



Recommendation: I recommend buying Beclé (BMV: CUERVO) with a MXN58.81 target price at end of FY26 vs. current price of MXN31.10. (89% upside / 26.6% 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.

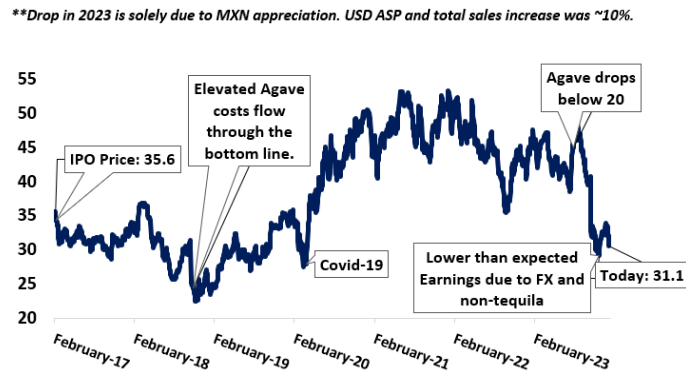
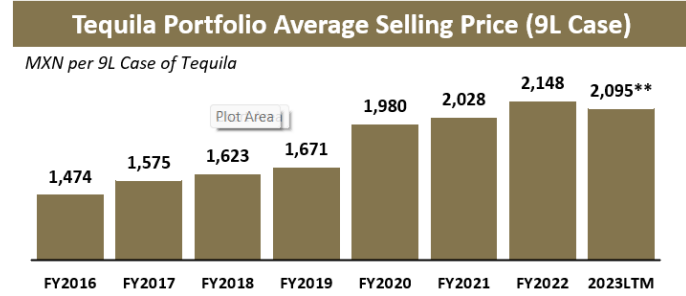
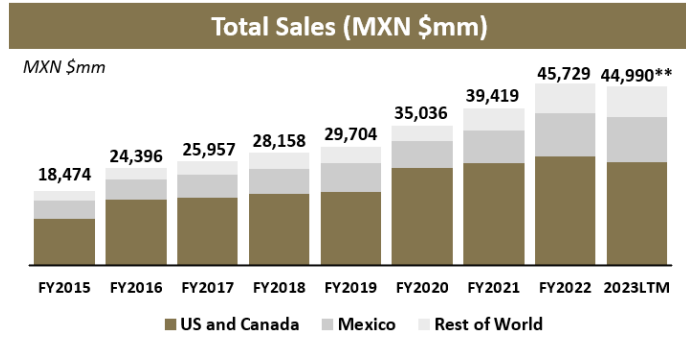
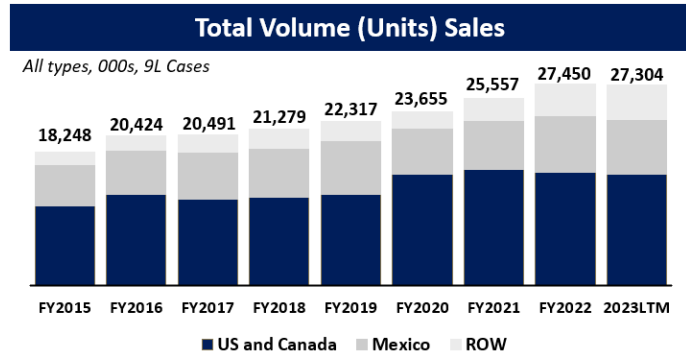
- The Peso (MXN) appreciation to the USD (Cuervo does not hedge), reaching 7 years highs, putting pressure on margins as it sells for (70%) USD but produces mostly in MXN (COGS, employees, etc.).
- **High agave prices (also in MXN) and inventory levels mean that it will take at least 9 months before the margin expands.**

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).

Risks and Mitigants:

1. Upcoming Celebrity Brands. Geroge Clooney’s “Casamigos” got into the scene and quickly gained initial market share before being acquired by DIAGEO at \$1B valuation. While this poses a risk, barriers to entry are remarkably high, and without Diageo’s distribution these brands are highly unlikely to scale. Furthermore, Cuervo will remain the authentic 250 year-old brand.
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.





