24 October 2022

SUSS INVESTMENT GROUP

MGP Ingredients, Inc. (NASDAQ: MGPI)

Sector: Consumer Staples
Industry: Beverages – Wineries & Distilleries

Recommendation Buy

Distilling a Recipe for Success

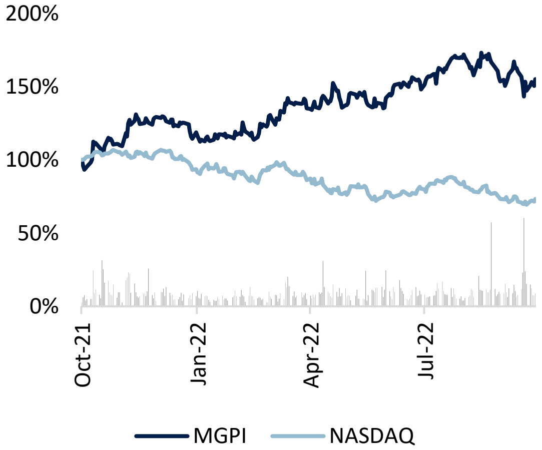
Analysts

Corine Lim	Lead Analyst, Equity Research
Valencia Chen	Analyst, Equity Research
Wilson Goh	Analyst, Equity Research

Basic Information

Current Price	US$102.00
Target Price	US$129.48
+/- Potential	+26.9%
Exchange	NASDAQ
Ticker	MGPI
Market Capitalisation	US$2.2bn
Shares Outstanding	22mn
52-Week Trading	US$63.29 - US$177.01
Average Volume	176,665
Fiscal Year End	31 December 2022
Short Interest	9.10%

1Y Price vs NASDAQ (Rebased)



Company Description

MGP Ingredients operates as a leading producer and supplier of premium Distilled Spirits, Branded Spirits, and Food Ingredients in the United States and international markets.

Key Executives

David J. Colo	President, CEO & Director
Brandon M. Gall	VP of Finance, CFO
David S. Bratcher	Chief Operating Officer

Major Shareholders

Raymond James Financial Services	16.87%
Cray MGP Holdings LP	10.48%
BlackRock, Inc.	9.61%

We initiate coverage of **MGP Ingredients, Inc. (NasdaqGS:MGPI)** with a **BUY** recommendation and a **$129.48** target price, representing an upside potential of **+26.9%.** Our target price was derived using a 5-year DCF valuation, supported with Comparable Companies Analysis.

Investment Thesis

Accelerating Growth Through Strategic Acquisitions: Through acquisition, MGPI has improved its overall revenue and its Branded Spirits' segment. In addition, MGPI has innovated new alcohol brands to add to its current Branded Spirits portfolio. With customers' loyalty to their alcohol brands, we believe this could benefit MGPI.

Margins Improvement via Operational Excellence: MGPI has climbed up to higher margin goods, in Distilling Solutions and Ingredient Solutions. With greater innovation and stronger management of commodity price risk, we expect costs to decrease in pursuit of operational excellence.

Branded Spirits are the Largest Area of Focus (and Opportunity): Premiumization has been a key driver of value for the overall Distilled Spirits category. Moving forward, we believe ample opportunity exists for MGPI to increase its positive mix through investment behind higher-end, faster-growth legacy brands. Despite record levels of inflation, no signs were seen of downtrading within select Distilled Spirits categories to which the company is exposed, which is an encouraging sign.

Financial Takeaways

Strong and Sustained Revenue Growth: We foresee MGPI's revenue share of the distilled spirit segment to demonstrate stable growth owing to the premiumisation dynamic and increasing consumer preferences for higher-end spirits. Supported by consistent dollar gains in sales of white and brown distilled spirit goods.

Healthy Leverage: Compared to peers' average of 73.4%, MGPI's D/E was 37.8% in FY2021. Following the Luxco acquisition in 2021, we foresee that MGPI will de-lever its balance sheet which will provide them with ample flexibility on potential capital allocation for strategic acquisitions and building out its Branded Spirits portfolio.

