Strategic Report
Constellation Brands

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Executive Summary

Constellation Brands is the largest wine company in the world with a strong portfolio of consumer-preferred premium wine brands complemented by spirits, imported beer and other select beverage alcohol products. The Company supplies imported beer in the United States through its investment in a joint venture with Grupo Modelo. This imported beers joint venture operates as Crown Imports.

Although effected by the global economic slowdown, Constellation Brands finds itself strategically in a strong position. There is strong rivalry in the alcoholic beverage industry, however, first-mover advantage is critical in garnering loyalty amongst alcoholic beverage consumers. Fortunately for Constellation, the Company has first-mover advantage with many of their wines. In addition, due to Constellation Brands having a considerably large scale of production and a significant market share, Constellation can control their retail operations.

We recommended that Constellation Brands concentrate their efforts on the following four initiatives:

1. Continue Premiumizing Portfolio
2. Improve Organic Business Model by Building Brands
3. Grow Free Cash Flow and Return on Invested Capital
4. Expand Into Asian Markets, Particularly China

By further premiumizing Constellation's portfolio, Constellation Brands can better minimize the threat of substitutes to the firm's offering of alcoholic beverages. By improving Constellation's organic business model by building brands, Constellation will be able to grow their market share by targeting new customers. If Constellation is going to continue to have the flexibility to engage in acquiring brands to grow its portfolio they must grow more free cash flow. Lastly, there is significant long-term potential for Constellation Brands if the firm were to invest the time, effort, and financial resources to penetrate Asian markets, particularly China.

Company Overview

Constellation Brands, Inc.

Constellation Brands, Inc., is a diversified international producer and marketer of beverage alcohol with an extensive portfolio of global wine brands complement by United States imported beer, and North American spirits brands. The Company administers its commerce through entities it wholly owns, as well as through a variety of joint ventures with diverse entities, both within and outside the United States. It operates in the United States, Canada, United Kingdom, New Zealand and Australia. Constellation Brands pro forma revenue (earnings of companies in addition to actual earnings calculated under the United States Generally Accepted Accounting Principles in their quarterly and yearly financial reports) mix leans toward its wine portfolio, which is estimated at 70% of its fiscal 2010 year revenue, followed by beer at 25% and spirits at 5% (Morgan Stanley analyst estimates). Constellation Brands, Inc. was incorporated on December 4, 1972.

Constellation Wines

Constellation Wines is a global producer and marketer of wine. Constellation Wines sells numerous wine brands across all wine categories. These categories include table wine, sparkling wine, and dessert wine. Further, Constellation Wines has beverages across most points, including popular, premium, super-premium and fine wine. The portfolio of super-premium and fine wines is supported by vineyard holdings in the United States, Canada, Australia and New Zealand. Constellation Wines is a producer and marketer of wine in the United States, Canada, Australia and New Zealand and the marketer of wine in the United Kingdom. Wine produced by the Company in the United States is predominately marketed domestically and in the United Kingdom and Canada. The Company's wine produced in Australia and New Zealand is predominantly marketed domestically and in the United States, Canada and United Kingdom, while wine produced in Canada is primarily marketed domestically. Additionally, Constellation Wines exports its wine products to other major wine consuming markets of the world.

Constellation Wines' wine brands include Robert Mondavi Brands, Franciscan Oakville Estate, Wild Horse, Simi, Toasted Head, Kim Crawford, Ruffino, Alice White, Estancia,

Clos du Bois, Blackstone, Ravenswood, Black Box, Vendange, Arbor Mist, Inniskillin, Hardys, Banrock Station, Stowells, Kumala, Nobilo, and Jackson-Triggs. Constellation Wines also produces and sells Paul Masson Grande Amber Brandy, a brand in the brandy and cognac category.

Constellation Spirits

In March 2009, Constellation sold its value spirits business. During the 2009 fiscal year, Constellation Spirits produced, bottled, imported and marketed a diversified line of distilled spirits. Primarily, the segment's distilled spirits unit volume consisted of products marketed in the value price category, including Chi-Chi's prepared cocktails, Barton, Sköl, Fleischmann's, Canadian LTD, Montezuma, Ten High, Mr. Boston and Inver House, and Svedka Vodka and Black Velvet Canadian Whisky in the premium price category.

Crown Imports

The Company and Grupo Modelo, S.A.B. de C.V. (Modelo) each have equal interest (50/50) in Crown Imports. The Company has the right to import, market and sell Corona Extra, Corona Light, Coronita, Modelo Especial, Pacifico, Negra Modelo, St. Pauli Girl and Tsingtao brands in all 50 of the Unites States.

HISTORICAL TIMELINE

1945: **Canandaigua Industries Company Founded**

At the age of 21, Marvin Sands forms the Canandaigua Industries Company. With only eight employees, their strategy is to sell bulk wine in barrels to bottlers in the East. In this first year, the company sells approximately 200,000 gallons of wine and has gross sales of $150,000.

1948: **Mother Vineyard and Onslow Wine Companies are Purchased**

The Mother Vineyard Company in Manteo, North Carolina and the Onslow Wine Company also located in North Carolina are purchased. Both wineries produce Scuppernong Wine, a varietal wine produced from indigenous grapes that is very popular throughout the South.

1951: **Richard's Wine Cellars Created**
The Richard's Wine Cellars opens in Petersburg, Virginia with Mack Sands in charge of operations.

1954: **Richard's Wild Irish Rose Brand Launched**
The introduction of the Richard's Wild Irish Rose brand in 1954 spearheads the growth of the company. With bottling taking place at five different locations in the U.S., this unique franchising system allows the brand to grow rapidly with minimal capital investment. As a result of this system, Canandaigua Industries is able to develop its own wine production facilities to meet the explosive demand for Wild Irish Rose.

1965: **Tenner Brothers Acquired**
The Canandaigua Industries sales force and distributor network increases throughout the 1960s with the growth of the Wild Irish Rose brand. During this period of growth, the Tenner Brothers Winery in South Carolina is purchased and the Virginia Dare label joins the family on a royalty basis.

1969: **Hammondsport Wine Company Acquired**
Shortly after the purchase of Tenner Brothers, the Hammondsport Wine Company is added to the growing list of facilities. Hammondsport gives the company a foothold in the sparkling wine market.

1972: **Acquisition of Eastern Wine Company**
The Eastern Wine Company in New York is purchased and their famous label Chateau Martin joins the Canandaigua Wine Company portfolio.

1973: **Canandaigua Wine Company Goes Public**
The Company becomes Canandaigua Wine Company, Inc. in late 1972 and goes public in 1973.

1974: **Bisceglia Wine Company Acquired**
Further acquisitions in the 70's continues to fuel the company's growth. Several brands are purchased for production at Richard's Wine Cellars. In 1974, Canandaigua Wine Company heads west and acquires the Bisceglia Brothers Winery in Madera, California.

1979: **J. Roget Champagne Launched**
The J. Roget brand spreads its wings to become the second largest selling champagne brand in the country.

1984: **Sun Country Cooler Created**
Sun Country Cooler is created and rolled out nationwide. It involves a tremendous effort by all employees at Canandaigua Wine Company and sells one million cases within six months.

1987: **Widmer Wine Cellars and Manischewitz Wine Co. Acquired**
Widmer Wine Cellars in Naples, New York and the Manischewitz brand assets of the Monarch Wine Company in Brooklyn are purchased. Production of the Manischewitz brand is moved to Widmer, as well as a number of wines formerly produced at the Taylor Wine Company in Hammondsport , New York.

