

Tear Sheet:

## Becle S.A.B. de C.V.

May 30, 2024

**The improvement that Becle S.A.B. de C.V. has seen in profitability and cash flow should continue despite top-line headwinds.** We expect EBITDA margin expansion of between 200 basis points (bps) and 250 bps by year-end 2024 vis-à-vis 2023--mostly trickling down from the gross margin--because of a better product mix and lower agave prices; an oversupply of mature agave in past quarters caused its price to tumble. Becle's EBITDA margin expanded about 120 bps during the first quarter of 2024 year on year, and we anticipate the company's second-half top line and cash flow being stronger, with help from the Mexican peso's expected depreciation against the U.S. dollar.

We estimate 2024 revenue growth of about 2% in peso terms, given the expected exchange rate of 17.5 Mexican pesos (MXN) per \$1 by year-end, affecting Becle's non-Mexico revenue (which accounts for about three-fourths of total revenue). Moreover, consumption headwinds in non-U.S. markets should keep the trend in volumes negative to flat, somewhat offsetting the benefits from the company's strategy to increase premium labels in its product mix, as well as the resilience of U.S. tequila consumption.

**A recovery in its credit metrics could prompt us to revise the rating outlook back to stable.** Improvement in Becle's EBITDA and cash flow will be key to resolving the negative outlook on the 'BBB-' rating. We continue to expect improvement in net debt to EBITDA (to 2.5x-2.6x) and funds from operations (FFO) to debt (to 25%-30%), which would give Becle cushion over our downgrade thresholds (3x net debt to EBITDA and FFO to debt well below 30%). Moreover, the company's debt refinancing in late 2023 has strengthened Becle's liquidity position.

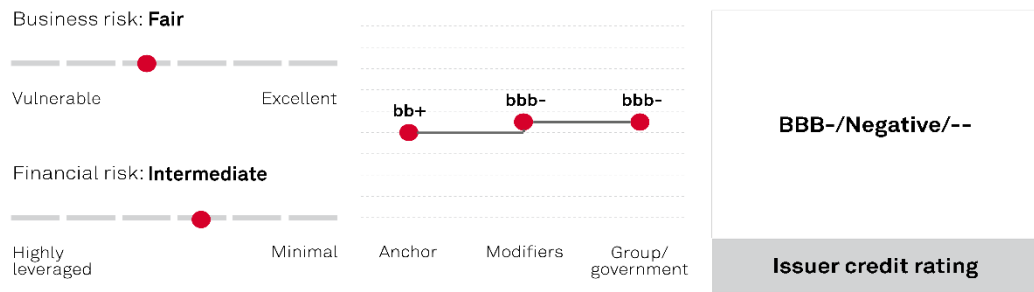
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## Ratings Score Snapshot



## Recent Research

- Research Update: Becle S.A.B. de C.V. 'BBB-' Ratings Affirmed On Easing Liquidity Pressure; Outlook Remains Negative On Higher Leverage, Dec. 6, 2023

## Company Description

Founded in 1758 and headquartered in Mexico City, Becle has been led by 11 generations of the Beckmann family. Becle is the world's largest producer of tequila, with well-known brands such as Jose Cuervo, 1800, Centenario, and Maestro Dobel. It's also the largest and second-largest distributor of premium spirits and liquors in Mexico in terms of volume and value, respectively. The company has more than 30 brands, and it produces, bottles, and sells spirits worldwide, with a presence in more than 85 countries.

In the past few years, the company has mainly grown through successful brand acquisitions, such as those of Three Olives, Hangar 1, Stranahan's, Bushmills, Boodles, and Pendleton, as well as its recent investment in Proper No. Twelve whiskey. For the 12 months ended March 31, 2024, Becle reported revenue of MXN43.7 billion, with an EBITDA margin of 16.6%.

## Outlook

The negative outlook reflects our view that the company is still navigating challenging market conditions, including the decline in spirits consumption in non-U.S. markets, economic slowdowns in several key markets where inflation remains sticky, and a still strong Mexican peso. Therefore, we would need to see adjusted leverage well below 3x and FFO to debt closer to 30% for a couple more quarters before stabilizing the rating.

