COMPANY RESULTS REVIEW

Constellation Brands

owner of Modelo, the #1 beer in the US by sales

Second-quarter results beat expectations, but the beat came from refilling distributor warehouses rather than from more people buying Modelo and Corona. The shares fell towards a 52-week low before the open and then closed higher.

Global Markets Research · Consumer Desk Prepared by ANDRA MARKETS

beat on paper, miss on demand

Coverage summary. Constellation Brands, the company that sells Modelo, Corona, Pacifico and Victoria in the United States, reported results for the quarter to 31 August on 6 October. Net sales rose 6 per cent to $2.63 billion and comparable earnings per share rose 3 per cent to $3.74, both ahead of analyst forecasts. However, consumer purchases of its beer, measured by depletions, fell 0.6 per cent, while shipments to distributors rose 5.5 per cent as they rebuilt inventories. Management reaffirmed its full-year earnings guidance, whose midpoint sits below consensus. The shares fell about 5 per cent before the open, close to their 52-week low, then recovered during the call to close 2.4 per cent higher at $118.39. This note reviews the quarter, the brand portfolio, margins, guidance and valuation.

Share price, 7 Oct	Q2 net sales	Beer depletions	P/E, FY27 guidance
$118.39	**$2.63bn**	**−0.6%**	**~10x**
+2.4% on the day	*+6% year on year*	*shipments +5.5%*	*on $11.55 midpoint*

the number that really matters

Exhibit A. Key figures, second quarter of fiscal 2027 (to 31 August 2026)

Metric	Q2 FY27	Q2 FY26	Change
Net sales ($m)	2,633.0	2,481.0	+6%
Beer net sales ($m)	2,473.6	2,345.0	+5%
Wine and spirits net sales ($m)	159.4	136.0	+17%
Beer shipments / depletions	+5.5% / −0.6%		123.9m cases shipped
Beer operating margin	39.0%	40.6%	−160bp
Comparable operating income ($m)	896.6	886.2	+1%
Comparable EPS ($)	3.74	3.63	+3%; consensus ~3.55 to 3.61
Reported EPS ($)	3.32	2.65	+25%
Free cash flow, first half ($m)	1,124.5	1,079.2	+4%

the whole story in one row

EPS beat by ~4%

+25% reported is one-offs, ignore it

Company results as reported on 6 October 2026; consensus as reported by Investing.com. Colour convention (charts only): green marks growth, red marks decline. Handwritten notes and highlights are Andra Markets commentary.

1.0 Executive Summary

Key takeaways

A beat built on restocking. Revenue and earnings came in ahead of forecasts, but most of the 5 per cent growth in beer sales came from distributors rebuilding inventories that were too thin at the start of the year. Depletions, which track sales from distributors to shops and bars and are the better guide to consumer demand, fell 0.6 per cent, against market expectations of flat or slightly positive. Management says the quarter would have beaten forecasts even without the extra shipments, and that shipments and depletions should end the year within 1 per cent of each other.

restocking, not demand!

The portfolio is changing shape. The two largest brands are shrinking, with Modelo Especial depletions down about 2 per cent and Corona Extra down about 5 per cent, while Pacifico grew about 19 per cent and Victoria about 15 per cent. The smaller brands are growing fast enough to offset most of the decline, but not yet all of it.

The call changed the market's mind. The shares fell to around $110 before the open, near the 52-week low of $110.60, because guidance was only reaffirmed and its midpoint of $11.55 is below the consensus of about $11.72. They closed 2.4 per cent higher after the chief executive, Nicholas Fink, said September trends were strong and broad-based and that, if they continue, earnings could reach the top of the range. At about 10 times guided earnings, the market already prices low expectations.

2.0 Business Overview

A Mexican beer company

Constellation Brands holds the rights to sell the leading Mexican beer brands in the United States and brews them in its own plants in Mexico. Beer accounted for 94 per cent of net sales in the quarter and almost all of the profit, with an operating margin of 39 per cent that is among the highest in consumer goods. The company has been reducing its exposure to wine, selling most of its mainstream wine brands, and the remaining wine and spirits business is small and only just profitable.