1988: **Marcus James Imported From Brazil**
Production of Marcus James Chardonnay, Cabernet, Merlot and White Zinfandel is shifted to Brazil.

1990: **Italian Swiss Colony Added To Portfolio**
Italian Swiss Colony dessert wines are purchased, including the Jacques Bonet line of sparkling wines.

1991: **Guild Wineries and Distilleries**
The Company acquires all the assets and certain liabilities of Guild Wineries, a California based cooperative owned and managed by grape growers in the region. At the time of the acquisition, Guild represents the nation's seventh largest wine producer. The acquisition is consistent with the Company's strategy to expand its portfolio of brands and reflects the growing consolidation in the United States wine industry. This is the company's first entry into the California wine market and includes the Cribari, Dunnewood and Cook's brands. Net sales at this time are at approximately $200 million.

1993: **Barton Incorporated and Vintners International Company, Inc.**
With the addition of Barton Incorporated, Canandaigua Wine Company further

diversifies into the imported beer and distilled spirits categories. The Barton Beer portfolio includes the popular Mexican import, Corona, which is now the best selling imported beer in America, along with the following brands: Peroni, St. Pauli Girl and Tsingtao. The Barton Brands portfolio included Barton Gin & Vodka, Ten High Bourbon Whiskey and Montezuma Tequila. The acquisition of certain assets of Vintners gives the company the Paul Masson, Taylor California Cellars, Great Western and Taylor brands.

1994: **Almaden and Inglenook are Acquired**
Canandaigua Wine Company purchases Mission Bell Winery from Heublein. This includes the Almaden and Inglenook wine brands and the grape juice concentrate business.

1995: **United Distillers Glenmore**
The acquisition of certain assets of United Distillers Glenmore gives the company a significant presence in the cordial and liqueur category with the addition of the following brands: Mr. Boston, Canadian LTD, Skol, Old Thompson, Kentucky Tavern, Glenmore, di Amore, Fleischmann's, Chi Chi's, and Schenley.

1997: **Canandaigua Brands, Inc. is Formed**
Canandaigua Brands, Inc. is formed as the parent company of Canandaigua Wine Company and Barton Incorporated, following a decade of acquisitions resulting in a diversified product portfolio expanding beyond the wine business.

1998: **Launching of Arbor Mist**
The Arbor Mist product is launched, resulting in the creation of a new wine category, "Wine With Fruit". This is one of the most successful product launches in Canandaigua Wine Company's history, shipping over one million cases in its first 100 days of distribution. Matthew Clark, plc, one of U.K. 's leading producers of British wines, cider and bottled waters is also acquired. This expands the company's portfolio to include K Cider, Blackthorn cider, QC Sherry, the #1 Fortified British wine, and Stowells of Chelsea, the #1 boxed wine in the U.K.

April 1999: Canadian Whisky Brand Acquisitions
The Company acquires several Canadian Whisky brands, including #3 Canadian Whiskey, Black Velvet.

June 1999: **Simi Winery and Franciscan Vineyards Acquisitions**
The purchase of the Simi Winery and Franciscan Vineyards properties and portfolios creates a fourth division of Canandaigua Brands, Inc., The Fine Wine Division. This division will operate under Franciscan Estates to concentrate its efforts on the ultra-premium wine category. The company's portfolio now includes such brands as Estancia, Franciscan, Mount Veeder, Veramonte and Simi.

October 2000: **Forth Wines Limited Acquisition**
Constellation Brands' Matthew Clark division acquired Forth Wines Limited, a wine and spirits wholesaler operated primarily in Scotland.
September 2002, Canandaigua Brands, Inc. accepts name change to Constellation Brands, Inc. (NYSE: STZ, STZ.B). The new name better reflects the scope of the company and its broad range of over products to satisfy a wide range of consumer preferences.

Spring 2001: **Turner Road Vintners and Corus Brands Acquisitions**
Two acquisitions are made to strengthen Constellation's popular and premium wine portfolio. Talus, Vendange, Nathanson Creek and Heritage are acquired from Turner Road Vintners. Columbia, Covey Run and Alice White, are acquired from Corus Brands, giving Canandaigua Wine Company 20 of the top 100 wine brands in the United States.

July 2001: **Ravenswood is Acquired**
Ravenswood, the best selling premium red zinfandel in the United States, is acquired making Franciscan Estates one of the most sought after wine portfolios in the industry. The formation of Pacific Wine Partners creates a joint venture shared by BRL Hardy and Constellation with distribution rights for the following brands: Banrock Station, Hardys, Leasingham, Barossa Valley Estate, Chateau Reynella from Australia, Nobilo from New Zealand and La Baume from France. Pacific Wine Partners acquired certain assets of Blackstone Winery, including the Blackstone brand and the Codera winery in Sonoma County.

April 2003: **BRL Hardy Ltd. Pacific Wine Partners Acquisition**
Constellation completes the acquisition of BRL Hardy Ltd. Pacific Wine Partners which becomes a 50/50 joint venture of Constellation and BRL Hard. Under Constellation

ownership the company becomes a wholly-owned subsidiary. It commands 25% of the domestic Australian market and exports to more than 60 countries. With the acquisition Constellation becomes the world's largest producer and marketer of wine, and the first truly international wine company with annual sales in excess of 80 million cases of wine annually. Appropriately enough, in 2003, Hardy Wines celebrates its Sesquicentennial.

June 2004: **Addition of Effen Vodka**
Effen Vodka, a luxury, high-end import from Holland, is added to Constellation's spirit portfolio.

December 2004: **Ruffino Purchase**
Constellation Brands purchases 40% of Ruffino, further enhancing the Company's portfolio of fine European wines.

December 2004: **Robert Mondavi Acquisition**
Constellation acquires The Robert Mondavi Corp. for $1.03 billion. Mondavi wines are among the most respected premium and super-premium New World wines and the purchase complements the Company's premium wine portfolio.

March 2005: **Arrowood and Byron Sold**
The Company sells the Arrowood Vineyards & Winery and the Byron Vineyard & Winery, both part of the 2004 Robert Mondavi acquisition, to the Legacy Estates Group.

July 2005: **S&P 500 Adds Constellation Brands**
Standard & Poor's adds Constellation Brands to its S&P 500 Index of companies.

October 2005: **Rex Goliath Acquisition**
Barton Brands acquires Cocktails by Jenn, a line of premium vodka cocktails and Constellation Brands completes acquisition of the Rex Goliath wine brand from California 's Hahn Estates.

May 2006: **Strathmore Sold**

Constellation sells its Strathmore bottled water business to A.G. Barr, the Scottish-based U.K. soft drinks business. Strathmore is seen as a non-core part of Constellation's beverage alcohol portfolio.

June 2006: **Vincor International Acquisition**
Constellation completes its acquisition of Canadian wine company Vincor International for $1.3 billion. Included are Canada's biggest wine brand, Jackson-Triggs, and Inniskillin, a premier international icewine. With the purchase, Canada becomes Constellations fifth core market (with the U.S., U.K., Australia and New Zealand). Constellation inherits Vincor's position as Canada's largest wine producer and marketer (Vincor had been the world's eighth largest wine company).

July 2006: **Grupo Modelo and Constellation Brands Joint Venture**
Grupo Modelo and Constellation Brands create a joint venture for the purpose of importing and marketing Modelo's Mexican beer portfolio in the United States and Guam for a 10-year period, effective January 2, 2007.