### Downside scenario

We could lower our ratings on Becle if, over the next 12-24 months, its adjusted debt to EBITDA doesn't stay well below 3x and its FFO to debt doesn't stay closer to 30%. This could occur if:

- Becle's operations continue to underperform (amid difficult global economic conditions, persistent input cost inflation, and surprisingly high agave prices), and if we see a prolonged period of strength for the Mexican peso; or
- Becle implements an aggressive financial policy to fund unexpected working capital needs, capital expenditures, mergers or acquisitions, dividend payments, or share repurchases.

### Upside scenario

We could revise the outlook to stable in the next 12-24 months if Becle consistently improves its credit metrics, such that its adjusted debt to EBITDA is well below 3x and its FFO to debt is closer to 30%. We would also look for the company's sources of liquidity to exceed uses by more than 1.2x, at all times.

## Key Metrics

### Becle, S. A. B. de C. V.--Forecast Summary

Period ending	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026
(Mil. MXN)	2022a	2023a	2024e	2025f	2026f
Revenue	45,729	44,355	45,123	48,239	51,371
Gross profit	26,041	23,554	25,090	26,919	28,564
EBITDA	9,777	7,390	8,522	9,611	10,435
Less: Cash interest paid	(515)	(863)	(1,130)	(1,084)	(968)
Less: Cash taxes paid	(3,193)	(3,116)	(1,454)	(1,516)	(1,729)
Funds from operations (FFO)	6,069	3,411	5,938	7,011	7,738
Interest expense	850	1,175	1,207	1,158	1,042
Cash flow from operations (CFO)	(2,047)	(399)	4,675	5,540	6,275
Capital expenditure (capex)	3,924	3,212	2,933	2,663	2,738
Free operating cash flow (FOCF)	(5,971)	(3,611)	1,742	2,877	3,538
Dividends	1,510	1,764	1,415	1,229	1,471
Discretionary cash flow (DCF)	(7,482)	(5,375)	327	1,648	2,067
Debt (reported)	17,604	23,897	24,641	22,764	23,413
Plus: Lease liabilities debt	3,034	3,150	3,205	3,426	3,649
Less: Accessible cash and liquid Investments	(4,521)	(6,367)	(5,735)	(3,905)	(5,027)
Debt	16,117	20,681	22,110	22,285	22,034
Equity	58,423	57,639	60,321	63,995	67,853
<b>Adjusted ratios</b>					
Debt/EBITDA (x)	1.6	2.8	2.6	2.3	2.1
FFO/debt (%)	37.7	16.5	26.9	31.5	35.1
EBITDA interest coverage (x)	11.5	6.3	7.1	8.3	10.0
CFO/debt (%)	(12.7)	(1.9)	21.1	24.9	28.5
FOCF/debt (%)	(37.1)	(17.5)	7.9	12.9	16.1
DCF/debt (%)	(46.4)	(26.0)	1.5	7.4	9.4
Annual revenue growth (%)	16.0	(3.0)	1.7	6.9	6.5
EBITDA margin (%)	21.4	16.7	18.9	19.9	20.3

## Financial Summary

**Becle, S. A. B. de C. V.--Financial Summary**

<b>Period ending</b>	<b>Dec-31-2018</b>	<b>Dec-31-2019</b>	<b>Dec-31-2020</b>	<b>Dec-31-2021</b>	<b>Dec-31-2022</b>	<b>Dec-31-2023</b>
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	MXN	MXN	MXN	MXN	MXN	MXN
Revenues	28,158	29,705	35,036	39,419	45,729	44,355
EBITDA	6,345	6,029	7,546	7,883	9,777	7,390
Funds from operations (FFO)	4,710	5,188	6,101	4,756	6,069	3,411
Interest expense	512	529	545	699	850	1,175
Cash interest paid	512	381	417	263	515	863
Operating cash flow (OCF)	(284)	1,778	4,120	4,613	(2,047)	(399)
Capital expenditure	1,000	2,227	3,636	5,250	3,924	3,212
Free operating cash flow (FOCF)	(1,284)	(449)	484	(637)	(5,971)	(3,611)
Discretionary cash flow (DCF)	(3,334)	(2,256)	56	(2,183)	(7,482)	(5,375)
Cash and short-term investments	12,028	9,628	7,646	12,791	4,521	6,367
Gross available cash	12,028	9,628	7,646	12,791	4,521	6,367
Debt	8,173	8,539	4,771	8,434	16,117	20,681
Common equity	47,872	48,592	54,745	58,443	58,423	57,639
<b>Adjusted ratios</b>						
EBITDA margin (%)	22.5	20.3	21.5	20.0	21.4	16.7
Return on capital (%)	10.5	9.8	12.0	11.6	12.6	8.5
EBITDA interest coverage (x)	12.4	11.4	13.9	11.3	11.5	6.3
FFO cash interest coverage (x)	10.2	14.6	15.6	19.1	12.8	4.9
Debt/EBITDA (x)	1.3	1.4	0.6	1.1	1.6	2.8
FFO/debt (%)	57.6	60.8	127.9	56.4	37.7	16.5
OCF/debt (%)	(3.5)	20.8	86.4	54.7	(12.7)	(1.9)
FOCF/debt (%)	(15.7)	(5.3)	10.1	(7.6)	(37.1)	(17.5)
DCF/debt (%)	(40.8)	(26.4)	1.2	(25.9)	(46.4)	(26.0)

