criteria - Effective from 21 July 2023 to 3 November 2023 (pub. 21 Jul 2023) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Becle, S.A.B. de C.V.	EU Endorsed, UK Endorsed

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