January 2007: **Start of Crown Imports**
Crown Imports, Constellation's 50/50 joint venture with Grupo Modelo, officially launches. The venture imports and markets Modelo's premium Mexican beer portfolio, along with imported brands St. Pauli Girl and Tsingtao, to the U.S. and Guam for renewable 10-year periods. Corona Extra is the top-selling imported beer in the U.S. and Crown is the top beer import company.

March 2007: **Spirits Marque One Acquisition**
Constellation completes its acquisition of Spirits Marque One, which owns SVEDKA Vodka. SVEDKA, an 80-proof premium vodka produced in Sweden, was launched in 1998. For the five year period ending in 2007, SVEDKA was the fastest growing, major, premium spirits brand in the world.

April 2007: **Constellation and Punch Taverns Joint Venture**
The formation of Constellation's joint venture with Punch Taverns is announced. Constellation Europe and Punch Taverns, the U.K.'s largest pub chain, each become 50 percent owners of the Matthew Clark wholesale business, which Constellation acquired in 1998.

July 2007: **Rob Sands is Constellation's New CEO**
Rob Sands is named Constellation's new CEO, and retains the title of president. Richard Sands continues his role as chairman of the board.

December 2007: **Beam Wine Estates Acquisition**
Constellation announces the acquisition of Beam Wine Estates, the U.S. wine business of Fortune Brands. Brands in the portfolio include Clos du Bois, Wild Horse, Geyser Peak, Atlas Peak, Buena Vista and Gary Farrell.

January 2008: **Barton Brands Acquires The Rest of Planet 10 Spirits**
Constellation's Chicago-based spirits company, Barton Brands, acquires the remaining 50 percent equity stake in its Planet 10 Spirits joint venture. Planet 10 Spirits, formed in 2004, develops and markets premium spirits brands such as Effen Vodka.

January 2008: **The Wine Group LLC. Sell**
In an ongoing effort to focus on its premium wine offerings in the U.S., Constellation enters into an agreement to sell the Almaden and Inglenook wine brands to The Wine Group LLC. The sale is completed on February 28, 2008.

June 2008: **United States Wine Assets Sale**
Constellation announces the sale of certain U.S. wine assets to a California-based private firm. The sale, which includes the brands Geyser Peak, Buena Vista, Gary Farrell, Atlas Peak and XYZin in California, Columbia Winery and Covey Run in Washington, and Ste. Chapelle in Idaho, allows Constellation to focus on key growth brands and reduce brand duplication and excess production capacity.

March 2009: **Sale of Value Spirits Business**
Constellation completes the sale of its value spirits business and increases its focus on higher-margin mid-premium spirits brands.

July 2009: **United States Distributor Agreement**
Constellation announces a new U.S. distributor agreement, creating a number of benefits for Constellation, its distributors and its customers.

January 2010: **United Kingdom Cider Business Sale**
Constellation completes the sale of its U.K. cider business.

Competitive Analysis

Rivalry

There are a number of large and corporate wine producers. Usually, these large entities produce lower-end wines at lower price-points. However, from a production perspective, the wine industry is dominated by small, family-owned businesses that are intimately involved in the local, agrarian communities where they are based. An estimated 24,000 grape growers and more than 5,400 wineries operate nationally. The average market price is $15 to $20 for wines produced domestically, and $10 to $15 for imported wines.

Who are Constellation Brands' main competitors?

- E&J Gallo Winery, Michelle Wine Estates, Bacardi, Foster's Group, WJ Deutsch, Kendall-Jackson, Diageo, Brown Forman, Andrew Peller, Maison des Futailles, Pernod Ricard, Heineken, C&C Group, Fortune Brands, Heineken, Anheuser-Busch InBev and MillerCoors.

First mover advantage

A brand is a singular idea or concept that a product owns inside the mind of the prospect. It usually comes in the form of a name, term, sign, symbol, or design, or a combination of them and is intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors. Thus, a brand is what the consumer perceives it to be.

The alcoholic beverage industry is a great illustration of the magnitude of brands over time. Recent trends in the markets and in the industry have led firms to rationalize brands, globalize the brands remaining in the portfolio, and to invest less in product and brand innovation. Instead, firms are creating alternative line extensions. For most of the multinational enterprises producing alcoholic beverages, their top and most

recognizable brands were launched in the eighteenth and nineteenth centuries, during the beginning activities of the original firms. These older brands have product differentiation advantages over new ones, of provenance and heritage, related to being early entrants. These advantages have nothing to do with advertising or consumer irrationality, but originate from the fact that the first brand performed satisfactorily, becoming the standard against which subsequent entrants were rationally evaluated. With that said, these first-mover advantages depend on the continual upgrading of products as well as of the brand identity, with the support of effective distribution and other network arrangements.

The main rationale for the rationalization of brands are related to cost efficiencies, since maintaining small brands involves high production costs as well as stocking and marketing. Although ideally rationalization of brands would lead to the strengthening of existing brands, which become global, it is not what has happened historically. Abandoning brands has meant lost sales that have not been compensated for by increased consumption of other brands in the portfolio of the multinational alcohol enterprises.

Though competition is stiff, Constellation Brands has first-mover advantage in the alcoholic beverage market. Many of the wines in the Constellation Wines portfolio have brand recognition, and have been established has some of the premier wines globally. These wines include the Robert Mondavi Brands, Franciscan Oakville Estate, Wild Horse, and Simi Toasted Head; beers such as Corona Extra, Corona Light, and Coronita; and spirits such as Svedka Vodka and the Black Velvet brands. Consequently, Constellation Brands does not need to fret over losing market share due to new brands entering into the market. However, differentiation of existing brands is a continual threat to Constellation Brands' market share.

Barriers to Entry and Exit

The Wine and Spirits Market

In contrast to other types of crops, grapes can be grown in diverse climates and soils. Not surprisingly, the composition of grapes produced in a particular region will be influenced by the local environment, which will carry through to the wines of the area.

Thus, unlike the majority of other agricultural commodities, wine is marketed by the geographical location of production, and quality is associated with minimal vineyard inputs or manipulation.

Consumers expect wine from a particular region to possess unique qualities that differentiate it from other wines of the same varietal from other regions. This peculiarity of the industry is a great economic equalizer across the globe. It means that wine perceived to be of high quality can be produced anywhere where the soil is of high quality. High quality wines are currently being produced on all six arable continents.

Although high quality wine theoretically can be produced anywhere, the wine-producing business has substantial risks. Most wines are considered a luxury good or fashion good, therefore, subject to the same consumer shifts in taste as other luxury or fashion goods. Marketing costs are a nontrivial portion of distribution costs, particularly if its lower-end, mass market. Wineries and growers incur high fixed costs, given the investment in land and capital. Moreover, the growing time and vintage requirements impose a longer cycle (up to seven years) than typical agricultural commodities and result in even greater inventory risks.

When considering entry and exit barriers in the wine industry it is important to consider the role of internationalization. Internationally related diversification by multinational enterprises in the alcoholic beverages industry has not been a continuous process, instead it has evolved incrementally. In the first stage, firms export indirectly (selling goods to overseas markets through intermediaries), only responding to customer's orders. Then as the frequency of transactions increases, firms hire independent distributors or agents to trade their products in foreign markets. Although sales become recurrent, firms still keep a low level of control and risk in foreign markets. As foreign markets become more important for the company in terms of their overall activity, it becomes economically advantageous for the firm to internalize distribution due to economies of scale. The last stage of internationalization is accomplished when the firm becomes more involved in terms of control and risk, by developing a production unit abroad. The variants of these patterns of internationalization (shifts from methods of entry into foreign markets) involve licensing technology to local producers, or franchising of product or trade name, depending on the product or service rendered.