**Peer Comparison****Becle, S. A. B. de C. V.--Peer Comparisons**

	<b>Becle S.A.B. de C.V.</b>	<b>Brown-Forman Corp.</b>	<b>Constellation Brands Inc.</b>	<b>Pernod Ricard S.A.</b>	<b>Diageo PLC</b>
Foreign currency issuer credit rating	BBB-/Negative/--	A-/Stable/A-2	BBB/Stable/A-2	BBB+/Stable/A-2	A-/Stable/A-2
Local currency issuer credit rating	BBB-/Negative/--	A-/Stable/A-2	BBB/Stable/A-2	BBB+/Stable/A-2	A-/Stable/A-2
Period	Quarterly	Quarterly	Quarterly	Annual	Annual
Period ending	2024-03-31	2024-01-31	2023-11-30	2023-06-30	2023-06-30
Mil.	MXN	MXN	MXN	MXN	MXN
Revenue	43,731	73,122	170,462	227,211	372,904

**Becle, S. A. B. de C. V.--Peer Comparisons**

EBITDA	7,239	24,443	63,266	68,068	130,112
Funds from operations (FFO)	2,924	18,164	52,759	50,358	89,015
Interest	1,174	2,142	8,737	5,242	16,474
Cash interest paid	1,004	1,506	8,256	5,466	14,927
Operating cash flow (OCF)	3,043	10,766	49,622	35,307	65,895
Capital expenditure	2,864	3,673	21,298	13,142	25,713
Free operating cash flow (FOCF)	179	7,093	28,324	22,165	40,182
Discretionary cash flow (DCF)	(1,586)	(6,604)	(19,427)	(12,618)	(30,398)
Cash and short-term investments	7,566	10,110	1,366	26,359	31,357
Gross available cash	7,566	10,110	1,366	26,359	31,357
Debt	18,970	53,114	210,354	210,007	358,949
Equity	57,755	55,700	170,080	312,914	202,479
EBITDA margin (%)	16.6	33.4	37.1	30.0	34.9
Return on capital (%)	8.2	20.3	18.4	11.7	23.0
EBITDA interest coverage (x)	6.2	11.4	7.2	13.0	7.9
FFO cash interest coverage (x)	3.9	13.1	7.4	10.2	7.0
Debt/EBITDA (x)	2.6	2.2	3.3	3.1	2.8
FFO/debt (%)	15.4	34.2	25.1	24.0	24.8
OCF/debt (%)	16.0	20.3	23.6	16.8	18.4
FOCF/debt (%)	0.9	13.4	13.5	10.6	11.2
DCF/debt (%)	(8.4)	(12.4)	(9.2)	(6.0)	(8.5)

**Rating Component Scores**

<b>Foreign currency issuer credit rating</b>	<b>BBB-/Negative/--</b>
<b>Local currency issuer credit rating</b>	<b>BBB-/Negative/--</b>
<b>Business risk</b>	<b>Fair</b>
Country risk	Intermediate
Industry risk	Low
Competitive position	Fair
<b>Financial risk</b>	<b>Intermediate</b>
Cash flow/leverage	Intermediate
<b>Anchor</b>	<b>bb+</b>
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Positive (+1 notch)
<b>Stand-alone credit profile</b>	<b>bbb-</b>

## Related Criteria

- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

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