The investment case has rested on the steady growth of Mexican imports, which for over a decade took share from domestic beers. That growth has slowed sharply since 2025. The company has said that Hispanic consumers account for around half of its beer sales and has linked earlier weakness to caution among them, while the wider beer category has also lost ground to spirits, ready-to-drink cocktails and non-alcoholic alternatives. As a result, the shares are about 30 per cent below their 52-week high of $168.60.

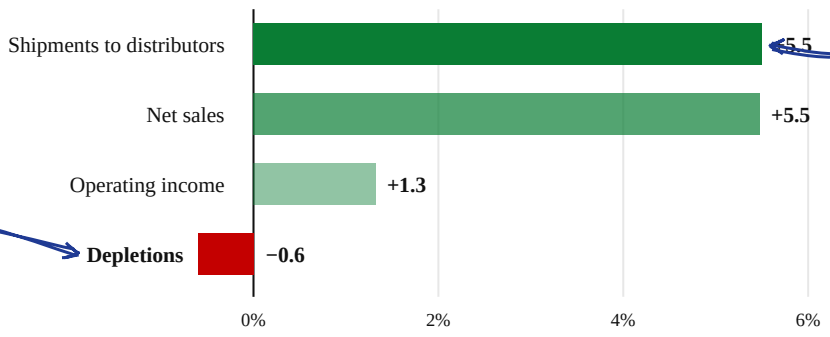
3.0 Second-Quarter Results

Sales up, demand flat

Net sales rose 6 per cent to $2,633 million. Beer net sales rose 5 per cent to $2,474 million, in line with shipment growth of 5.5 per cent to 123.9 million cases, which means that price and mix contributed almost nothing. Management confirmed that pricing net of mix was roughly flat, held back by distributor incentives, coupons and the repositioning of a light beer brand. Wine and spirits sales rose 17 per cent to $159 million, and the segment moved to a small operating profit of $6 million from a loss of $20 million a year earlier.

Comparable operating income rose only 1 per cent to $897 million, as higher marketing and other costs absorbed most of the sales growth. Comparable earnings per share rose 3 per cent to $3.74, helped by a lower share count after buybacks. On a reported basis, earnings per share rose 25 per cent to $3.32, because the prior year included larger one-off charges.

Exhibit 1. Beer segment, year-on-year change in Q2 FY27 (%)



Source: Andra Markets; Constellation Brands Q2 FY27 results. Growth in net sales and operating income calculated from reported figures.

4.0 Brand Performance

Old leaders, new growth

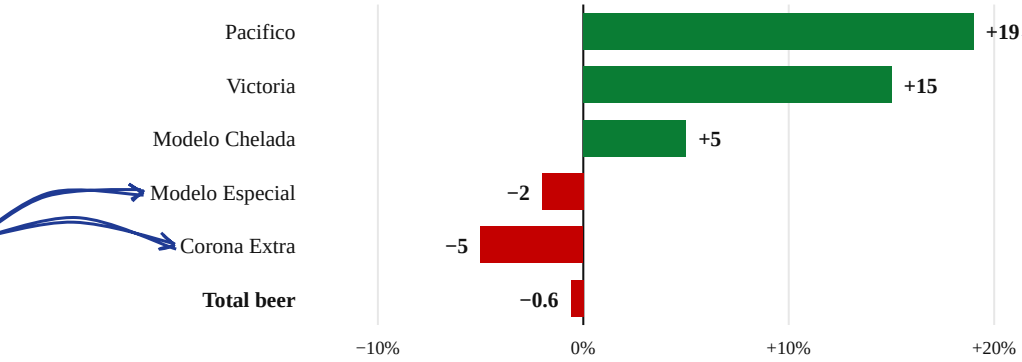
Modelo was the growth engine for a decade, now it's stalling

The brand detail explains why total depletions were negative. Modelo Especial, the best-selling beer in the United States by sales value, saw depletions fall about 2 per cent, and Corona Extra about 5 per cent. On the other side, Pacifico grew about 19 per cent and entered the top ten beer brands in the country, Victoria grew about 15 per cent with advertising only in Spanish, and Modelo Chelada about 5 per cent. Management says Corona's share is stabilising in the latest scanner data.

Exhibit 2. Beer depletion growth by brand, Q2 FY27 (%, approximate)

now a top-10 US beer

the two giants, both shrinking



Source: Andra Markets; Constellation Brands Q2 FY27 results. Brand figures are approximate as reported by the company.