In the alcohol beverages industry multinational enterprises cannot always advance into the last stage of internationalization by setting up a production unit in a foreign market. For some products, where asset specificity relating to the type of land and climate is high, exports (whether or not these occur through a wholly owned distribution channel) are the only feasible mode of entry. For example, it is possible to set up production units of gin and rum in foreign markets, yet, the same does not apply for whisky, champagne, cognac or port wine. This land specificity factor has always impacted on the stage of international involvement of firms operating in the alcoholic beverages industry. For firms for which production depends on land specific assets, exports are normally the main form of approaching foreign markets.

Thus, world producers have increased barriers to entry by operating on large volume and realizing advantages of economies of scale. These advantages of economies of scale include production, distribution and marketing.

Also of importance is the wine industry's pricing structure. The industry's pricing structure has traditionally been categorized into five segments or price points. The price points constitute market segments. Although these market segments have existed for some time, recent events suggest that a permanent change to the wine pricing structure may be imminent. Basic economic theory concludes that competitive entry results in an overall reduction in prices. However, it is possible that the recent entry of economy priced wines has different effects on each price segment resulting in a structural change in pricing.

This is important because as varietal-specific, low-priced wines enter the market, they will invariably garner a significant amount of market share from adjacent price points and exert price pressure on existing firms, resulting in lower prices. This is the expected effect and is consistent with traditional economic theory. However, if the low-priced (economy) wines extract only those consumers who are most price elastic from all price points, then consumers who continue to purchase higher priced wines are those who are relatively price inelastic. As a result, prices in the upper price points can rise as existing firms cater to the most price insensitive consumers. Essentially, the wine market bifurcates into elastic and inelastic consumers with the average price between the two segments diverging.

The Beer Market

The competitive rivalry in the beer market is broken up into three segments; National, Regional, and Microbrewers. National competitors have wide market coverage and are generally large companies. Regional competitors are smaller and only distribute in certain regions. Microbrewers are the smallest of the three, their size and capacity limit them to only distribute to small geographic areas. The national competitors hold approximately 87% of the beer industry market share, and there are numerous barriers to entry for penetrating the beer market. For example, beer is regulated in many different ways in the United States. Large capital requirements and distribution networks also make it difficult to enter into the national market. Due to smaller market coverage, the regional market is easier to enter. Microbrewers have the fewest barriers to entry. This is because microbrewers operate in a limited geographic area, therefore decreasing the majority of regulations faced by national and regional brewers. These regulations are difficult for beer distributors at the national level because every state has their own regulations regarding the distribution and advertising of beer products. Therefore, each state has its own set of laws in which the brewer is responsible for knowing and abiding by. For instance, there are often regulations as to what a brewer may or may not supply to both retailers and distributors, as well as regulations regarding payment terms between brewer and distributor.

Substitutes

There are a plethora of substitutes to wines and beers as there are thousands of brands internationally. As a result, competition is high, however, Constellation's dominant position in the alcoholic beverage market with well-known brands somewhat reduces the threat of substitutes to Constellation Brands' bottom-line. On a basic level, beer potentially could be a substitute for wine, and wine could potentially be a substitute for spirits. However, when analyzing the threat of substitutes it is best to focus on the threats of substitutes within each alcohol category.

The Wine and Spirits Market

There is a high level of substitute products for wine. Wine producers have historically competed aggressively for market share, and the bigger the winery the better chance it

has of surviving. Constellation Brands owns many and some of the best wineries, thus there are few substitutes at the multinational level to wines not in the Constellation Wines portfolio. More specifically, there are many wines that are not in the Constellation Wines portfolio, however, many are in the portfolio of only a few other multinational enterprises. That said, wines compete individually as well. Thus, if Constellation's wines are systematically worse or considered overpriced than all others, they would not be in a good position strategically. However, Constellation makes sure their wine offerings are competitively priced and are of high quality when compared to other wines at each price point.

The Beer Market

As with wine, there is a high level of substitute products for beer. However, since Constellation Brands exposure in the beer market is determinant of the Crown Imports portfolio of beer, which is considerably smaller than the Constellation Brands wine portfolio, the threat of beer substitutes is higher for Constellation than the threat of wine substitutes. That said, the main revenue earner in the Crown Imports portfolio is the Corona line of products. Corona is internationally recognized as one of the better beers on the market, thus the threat of substitutes is not great regarding Crown Imports loosing market share as long as the quality of Corona remains high, and Corona products are competitively priced.

Complements

Potential complements for wine are nice meals at home, meals at high-end restaurants, celebrations, cheese, etc. Potential complements for beer are sporting events (i.e. baseball, football, nascar and baseball games), celebrations, meals at low to mid level restaurants, etc.

Supplier Power

For a winery, one of the main supply decisions lies with the key product ingredients—grapes and juice. Wineries have several options, including owning the vineyard, purchasing grapes, or purchasing juice. If a winery needs a specific grape variety for a particular wine, then the winery needs to be concerned about the supply and demand

for that particular wine product. As supply becomes short, a winery will find that suppliers have increasing bargaining power.
Raw materials for wine production are commodity items that are very cyclical in price, quality, and availability. There are times when high-quality grapes can be bought for low prices (over supply) and other times when particular grape varieties or juice are almost non-existent. This can have a significant effect on a winery, and it is something that a winery has no control over. For example, if a late spring frost hits the New York vineyards, the tender varieties will not produce enough grapes to satisfy demand for the year.

Small wineries are particularly challenged because they do not have the leverage associated with volume that the larger wineries have. As a result, the force of suppliers on a small winery can be viewed as strong. However, a small winery could decrease the effect of supplier power by cooperating with other small wineries to engage in collective purchases. Another way a small winery can manage the uncertainty and power of suppliers is contracts and developing positive relationships with suppliers.

Due to the potential of supplier power, large scale wine producers such as Constellation Brands have integrated backwards and have their own vineyards. Thus, large-scale wine producers attempt to control the operations right from production to distribution, essentially reducing supplier's bargaining power.

Buyer Power

The power of buyers depends on the size of the producers. Due to Constellation Brands having a considerably large scale of production and a significant market share, Constellation can control their retail operations. Consequently, Constellation can substantially reduce the bargaining power of customers. Constellation's customers usually buy in bulk and range from liquor store chains to restaurants.

SWOT Analysis

Strengths

- *Extensive Product Offerings*
- *Dominant Position in Wine Industry*
- *Strong Liquidity Position*
- *Positive Strategy Changes*

Opportunities

- *Expansion into Asian Markets*
- *Strong Long-Term Wine Growth*
- *Rebound in United States Wine Market Share*
- *Expected Beer Rebound*

Weaknesses

- *Declining Operating Margin*
- *Low Return on Equity*

Threats

- *Rising Cost of Raw Materials*
- *Continued United States and Global Economic Slowdown*
- *United States Distributor Change*
- *United States Beer Contract*

Strengths

Extensive Product Offerings

- With a wide variety of alcoholic beverages in their portfolio, especially wines, Constellation Brands has one of the most extensive product offerings in the alcoholic beverage industry. In total, Constellation Brands has over 60 wine brands, 7 beer brands, 7 spirits brands and 15 brands listed as other specialty brands.

- Constellation's impressive portfolio of wine brands includes Robert Mondavi, Hardys, Clos du Bois, Blackstone, Estancia, Ravenswood, Jackson-Triggs, Inniskillin, Kim Crawford, and Nobilo.