Thesis #1: Agave prices dropped and will remain depressed for at least 5 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:

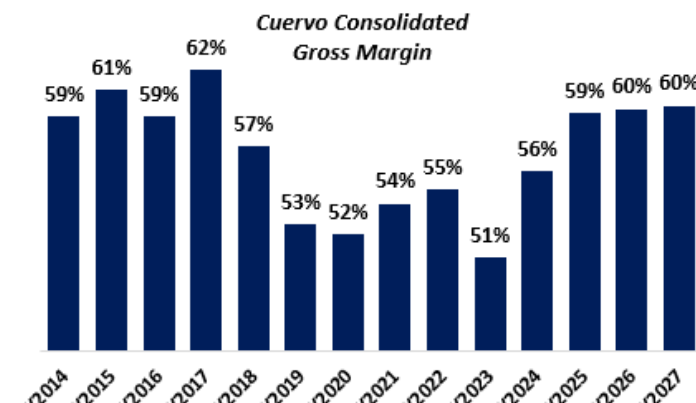
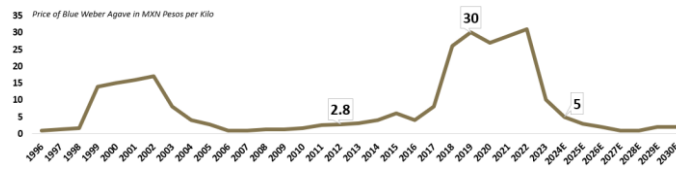
- In 1998 agave prices shot up, incentivizing high plantations of agave. Subsequently, in 2004 agave prices dropped dramatically (Agave takes 7 years to mature). I believe we have the exact same case today.
- According to my calculations (projecting the amount of Agave ready in +7 years), this means that Agave will again be over supplied, and prices will be depressed for a long period of time. We can see prices already went down dramatically through mid-year 2023. My sources mentioned that Agave is now at 6MXN – much lower than what you will find online.
- To put this in context, the amount of Agave used in 2023 is expected to be ~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. See appendix for expected Supply-Demand gap.**

Now to the good part: Agave price impact on gross margins is material.

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).

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

- Spirits will continue to gain share over Wine and Beer.** Over the past two decades, spirits have taken share from wine and beer, growing at a 5.4% CAGR. The main force behind this growth is premiumization. Distributors (particularly relevant for the US market) are better incentivized selling spirits because of higher profit margins, higher ticket price compared to beer and less SKUs compared to wine.
- Tequila to gain share and relevance in US and ROW over other spirits.** Within spirits, tequila is gaining market share. Vodka is the largest category of spirits, and tequila is likely to continue to gain volume shares over Vodka according to all industry experts I spoke with. Tequila is more profitable for both producers (Cuervo, Diageo, Brown-Forman, etc.) and distributors because of a higher average consumer price for tequila which helps extract more value from consumers. 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.



Unit economics of a tequila bottle, 100%, 750c, 40% Vol., MXP

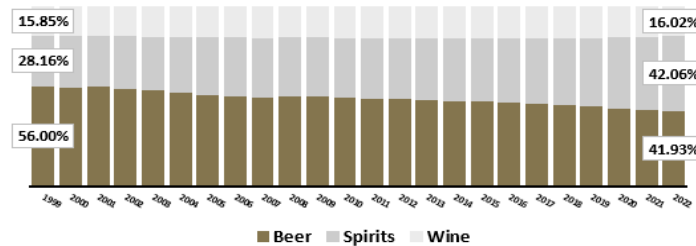
750ml Bottle Selling Price 179

Current Margins	
Current GM	54% <i>5y average</i>
Total COGS	82.3 <i>(1-GM)*Price</i>
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 <i>3.5kg per avg. 100% tequila</i>
e Total Agave Cost per Bottle	34.7 <i>c*d</i>
f Agave / COGS	42%
g Other costs (glass, labor, etc.)	47.6 <i>(1-f)*COGS</i>

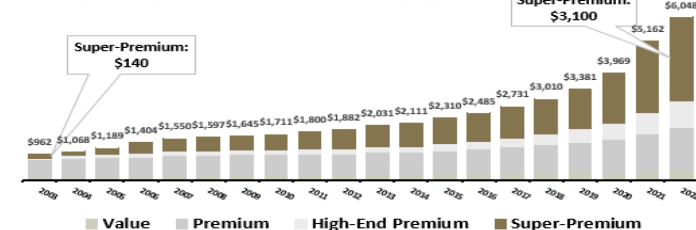
Future Margins incorporating new agave cost	
a Internal Agave Cost	8.0
b Spot Agave Price	5.0
c Average Cost per kg	7.4
d Agave per Avg. Bottle (kg)	2.8 <i>3.5kg per avg. 100% tequila</i>
e Total Agave Cost per Bottle	20.7 <i>c*d</i>
f Other costs (glass, labor, etc.)	47.6 <i>see above</i>
g Total Cost	68.3
GM (calculated)	61.8%