The problem is scale. Modelo Especial and Corona Extra are by far the largest brands in the portfolio, so a decline of a few per cent in them takes away more volume than double-digit growth adds in the smaller ones. Until the large brands stabilise, total volume is likely to stay close to flat. Management also noted that off-premise sales during the World Cup, held in North America this summer, came in below industry expectations, while sales in bars and restaurants grew.

small % of a big brand > big % of a small one

5.0 Margins and Cash Flow

Cost discipline, higher spending

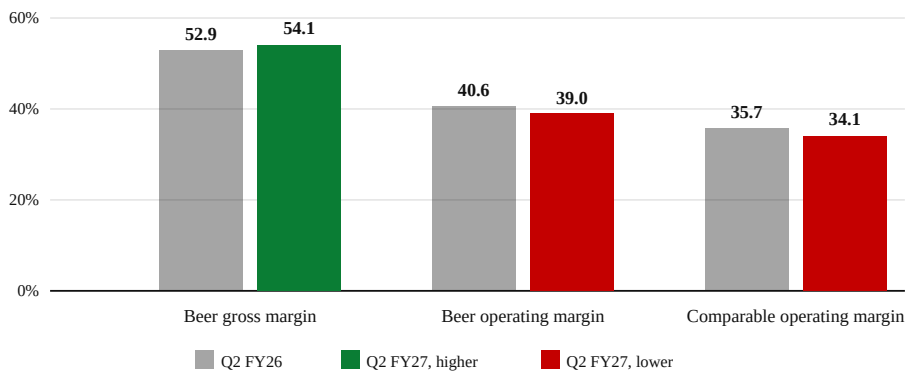
~10% of sales on marketing, 11%+ in Q3

The beer gross margin improved to 54.1 per cent from 52.9 per cent, helped by lower tariff costs and efficiency programmes, but the operating margin fell to 39.0 per cent from 40.6 per cent as marketing and overhead costs rose. Management plans to spend about 10 per cent of sales on marketing this year, and more than 11 per cent in the third quarter around baseball and college football. It expects the beer operating margin to fall to between 34.5 and 35.5 per cent in the second half, which it describes as normal seasonality because volumes are lower in autumn and winter.

H2 dip is seasonal, don't panic

Exhibit 3. Margins, Q2 FY26 against Q2 FY27 (%)

gross margin up: lower tariffs helped



operating margin down: more marketing

Source: Andra Markets; Constellation Brands Q2 FY27 results. Comparable operating margin is for the whole company.

Cash generation remains strong. Free cash flow in the first half rose 4 per cent to $1,125 million, as lower capital spending offset slightly weaker operating cash flow. The new brewery in Veracruz is about 85 per cent complete but will now open early in fiscal 2028, later than planned, and will add about $75 million a year of depreciation, equal to roughly 0.9 percentage points of margin. Net debt is about $10.2 billion on our calculation, and the company maintains a target of about three times comparable earnings before interest, tax, depreciation and amortisation.

late again, now early FY28

net debt ~$10bn, fine at ~3x

6.0 Guidance and Capital Allocation

Reaffirmed, not raised

only reaffirmed, the market wanted a raise

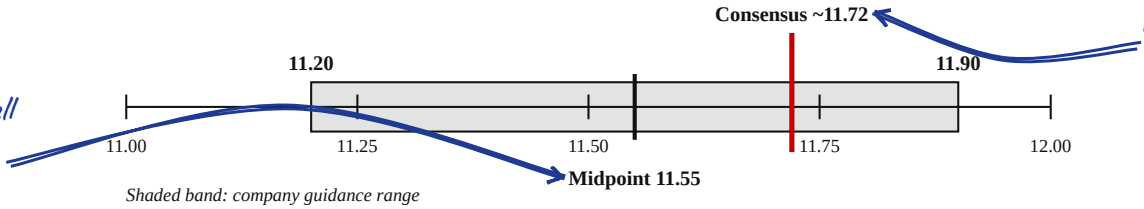
The company reaffirmed comparable earnings per share guidance of $11.20 to $11.90 for the year to February 2027, together with beer net sales growth of minus 1 to plus 1 per cent, a beer operating margin of 37 to 38 per cent and free cash flow of $1.6 to $1.7 billion. Reported earnings guidance was updated to $11.85 to $12.55. Mr Fink said the top of the range is achievable if September trends continue, and that falling to the bottom would require a real reversal in trends.

top of the range only if September holds

Exhibit 4. FY27 comparable EPS: company guidance against consensus ($)

the street sits above the midpoint

this is why it fell pre-market



Shaded band: company guidance range

Source: Andra Markets; Constellation Brands; consensus as reported by Investing.com and Tradingpedia on 7 October 2026. Red marks the consensus estimate.