- Constellation's beer portfolio is the beer portfolio of Crown Imports LLC, though Constellation's joint venture with Grupo Modelo of Mexico. The Crown Imports

LLC portfolio includes five of renowned Mexican brewer Grupo Modelo's powerful brands including Corona Extra, Corona Light, Modelo Especial, Pacifico and Negra Modelo.

- Constellation's spirits portfolio includes premium brands such as SVEDKA Vodka, Black Velvet Canadian Whisky and Pal Masson Grande Amber Brandy. SEVDKA Vodka is one of the largest imported vodka brands in the United States and one of the fastest growing major spirits brands globally.

Dominant Position in Wine Industry

- Constellation Brands is the largest global wine supplier.

- Constellation Brands is the top premium wine company in the United States.

- Constellation Brands is the top wine company in Canada, United Kingdom and Australia.

- Constellation Brands is the third largest wine producer in the United States with approximately 13% United States wine volume share.

Strong Liquidity Position

- With significantly more assets (approximately $8.728 billion) than liabilities (approximately US$6.031 billion), Constellation Brands is in great position to acquire whatever brands the firm is perceives as advantageous to growing Constellation's portfolio of alcoholic beverages. This is important because the primary method Constellation Brands increases its market share is through the acquisition of new brands. Furthermore, Constellation has the financial resources to expand its marketing efforts in the future.

Positive Strategy Changes

- Constellation Brands has had strategy mistakes in the past, however, the firm has changed their strategy to focus on organic growth and return on invested capital.

Weaknesses

Declining Operating Margin

- Constellation's gross profit, and total net income has fallen each of the past three fiscal years, primarily because of the recent global economic downturn. In 2007, Constellation's gross profit was approximately US$1.524 billion, in 2008 it was approximately US$1.281 billion, in 2009 it was US$1.230 billion. In 2007, Constellation's net income was US$331.9 million, in 2008 it was US$613.3 million, and in 2009 it was US$301.4 million.

Low Return on Equity

- Constellation Brands only receives 10.2% return on equity, while the industry median is 32.5% return on equity.

Opportunities

Expansion into Asian Markets

- There is robust rising demand for alcoholic beverages, especially wine, in the Asian markets. Capitalizing on this demand would considerably boost Constellation's overall bottom line.

Strong Long-Term Wine Growth

- Morgan Stanley states, "We believe there is robust growth potential in Constellation's global wine and United States imported beer business given favorable secular factors, further augmented by an expected cyclical macro rebound. In addition, we forecast wine also will experience the most significant macro rebound going forward, supported by GuestMetrics on-premise data and our analysis of historical wine trends in the last recession." Their suggestions are supported by an alcohol distributor survey that found that 66% of respondents

believed that the wine category has the most favorable long-term growth prospects, well above beer at 22% and spirits at 13%.

- Favorable demographics—wine's skew to the high-growth age 65+ demographic (i.e. an aging population in the United States, which favors premium and mid-range wine products)—and increased penetration of younger consumers should boost wine demand.

- United States wine per capita consumption of 9 liters is far below other developed markets (France is 52 liters per capita, Italy is 46 liters per capita, Portugal is 44 liters per capita, Spain is 30 liters per capita, and Argentina is 28 liters per capita). This underscores additional opportunities in the United States for Constellation's portfolio of wines to expand.

Rebound in United States Wine Market Share

- Constellation's recent United States wine and spirits distribution changes have the potential to be a significant long-term positive. It could drive improved Constellation Brands market share with greater focus and investment from third-party distributors. This is due to Constellation Brands negotiating more favorable terms from distributors by offering exclusive five-year contracts and better utilizing its scale without Constellation having to give up much. Under these new distribution contracts, Constellation Brands will have one wine/spirits distributor per market that will have an exclusive sales force that will handle only Constellation Brands products. Morgan Stanley believes this change will result in increased focus/share of mind from salespeople, particularly versus the prior system where salespeople handled a plethora of brands across companies in a fragmented wine category. Due to the contract structure, alcoholic beverage insiders believe that Constellation Brands will see a sharp increase in man-hours devoted to its business. Further, the new distribution contracts will result in an incremental distributor investment. This is because distributors are providing incremental marketing and promotional investment behind Constellation's brands, which should augment Constellation's overall performance. States Morgan Stanley, "Our industry sources indicate that distributors are increasing their investment behind Constellation's business by a significant amount. We

also believe Constellation Brands is in a good negotiating position once these five-year contracts expire and are subject to renegotiation, given distributors will already have invested heavily behind Constellation's brands and created an exclusive sales force for Constellation products."

- In addition, the enhanced incentive structure should drive sales growth, and incentivize distributors as Constellation Brands has moved to a new performance-based point system with its distributors where distributors will be financially rewarded or penalized for not achieving annual goals. The prior program provided no incremental compensation change for variance versus goals.

Expected Beer Rebound

- Beer should experience a macroeconomic rebound, especially beer affecting Constellation Brands bottom line. This is because Corona—the chief beer product in Constellation Brands/Crown Imports portfolio—was disproportionately hurt by the recent macroeconomic slowdown. Corona has an average supermarket pricing at 62% premium to the average of Corona's main competitors—Bud Light, Miller Lite, Coors Light, and Budweiser. Consequently, instead of buying Corona, some beer consumers bought other beers to save financially. However, it is expected that the majority of those who did this did it for short-term financial purposes and will switch back to buying Corona this coming year.

- In addition to Corona's average supermarket pricing at a steep premium to the average of Corona's main competitors, another macroeconomic factor is that Crown Imports' performance is considerably exposed to the housing downturn. Crown Imports market share of 9.5% is particularly high in California, Nevada and Florida, which is more than double the 4.3% share in the rest of the United States. Moreover, every one of the top 10 United States cities with the highest foreclosure rates in 2008 and 2009 is located in these three states.

- Strong United States domestic beer pricing should increase Constellation's revenue from their joint venture with Crown Imports.

- Favorable demographic trends with Hispanic and younger consumers should boost demand for beer products in Constellation's beer portfolio. Specifically, 31% of Crown Imports' volume is consumed by Hispanics, which is well above 11% for domestic beer and approximately 7% for other imported beer brands. Furthermore, according to the Phew Research Center the United States Hispanic population is going to triple by 2050. In fact, 48% of the children born in the United States in 2008 were Hispanic.

Threats

Rising Cost of Raw Materials

- In the past few years the cost of raw materials has risen steeply and many believe that the cost will continue to rise. This is important because whether price variations come explicitly from direct purchase of grapes or implicitly through fluctuating yields in the winery's vineyards, the underlying economic cost per bottle is affected. In addition to grape prices, changes to the other input costs (i.e. corks, labels, bottles, etc.) can have a profound effect on the underlying cost of production. In fact, alcoholic beverage industry experts predict that this continued rise in raw materials will lead to increased costs of production for wineries and breweries anywhere from 10% to 20%.

Continued United States and Global Economic Slowdown

- While the global macroeconomic picture continues to brighten, if for some reason there is an unexpected economic downturn, adverse conditions could have a negative impact on alcohol consumption trends.

United States Distributor Change

- Constellation Brands' United States distributor change seems to be advantageous, however, if the Constellation fails to fully execute on its distributor change, it may result in revenue decrease.

United States Beer Contract

- Constellation Brands has a distribution contract with Grupo Modelo for its United States beer brands which expires at the end of 2016. There are a number of potential outcomes after this contract expires that could be unfavorable for Constellation.

Financial Analysis

Income

Constellation Brands' net sales for Fiscal 2009 decreased to $3,654.6 million from $3,773.0 million for Fiscal 2008, a 3% decrease. This decrease was primarily due to the reduction in wholesale as a result of the recent global economic downturn.