*Assuming 80% integration

US Alcoholic Beverage Market Share Revenue by Type

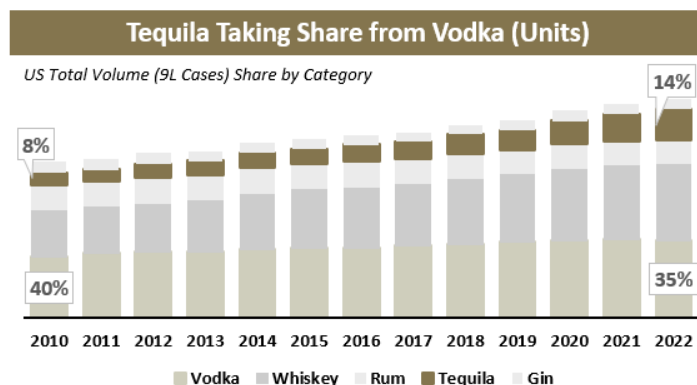


Total Tequila Supplier US Gross Revenue \$mm by Type





- 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. Producers get to increase margins, effectively selling the same liquid at a higher price. Distributors get to sell a higher priced product, helping them increase margins themselves. Retailers in turn get to sell higher priced products and take a higher absolute margin for the same shelf space. All competitors (suppliers) focus on premiumization, which increases premium products' share.



Valuation. 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 and non-alcoholic beverages take a smaller part of the of the overall pie. For **gross margin**, I triangulated the future margin by estimating: Future agave prices and their impact on COGS (see thesis #1). 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. According to my analysis, by end of FY2025, Becele will get gross margins, EBITDA margin and ROIC closer (or better) to peer group average. Because of that, I believe that keeping the current (by consensus estimates) x13.5 NTM EV/EBITDA by end FY26 is fair and conservative. Peer group's average is ~x15. Becele has historically traded lower than peers but with expanded margins, ROIC and as a pure Tequila player (which is almost the only category that is growing except for Whiskey) I believe the multiple could expand. See appendix for Base/Bear/Bull cases assumptions and for more details.

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. Becele 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, Becele will continue with its dividend (30% payout ratio) and debt pay down. It will take Becele at least another 3-4 years before it can acquire another brand.

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 more than 20 industry professionals (suppliers, distributors, retailers, etc.)

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 Agave pricing (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.



Valuation Summary

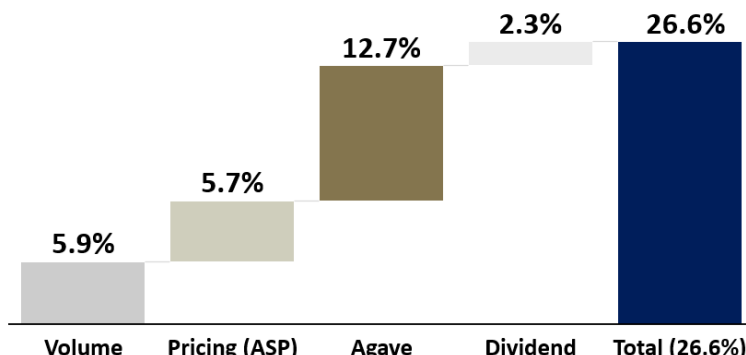
Comparables (\$Mn)	Market Cap	Enterprise Value	Net Debt /EBITDA	EV / EBITDA			P/E	Gross %		EBITDA %		ROIC		2025E EV/EBITDA
				NTM	5y avg	LTM		NTM	LTM	LTM	10y avg	5y avg		
Davide Campari (BIT:CPR)	12,305	14,317	2.8x	16.4x	21.8x	32.9x	25.4x	58.5%	23.1%	10.5%	10.5%	14.2x		
Brown-Forman (NYSE:BF.B)	29,012	31,662	2.1x	19.5x	25.7x	37.7x	29.0x	59.2%	30.3%	29.4%	25.8%	18.3x		
Rémy Cointreau (ENXTPA:RCO)	5,936	6,578	1.9x	14.1x	22.4x	30.0x	24.9x	71.3%	23.4%	13.2%	14.3%	13.4x		
Diageo (LSE:DGE)	79,826	101,576	2.8x	13.9x	18.3x	17.1x	17.8x	60.1%	33.1%	16.9%	17.2%	13.7x		
Pernod Ricard (ENXTPA:RI)	43,504	55,748	3.0x	12.6x	16.6x	18.0x	16.9x	59.7%	28.5%	10.3%	10.5%	13.0x		
Mean				14.8x	20.5x	26.8x	22.3x	60.2%	25.7%	15.6%	14.9%	13.8x		
Median				14.0x	20.0x	27.6x	22.3x	59.5%	26.0%	13.3%	12.8%	13.6x		
Becle (BMV:CUERVO)	6,082	7,453	3.3x	12.6x	18.0x	25.2x	19.7x	52.2%	15.7%	13.3%	11.3%	10.0x		