Capital returns continue. The company has bought back $530 million of shares this fiscal year, has $2.5 billion left under its authorisation through fiscal 2028 and said it will accelerate purchases when the shares trade below its estimate of intrinsic value. It raised the quarterly dividend to $1.03 a share from $1.02. After the quarter, it bought SpikedAde, a vodka-based ready-to-drink brand, for $75 million upfront plus up to $278 million over five years depending on performance, a small step into a growing category.

$2.5bn left = ~12% of market cap (our calc)

SpikedAde: small bet on cocktails in a can

7.0 Valuation

Priced for decline

cheap... or a value trap?

At $118.39, Constellation Brands has a market value of about $20.2 billion and an enterprise value of roughly $30 billion including net debt. That is about 10.2 times the midpoint of earnings guidance on our calculation, with a dividend yield of about 3.5 per cent. These are multiples more typical of a business in structural decline than of one with a 39 per cent operating margin and strong cash generation. Analysts remain more positive than the market: Citi kept its buy rating and $165 price target after the results, while flagging weak depletions as the main headwind for the shares.

Citi: $165 target, ~39% above the close

bear case: big brands keep shrinking

bull case: they stabilise, the stock rerates

The low multiple reflects a genuine question about whether beer volumes have peaked. If the large brands keep shrinking, earnings would be flat at best, and the buybacks would mainly offset falling volumes. If instead the newer brands keep growing and Modelo and Corona stabilise, the company would return to modest growth, and the current valuation would look too low. The quarter offered evidence for both views, which is why the shares moved so sharply in both directions on the same day.

8.0 Risk Considerations

Where the case could break

demand is THE risk

The main risk is demand. Beer is losing share of drinking occasions to spirits, cocktails and alternatives, and the company depends heavily on Hispanic consumers, whose spending has been cautious. A further decline in Modelo and Corona would push volumes below the guidance range and turn the recent restocking into an excess of inventory at distributors. Higher fuel prices, which management said are already pushing consumers towards club stores and convenience shops, add pressure on household budgets.

if depletions don't recover, the restock becomes overstock

brewed in Mexico = tariff exposure

Other risks include trade policy, given that the beer is brewed in Mexico and that tariffs on imports, including aluminium for cans, have affected costs; further delays to the Veracruz brewery; and the limited room to raise prices while consumers are cautious. On the positive side, a stronger September, continued growth in the newer brands and cheap buybacks could move earnings to the top of the range.

upside: Sept + buybacks

9.0 Outlook and Monitoring Points

What to watch

watch: depletions, every quarter

The single most important indicator is depletions, published by the company each quarter and tracked monthly through scanner data. Investors will watch whether September's strength continues into the holiday season, whether Modelo Especial returns to growth, how quickly Pacifico and Victoria keep expanding, and whether shipments and depletions converge as promised by the end of the year. The third-quarter results, expected in early January, will show whether the reassurance offered on the call was justified. At about 10 times earnings, the shares do not need much good news to rise, but they need evidence that volumes have stopped falling.

next check: Q3, early January

verdict: cheap, but it needs proof that volumes have bottomed

Methodology and Source Notes

Method. This note reviews Constellation Brands' results for the second quarter of fiscal 2027 (to 31 August 2026), published on 6 October 2026, together with the earnings call of 7 October and market data at the close of 7 October. Growth rates in Exhibit 1, net debt, enterprise value, the price to earnings multiple, the buyback share of market value and the upside to the Citi target are Andra Markets calculations from reported figures. Brand depletion figures are approximate as reported by the company. Handwritten notes and highlights are informal commentary by the desk. This note is analysis, not investment advice.

Principal sources. Constellation Brands, second-quarter fiscal 2027 results release (Form 8-K, 6 October 2026); Investing.com, earnings call transcript and market coverage (7 October 2026); Yahoo Finance and Tradingpedia, coverage of the share price reaction (7 October 2026); StockAnalysis, for market data.

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