The following table is Constellation Brands' Income Statement for the 2009 Fiscal Year.

Annual Income Statement (All dollar amounts in millions except per share amounts.)					
	Feb 09	**Feb 08**	**Feb 07**	**Feb 06**	**Feb 05**
Revenue	3,654.6	3,773.0	5,216.4	4,603.4	4,087.6
Costs of Goods Sold	2,424.6	2,491.5	3,692.5	3,278.9	2,947.0
Gross Profit	1,230.0	1,281.5	1,523.9	1,324.6	1,140.6
Gross Profit Margin	33.70%	34.00%	29.20%	28.80%	27.90%
SG&A Expense	830.4	807.3	768.8	612.4	555.7
Depreciation & Amortization	157.0	165.9	139.3	128.2	103.7
Operating Income	23.0	-356.7	699.0	666.1	567.9
Operating Margin	0.60%	--	13.40%	14.50%	13.90%
Nonoperating Income	186.6	-554.3	105.0	0.8	1.8
Nonoperating Expenses	-316.4	--	--	--	--
Income Before Taxes	-106.8	-440.6	535.3	477.3	432.0
Income Taxes	194.6	172.7	203.4	152.0	155.5
Net Income After Taxes	-301.4	-613.3	331.9	325.3	276.5
Continuing Operations	-301.4	-613.3	331.9	325.3	276.5
Discontinued Operations	--	--	--	--	--
Total Operations	-301.4	-613.3	331.9	325.3	276.5
Total Net Income	-301.4	-613.3	331.9	325.3	276.5
Net Profit Margin	--	--	6.40%	7.10%	6.80%
Diluted EPS from Total Net Income ($)	-1.4	-2.8	1.4	1.4	1.2

Dividends per Share ($)	--	--	--	--	--

Specifically, Constellation Wines net sales decreased to $3,235.9 million for Fiscal 2009 from $3,358.8 million in Fiscal 2008, a 4% decrease. Branded wine net sales decreased $1.6 million primarily due to the decrease in net sales associated with the divestitures of the Almaden and Inglenook wine brands and the Pacific Northwest wine brands of $128.4 million.

Constellation Spirits net sales increased to $418.7 million for Fiscal 2009 from $414.2 million for Fiscal 2008, a 1% increase. The slight increase was a result of net sales growth within the Company's branded spirits portfolio, driven primarily by increased Dvedka sales.

The company's gross profit decreased to $1,230.0 million for Fiscal 2009 from $1,281.5 million for Fiscal 2008, a 4% decrease. This decrease was a result of an increase in unusual costs, which consist of certain costs that are excluded by management in their evaluation of the results of each operating segment, which were higher by $93.7 million in Fiscal 2009 when compared to Fiscal 2008. This increase was primarily because of an increase in inventory write-downs of $83.7 million in Fiscal 2009 in connection primarily with the Company's Australian Initiative (the sale of three of 10 production facilities, in addition to the sale of more than 20 vineyard properties; consolidation of bottling operations' portfolio streamlining and rationalization of more than 30% of the company's Australian stock keeping units in an attempt to simplify the business and provide better focus on premium brands and operational efficiencies aimed at increasing long-term profitable growth and improved future returns) of $53.9 million and a loss of $37.0 million on the adjustment of certain inventory, primarily Australian, related to prior years.

Constellation Wines segment's gross profit increased $36.3 million because of higher United States base branded wine gross profit resulting predominately from increased gross profit of $69.5 million from various acquisitions.

Constellation Spirits segment's gross profit increased $5.9 million predominately due to an increased gross profit from the increase in Constellation's branded spirits net sales.

Gross profit as a percent of net sales decreased to 33.7% for Fiscal 2009 from 34.0% for Fiscal 2008 primarily due to the higher unusual costs which were stated above.

Liquidity

According the Constellation Brands, the firm's principal use of cash in its operating activities is purchasing and carrying inventories and carrying seasonal accounts receivable. The Company's primary source of liquidity has historically been cash flow from operations, except during annual grape harvests when the Company has relied on short-term borrowings. In the United States and Canada, the annual grape crush normally begins in August and runs through May. The Company generally begins taking delivery of grapes at the beginning to come due one month later. The Company's short-term borrowings to support such purchases generally reach their highest levels one to two months after the crush season has ended. Historically, the Company has used cash flow from operating activities to repay its short-term borrowings and fund capital expenditures. The Company will continue to use its short-term borrowings to support its working capital requirements.

Constellation Brands further states that the global credit crisis has imposed exceptional levels of volatility in the capital markets, severely diminished liquidity and credit availability, and increased counterparty risk. Nevertheless, the Company has maintained adequate liquidity to meet current working capital requirements, fund capital expenditures, repay scheduled principal and interest payments on debt, and prepay certain future principal payments on debt. Absent further severe deterioration of market conditions, the Company believes that cash provided by operating activities and its financing activities, primarily short-term borrowings, will provide adequate resources to satisfy its working capital, scheduled principal and interest payments on debt, and anticipated capital expenditure requirements for both its short-term and long-term capital needs.

The tables below are Constellation Brands' Balance Sheet and Cash Flow Statement.

Annual Balance Sheet (All dollar amounts in millions except per share amounts.)					
	Feb 09	**Feb 08**	**Feb 07**	**Feb 06**	**Feb 05**
Cash	13.1	20.5	33.5	10.9	17.6

Net Receivables	524.6	731.6	881.0	771.9	849.6
Inventories	1,828.7	2,179.5	1,948.1	1,704.4	1,607.7
Other Current Assets	168.1	267.4	160.7	213.7	259.0
Total Current Assets	2,534.5	3,199.0	3,023.3	2,700.9	2,734.0
Net Fixed Assets	1,547.5	2,035.0	1,750.2	1,425.3	1,596.4
Other Noncurrent Assets	3,954.5	4,818.8	4,664.7	3,274.4	3,473.8
Total Assets	8,036.5	10,052.8	9,438.2	7,400.6	7,804.2
Accounts Payable	288.7	349.4	376.1	312.8	345.3
Short-Term Debt	462.5	608.8	470.6	293.9	84.6
Other Current Liabilities	575.2	760.1	744.4	691.3	708.3
Total Current Liabilities	1,326.4	1,718.3	1,591.1	1,298.1	1,138.1
Long-Term Debt	3,971.1	4,648.7	3,714.9	2,515.8	3,204.7
Other Noncurrent Liabilities	830.7	919.9	714.7	611.5	681.5
Total Liabilities	6,128.2	7,286.9	6,020.7	4,425.4	5,024.3
Preferred Stock Equity	0.0	--	--	0.0	0.0
Common Stock Equity	1,908.3	2,765.9	3,417.5	2,975.2	2,779.9
Total Equity	1,908.3	2,765.9	3,417.5	2,975.2	2,779.9
Shares Outstanding (mil.)	221.9	221.9	221.9	221.9	221.9

Annual Cash Flow Statement (All dollar amounts in millions except per share amounts.)

	Feb 09	**Feb 08**	**Feb 07**	**Feb 06**	**Feb 05**
Net Operating Cash Flow	506.9	519.8	313.2	436.0	320.7
Net Investing Cash Flow	128.6	-1,112.9	-1,197.1	-15.6	-1,222.9
Net Financing Cash Flow	-647.4	584.9	925.2	-426.2	884.2
Net Change in Cash	-7.4	-13.0	22.6	-6.8	-19.5
Depreciation & Amortization	157.0	165.9	139.3	128.2	103.7
Capital Expenditures	-128.6	-143.8	-192.0	-132.5	-119.7
Cash Dividends Paid	0.0	--	-7.3	-9.8	-9.8

Operating activities for Fiscal 2009 provided $506.9 million of net cash. This was a result predominately because of a net loss of $301.4 million of net income, plus $748.0 million of net non-cash items charged to the Consolidated Statements of Operations and $159.3 million of other expenses, with $99.0 million representing the net change in the Company's operating assets and liabilities.