	Historical								Forecast					CAGR 2023-2025	
	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	Tom	Cons.
Income Statement - Summary															
Net Revenue	18,475	24,396	25,958	28,158	29,705	35,036	39,419	45,729	45,452	48,263	52,825	56,762	60,808	7.8%	9.9%
YoY Growth	20.6%	32.1%	6.4%	8.5%	5.5%	17.9%	12.5%	16.0%	-0.6%	6.2%	9.5%	7.5%	7.1%		
<i>Consensus Estimates - Net Revenue</i>									44,828	49,237	54,188	N/A	N/A		
Gross Margin	11,251	14,460	16,121	16,183	15,666	18,246	21,274	25,087	23,045	27,010	31,415	33,901	36,461		
YoY Growth	23.9%	28.5%	11.5%	0.4%	-3.2%	16.5%	16.6%	17.9%	-8.1%	17.2%	16.3%	7.9%	7.5%		
Margin	60.9%	59.3%	62.1%	57.5%	52.7%	52.1%	54.0%	54.9%	50.7%	56.0%	59.5%	59.7%	60.0%		
<i>Consensus Estimates - Gross Margin</i>									23,733	27,344	30,579				
<i>Consensus Estimates - Gross Margin</i>									52.9%	55.5%	56.4%				
EBITDA	4,864	6,075	7,171	6,074	6,096	7,607	7,938	9,843	7,526	10,788	13,723	14,969	16,301	35.0%	31.3%
YoY Growth	32.9%	24.9%	18.0%	-15.3%	0.4%	24.8%	4.4%	24.0%	-23.5%	43.3%	27.2%	9.1%	8.9%		
Margin	26.3%	24.9%	27.6%	21.6%	20.5%	21.7%	20.1%	21.5%	16.6%	22.4%	26.0%	26.4%	26.8%		
<i>Consensus Estimates - Adjusted EBITDA</i>									7,641	10,170	13,167	N/A	N/A		
<i>Consensus Estimates - Adjusted EBITDA</i>									17.0%	20.7%	24.3%				
EBIT	4,620	5,624	6,736	5,543	5,410	6,893	7,121	8,890	6,457	9,566	12,353	13,518	14,759	38.3%	32.0%
YoY Growth	36.9%	21.7%	19.8%	-17.7%	-2.4%	27.4%	3.3%	24.8%	-27.4%	48.2%	29.1%	9.4%	9.2%		
Margin	25.0%	23.1%	25.9%	19.7%	18.2%	19.7%	18.1%	19.4%	14.2%	19.8%	23.4%	23.8%	24.3%		
<i>Consensus - EBIT</i>									6,681	8,925	11,641	N/A	N/A		
<i>Consensus - EBIT</i>									14.9%	18.1%	21.5%				
Net Income	5,308	3,148	5,193	4,025	3,712	5,146	5,020	5,856	4,384	6,595	8,729	9,637	10,603		
YoY Growth	101.4%	-40.7%	65.0%	-22.5%	-7.8%	38.6%	-2.5%	16.7%	-25.1%	50.4%	32.4%	10.4%	10.0%		
Margin	28.7%	12.9%	20.0%	14.3%	12.5%	14.7%	12.7%	12.8%	9.6%	13.7%	16.5%	17.0%	17.4%		
Adjusted Shares Outstanding - WAD	-	-	3,509	3,585	3,588	3,591	3,591	3,591	3,591	3,591	3,591	3,591	3,591		
EPS			\$ 1.48	\$ 1.12	\$ 1.03	\$ 1.43	\$ 1.40	\$ 1.63	\$ 1.22	\$ 1.84	\$ 2.43	\$ 2.68	\$ 2.95	41.1%	31.7%
YoY Growth	N/A	N/A	N/A	-24.1%	-7.9%	38.5%	-2.5%	16.7%	-25.1%	50.4%	32.4%	10.4%	10.0%		
Margin	N/A	N/A	20.0%	14.3%	12.5%	14.7%	12.7%	12.8%	9.6%	13.7%	16.5%	17.0%	17.4%		
<i>Consensus Estimates - Adjusted Earnings Per Share</i>									\$ 1.22	\$ 1.61	\$ 2.12	N/A	N/A		

7 years of depressed margins..

