

Brown - Forman Distillers Corporation

Why is Brown Considering buying?

- Increase the value of shareholders' investments
- Increase the amount of cash available to the stockholders participating in the transaction

Acquisition Decision

- In 1977
- Brown's purchase of Southern Comfort
- Brown's purchase of Southern Comfort was the first of many acquisitions that would eventually lead to the formation of Brown-Forman
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Southern Comfort

- Distilled spirits
- Produced in the South
- Sold in the South
- Produced in the South

Asking price of \$94.6 million fair?



Suggestions

ACCEPT OFFER

Background

The Brown-Forman Company is a leading manufacturer and distributor of distilled spirits in the United States.

1977

Financial Goals

- High rates for investments
- State of the capital budget through 1980
- Target capital structure
- Dividend payout (30%-35%)

The primary objective is to increase the value of the stockholders' investment.

Anna Wills
Pauline McCarty
Bob Beaver

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Brown - Forman Distillers Corporation

Why is Brown Considering buying

- Increase the value of shareholders investment
- Large return of 21% return
- Past success of building brand franchise

Acquisition Decision

- July 1978
- Southern Comfort CEO approached Brown & Forman with offer to sell for \$94.6M
- Southern Comfort rejected
- Small family investment companies during the entire time frame
- Should Brown Forman take the deal?

Southern Comfort

- Obtain Liquor
- Utilize all production capacity
- Small family investment companies
- 20% ownership
- Recycled soiled linens efficient

Asking price of \$94.6 million fair?

Suggestions

100% of Brown cash flow assigned
ACCEPT OFFER

- ### 1977 Financial Goals
- hurdle rates for investment (14%)
 - Size of the capital budget through 1980
 - Target capital structure
 - Dividend payout (30%-35%)

The primary objective = increase the value of the stockholders' investment

Background

The company was founded in 1870 by George Brown & Sons
Growth of group - pack whiskey in sealed glass bottles
2013 Revenue = \$3.1 billion
Family Owned Business - The Brown family controls more than 97% of the voting shares

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Background

The company was founded in 1870
by George Garvin Brown

Idea of selling top-grade whiskey in
sealed glass bottles

2013 Revenue = \$3.6 billion

Family Owned Business - The
Brown family controls more than
70% of the voting shares

Balance Sheet

A small, low-resolution thumbnail of a balance sheet table, showing various financial metrics and their corresponding values.

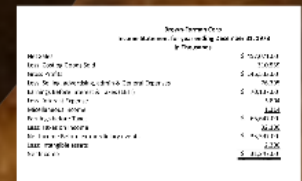
1977

Financial Goals

- Hurdle rates for investment (14%)
- Size of the capital budget through 1980
- Target capital structure
- Dividend payout (30%-35%)

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Income Statement

A small, low-resolution thumbnail of an income statement table, showing revenue, expenses, and profit figures.

1977



Balance Sheet

BROWN-FORMAN DISTILLERS CORPORATION

Consolidated Balance Sheets (In thousands of dollars)

	1977	April 30 1978
Assets		
Cash	\$ 9,354	\$ 8,875
Short-term money market investments	36,171	20,797
Accounts receivable, trade	40,446	59,759
Inventories	148,794	167,142
Other current assets	<u>1,380</u>	<u>1,030</u>
Total current assets	236,145	257,603
Investments in associated companies	6,494	6,554
Property, plant, and equipment, at cost:	74,229	81,010
Less accumulated depreciation	<u>38,384</u>	<u>41,709</u>
Net property, plant, and equipment	35,845	39,301
Other assets	4,716	6,360
Goodwill, franchises, brands, and Trademarks	<u>21,671</u>	<u>18,787</u>
Total Assets	<u>\$304,871</u>	<u>\$328,605</u>
Liabilities and Stockholders' Equity		
Current portion of long-term debt	\$ 5,000	\$ 5,000
Accounts payable and accrued expenses	32,213	39,361
Accrued taxes	6,659	11,475
Deferred income taxes	<u>2,759</u>	<u>1,650</u>
Total current liabilities	46,631	57,486
9.3% serial notes, less current portion, \$5,000 Due each September 1, 1979-1988	60,000	50,000
Deferred income taxes	<u>1,226</u>	<u>2,894</u>
Total liabilities	107,857	110,380
Stockholders' Equity		
Capital stock:		
Preferred 40¢ cumulative, 1,177,948 shares Authorized and outstanding	11,779	11,779
Class A common stock, voting, issued shares, 4,020,634	1,206	1,206
Class B common stock, non-voting, issued shares, 8,888,105	2,667	2,667
Capital surplus	91,146	91,146
Retained earnings	94,138	115,349
Less common treasury stock, at cost (Class A, 61,742 shares; Class B, 261,377 shares)	<u>(3,922)</u>	<u>(3,922)</u>
Total stockholders' equity	197,014	218,225
Total liabilities and stockholders' equity	<u>\$304,871</u>	<u>\$328,605</u>