The net non-cash items consisted mainly of impairment losses of goodwill and intangible assets; depreciation of property, plant and equipment; equity in earnings of equity method investees, net of distributed earnings; and the write-down of inventory in Australia.

The net change in operating assets and liabilities resulted primarily from an increase in inventories of $86.0 million and a decrease in other accrued expenses and liabilities of $95.0 million, partially offset by a decrease in accounts receivable of $87.4 million. The offsetting increase in inventories and decrease in accounts receivable are both attributable primarily to lower net sales for the Company's fourth quarter of fiscal 2009 compared to the Company's fourth quarter of fiscal 2008.

As of the conclusion of Fiscal 2009, Constellation Brands total debt outstanding amounted to $4,433.6 million. This was a decrease of $823.9 million from the end of Fiscal 2008. The ratio of total debt to total capitalization increased to 69.9% from 65.5% between Fiscal 2008 and Fiscal 2009.

It is important to note that inventories are stated at the lower of cost or market, cost being determined on the 'first-in, first-out method'. Constellation states that it assesses the valuation of its inventories and reduces the carrying value of those inventories that are obsolete or in excess of the Company's forecasted usage to its estimated net realizable value. The Company estimates the net realizable value of such inventories based on analyses and assumptions including, but not limited to, historical usage, future demand and market requirements. Reductions to the carrying value of inventories are recorded in cost of product sold. If the future demand for the company's products is less favorable than the Company's forecasts, then the value of the inventories may be required to be reduced, which could result in material additional expense to the Company and have a material adverse impact on the Company's financial statements.

Analysis

"Our current focus on debt reduction remains unchanged," said Bob Ryder, chief financial officer of Constellation Brands on January 26 of this year. "Through strong free cash flow generation and the proceeds from asset sales, we have reduced our leverage and improved our credit profile". Constellation Brands has recently reduced leverage, as represented by their increased current ratio (current assets/current liabilities) the past fiscal year. Fiscal 2008, Constellation Brands current ratio was 1.8617. Fiscal 2009, it increased to 1.9100. With that said, their overall debt ratio (total liabilities/total assets) increased slightly to 76.25% in 2009, from 72.49% in 2008.

Constellation Brands does not pay a dividend, which keeps it from depleting its cash reserves putting Constellation at an advantage in the current market. The cash has previously been utilized to complete targeted acquisitions to broaden its product portfolio to increase its market share.

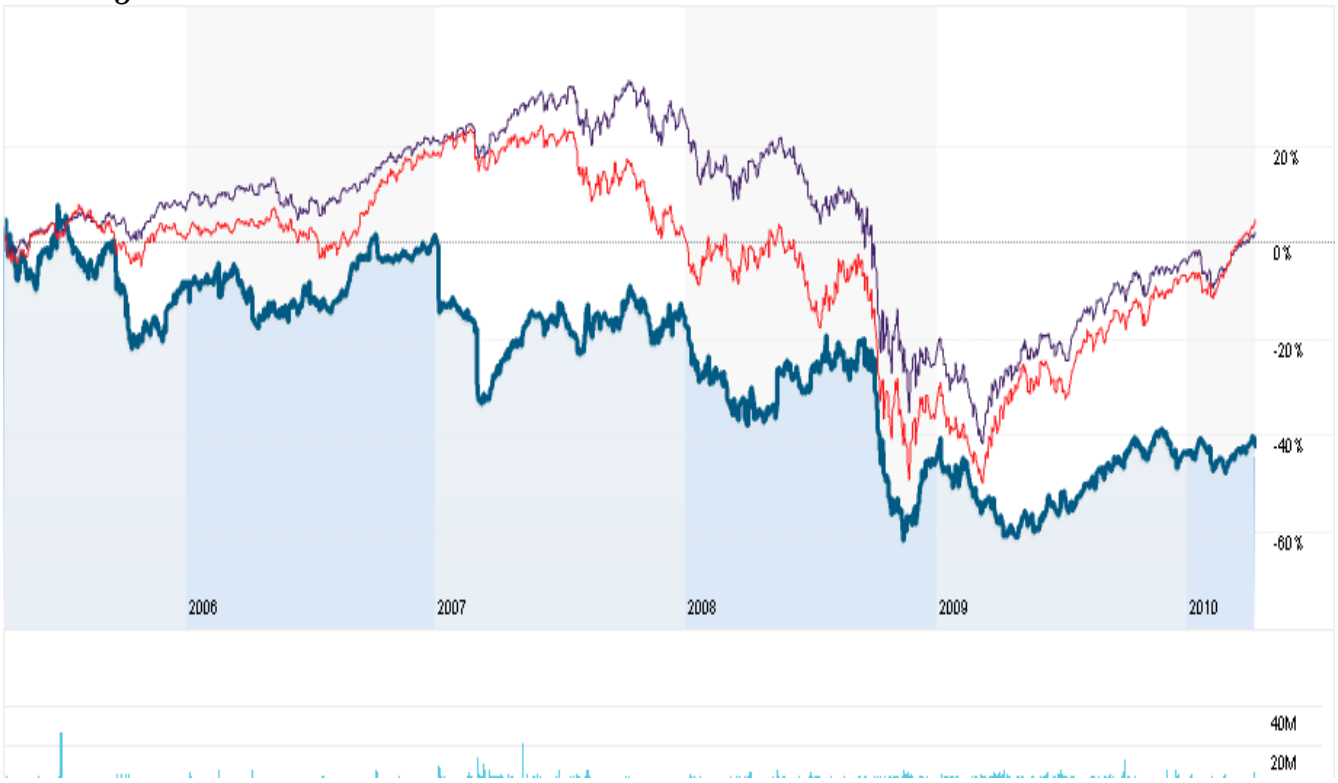
Overall, Constellation Brands has poor margins and returns on equity, more than $4 billion in debt, and little free cash. That said, if the economy improves as many predict, demand for Constellation Brands' products will increase, helping to improve their financial bottom line.

Market Position

The stock chart on the following page shows relative performance of Constellation Brands, the Consumer Discretionary segment and the stock market overall. Constellation Brands has clearly underperformed both benchmarks over the last five years. Constellation Brands is somewhat correlated to the market though with a beta of 0.97.

Constellation Brands Relative Stock Performance

--- Constellation Brands
--- Consumer Discretionary
--- S&P 500



Source: Reuters

In short, Constellation Brands' stock performance reflects the fact that it the alcoholic beverage industry has faced tough market conditions the past few years. However, Constellation Brands has performed well during the recession, only missing on EPS (earnings per share) once during the last eight quarters.

The chart below illustrates Constellation Brands' historical price chart for the past five years.

Constellation Brands Historical Price Chart

Source: Hoovers

The following table helps to illustrate the important ratios pertaining to Constellation Brands.