	BASE	BULL	BEAR
FY2027		Change / Base	Change / Base
Total Revenue	60,808	3.0%	62,632
COGS	40.0%	-2.0%	38.0%
R&D	0.0%	0.0%	0.0%
S&M	0.0%	1.0%	1.0%
SG&A	35.7%	1.0%	36.7%
Other	-2.5%	1.0%	-1.5%
EBITDA Margin	26.8%		25.8%
2027 EBITDA	16,301		16,163
2027 Multiple	13.5 x	3.0 x	16.5 x
			-3.0 x
			10.5 x
Equity Value	211,198		257,834
S/O	3591.0		3591.0
2026 Stock Price - MXN	58.81		71.80
Current Price - MXN	31.10		31.10
Total Return	89.1%		130.9%
Incl. Div			
2027 P - MXN + Div	61.64		74.63
Total Return	98.2%		140.0%
			(8.3%)
Years to 2027	2.90		2.90
Annualized IRR	24.6%		33.4%
Annualized IRR incl. Div	26.6%		35.2%
			-2.9%

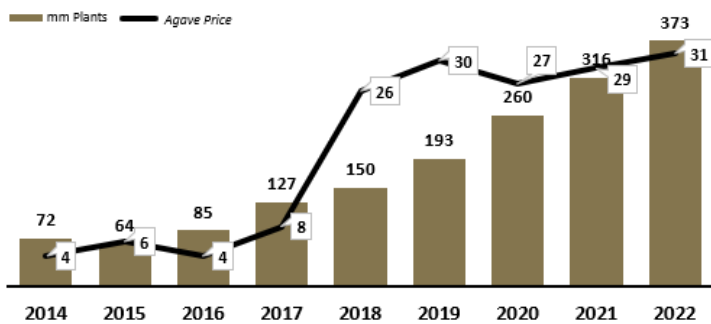
Return Bridge





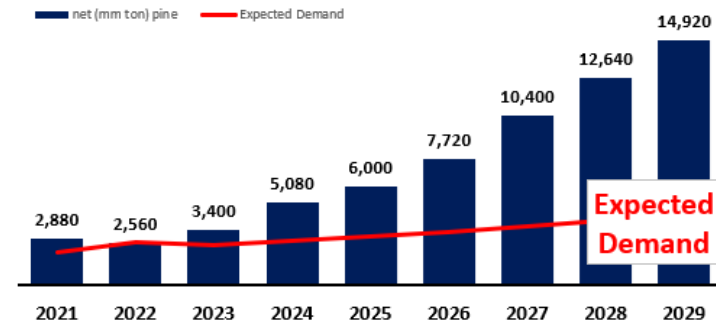
Plants Planted

#mm plants planted each year (actual)



Estimation of Mature Agave Supply

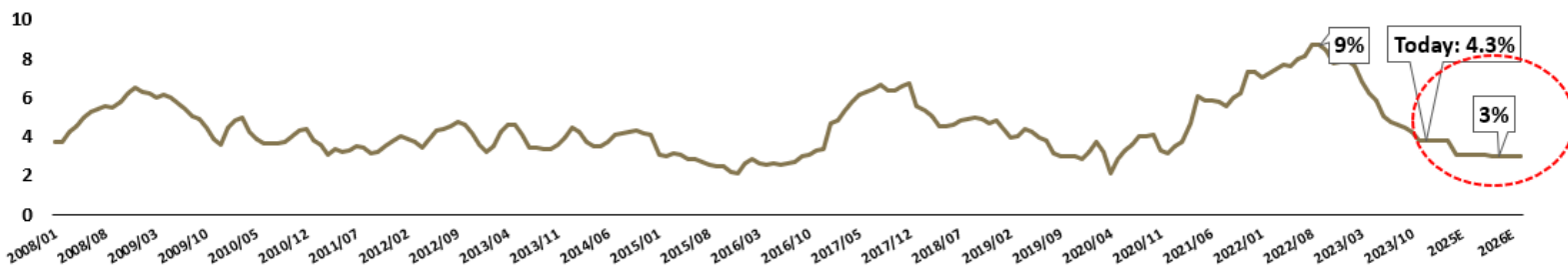
Mm Ton Net Mature Pine Estimation



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

7 years of maturity

Inflation Rate in Mexico (%)



Mexican Peso (\$MXNUSD) - Rate Value