Valuation	Company	Industry Median	Market Median[1]
Price/Sales Ratio	0.97	2.68	3.69
Price/Earnings Ratio	(12.77)	19.88	27.10
Price/Book Ratio	1.39	7.03	7.17
Price/Cash Flow Ratio	8.98	16.86	22.94

Operations	Company	Industry Median	Market Median[1]
Days of Sales Outstanding	92.30	82.10	34.66
Inventory Turnover	1.1	1.4	8.1
Days Cost of Goods Sold in Inventory	318	257	45
Asset Turnover	0.4	0.5	0.3
Net Receivables Turnover Flow	4.0	4.4	10.5

Strategic Recommendations

Current Strategy

In recent years, the alcohol business has evolved substantially. This evolution entails shifts in consumer preferences to changes in duties and taxes on beverage alcohol to changes in purchase behaviors and venues. As the business has evolved, Constellation Brands' strategy has evolved. To strengthen Constellation's position as an industry leader, Constellation has shifted the focus of its strategy from building "depth and breadth" in its portfolio to building a strong base of large consumer-preferred, "must-have" brands that return the greatest profits. Constellation labels this "premiumization," and its purpose is to cultivate our higher-margin wines, generally priced at $5 to $15 at retail in the United States and at similar price points in Constellation's other geographies and Constellation's mid-premium spirits business. Through the Crown Imports joint venture, Constellation continues to invest in the beer brands that help to maintain the leading market share in the United States import beer category.

States Constellation Brands, "In Fiscal 2009, we made significant progress toward premiumizing our portfolio and saw the early benefits of this effort. Brands such as Woodbridge by Robert Mondavi, SVEDKA Vodka, Black Velvet Canadian Whisky, Black Box and Modelo Especial exhibited strong growth, validating that consumers in this difficult economy seek trusted brands that represent quality and good value. In order for us to realize the benefits of this strategy, a great deal of discipline and decisiveness was required to make some difficult decisions. We took a number of strategic actions to right-size our international operations, and at the same, we announced the divestiture of a number of low-growth, low-margin wines and spirits brands to refocus our portfolio and allocate resources to the brands that resonate best with consumers and return the greatest profits."

With Constellation's refined strategy, Constellation has also set a new vision for the company: '*to elevate life with every glass raised*'. Constellation states, "This is our aim and it conveys the essence of why we are in business: to enhance life experiences and

occasions; to continually raise the bar with respect to the quality of our people, our products and our performance; and to make a positive difference in the communities in which we live and work. We will use this new vision as our guidepost as we pursue our mission to nurture and build the most powerful portfolio of premium wine brands in our industry complemented with other select beverage alcohol products."

As far as marketing, Constellation Brands recently implemented their new go-to-market sales and marketing structure in the United States which was successfully integrated into a single organization. This has resulted in synergy benefits and improved efficiency with Constellation's trade partners. From a strategic perspective Constellation has undertaken one of their most important initiatives in the past few years with the launch of Constellation's United States consolidation efforts.

Robert Sands, Chief Executive Officer of Constellation, recently explained that this program gives five distributors the right to sell Constellation's portfolio of wine and spirits exclusively in their respective markets in 22 states and currently represents approximately 60% of our total United States wine and spirits volume. Since the initial transition in September 2009 these distributors have allocated more than 1,000 dedicated distributor sales people to focus exclusively on Constellation's product portfolio.

Long Term Objectives

Constellation Brands' long term business strategy is to remain focused on consumer preferred premium wine brands, complemented by premium spirits and imported beers. The Company intends to continue to invest in fast growing premium product categories and geographic markets and expects to capitalize on its size and sale in the marketplace to profitably grow the business. The Company remains committed to its long term financial model of growing sales (both organically and through acquisitions), expanding margins and increasing cash flow to achieve earnings per share growth and improve return on invested capital.

Strategic Considerations

Continue Premiumizing Portfolio

- By further premiumizing Constellation's portfolio, Constellation Brands can better minimize the threat of substitutes to the firm's offering of alcoholic beverages. For example, Constellation Brands' joint venture partner Crown Imports will partner with Sports Illustrated during soccer's upcoming World Cup event which begins this June in South Africa. This will generate worldwide exposure as World Cup Magazine issues will be promoting Crown's Modelo Especial. Corona will also be one of the three major beer sponsors of World Cup Television.

- To further penetrate the Spanish demographic market, Constellation Brands should have products in the Crown Imports portfolio sponsor professional bull-fighting events.

- Constellation should have one of their premium wines sponsor the 2012 Summer Olympics that will be held in London.

Improve Organic Business Model by Building Brands

- Constellation Brands should grow its existing product portfolio. Particularly, Constellation should seek expansion in its portfolio of wines that range from $2 to $10. Even as the United States economy recovers, consumers are expected to be more price conscious of discretionary goods such as wines than they were before the economic downturn. Consumers of premium wines have great loyalty towards Constellation's premium wine offerings, however, Constellation has not developed the same following for consumers of cheaper wines. This is primarily a consequence of the lack of options from Constellation Wines' portfolio.

- To boost sales by targeting the younger alcohol consumer demographic (age 21-28), new product innovation, packaging and marketing should be a priority of Constellation Brands.

Grow Free Cash Flow and Return on Invested Capital

- Constellation Brands should further pay down its debt in order to generate more free cash flow. This is essential if Constellation is going to continue to have the flexibility to engage in acquiring brands to grow its portfolio. In addition, growing free cash flow enables Constellation more financial resources to allocate toward innovating and marketing.

Expand Into Asian Markets, Particularly China

- There is significant long-term potential for Constellation Brands if they were to invest the time, effort, and financial resources to penetrate Asian markets, particularly China. Euromonitor International, a provider of market research and business intelligence, states that growth in wine sales in China could be driven by increasing consumer health awareness, in terms of recognition of both the positive effects of red wine consumption and the detrimental effects of long-term consumption of high-alcohol alternatives such as spirits. Constellation Brands has already identified Japan as having potential to rapidly grow in wine consumption, however, Constellation has hesitated in entering the China market. This hesitation should cease, as the middle class drives the majority of wine sales and China's middle class is growing rapidly.

Executive Bios

Richard Sands

Chairman of the Board

Mr. Richard Sands is the Chairman of the Board of Constellation Brands Inc. He has been employed by the Company in various capacities since 1979. Mr. Sands was elected Chairman of the Board in September 1999. He served as Chief Executive Officer from October 1993 to July 2007, as Chief Operating Officer from May 1986 to October 1993, as President from May 1986 to December 2002, and as Executive Vice President from 1982 to May 1986.

Robert S. Sands

Chief Executive Officer, Director

Mr. Robert S. Sands serves as President, Chief Executive Officer, Director of Constellation Brands, Inc. He was appointed as Chief Executive Officer in July 2007 and was appointed as President in December 2002. Mr. Sands also served as Chief Operating Officer from December 2002 to July 2007, as Group President from April 2000 through December 2002, as Chief Executive Officer, International from December 1998 through April 2000, as Executive Vice President from October 1993 through April 2000, as General Counsel from June 1986 to May 2000, and as Vice President from June 1990 through October 1993.

Robert P. Ryder

Chief Financial Officer, Executive Vice President

Mr. Robert Ryder joined the Constellation Brands Inc in May 2007 as Executive Vice President and Chief Financial Officer. Mr. Ryder previously served from 2005 to 2006 as Executive Vice President and Chief Financial and Administrative Officer of IMG, a sports marketing and media company. From 2002 to 2005, he was Senior Vice President and Chief Financial Officer of American Greetings Corporation, a publicly traded, multi-national consumer products company. From 1989 to 2002, he held several management positions of increasing responsibility with PepsiCo, Inc. These included control, strategic planning, mergers and acquisitions and CFO and Controller positions serving at PepsiCo's corporate headquarters and at its Frito-Lay International and Frito-Lay North America divisions. Mr. Ryder is a certified public accountant.

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