Increasing Profitability: With its cost discipline in managing commodity price risk, reduced reliance on third-party manufacturing coupled with improvement in margins through shifting the product mix to focus on the higher-priced segment, we foresee Gross Profit and EBIT margins to steadily improve.

Investment Risks

Rising Commodity Prices: MGPI's cost of goods consists of raw ingredients like grains and wheat. With the increasing costs of agricultural goods pose a threat to MGPI production costs and could result in lower margins.

Post-Acquisition Risks: MGPI's business strategy uses acquisition to expand its operation. The integration of acquisition involves downside risks if the desired synergies are not achieved.

Ingredient Regulations: MGPI operations are subjected to regulation by various federal agencies and authorities. Downside risks are exposed if the regulations were failed to comply at any point.

Business Description

MGP Ingredients, Inc. (“MGPI” or the “company”) was founded in 1941 and incorporated in 2011 in Atchison, Kansas. Together with its subsidiaries, MGPI operates as a leading producer and supplier of premium Distilled Spirits, Branded Spirits, and food ingredients in the United States and international markets. The company went public on October 1988 at a price of $14 per share.

Business Segments

MGPI has three operating segments: Distilling Solutions, Branded Spirits, and Ingredient Solutions.

Over the years, MGPI’s revenue has maintained stable growth, registering a record-high revenue of $626.7mn in 2021, in which sales across the Branded Spirits, Distillery Products, and Ingredient Solutions segments registered a YoY growth of 4,324.3%, 12.5%, and 16.1% respectively.

Distilling Solutions

Distilling Solutions account for 56% of total revenue in 2021, representing the main operating segment of MGPI. Revenues are derived primarily from supplying premium beverage alcohol (brown and white goods) to third-party customers. Brown goods account for over 50% of revenues, which is generated from MGPI supplying either (1) aged whiskey (Bourbon & rye) or (2) unaged new distillate to third-party customers. White goods account for 20% of revenues, which is generated from MGPI supplying vodka and gin to third-party customers. Collectively, premium beverage alcohol sales represent over 70% of distilling solutions revenue. The remaining revenue is derived from MGPI’s services for industrial alcohol, fuel-grade alcohol, and other co-related products (Fig 1.2).

Branded Spirits

Branded Spirits represent MGPI’s second most important segment, accounting for 29% of total revenue in 2021. This segment consists of mainly distilling and bottling Distilled Spirits, as well as importing, bottling, and rectifying them. Products are marketed under five categories: Ultra-Premium, Premium, Mid, Value, and Other (Fig 1.3). In line with MGPI’s strategy of moving into higher value-added products, the acquisition of Luxco will provide strong marketing and sales materially increasing its scale with national distribution capabilities.

Ingredient Solutions

Representing 15% of total revenue in 2021, Ingredient Solutions comprises specialty wheat starches, specialty wheat proteins, commodity wheat starches and commodity wheat proteins (Fig 1.4). Ingredient Solutions products are sold directly, or through distributors to manufacturers and processors of finished packaged goods or bakeries.

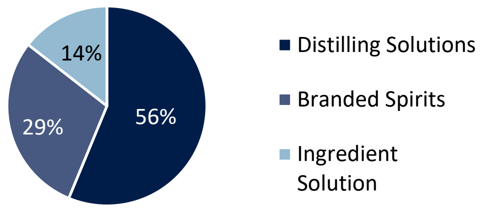
Cost Structure

MGPI’s main cost drivers are (i) Manufacturing and ii) SG&A, which comprises 82% and 15% respectively of their operating expenses in FY2021.

Geographical Segments

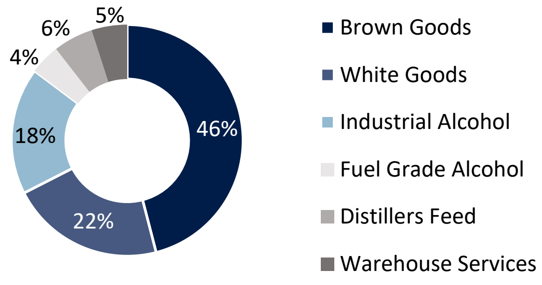
Operating in over 48 countries, MGPI primarily generates sales in the United States. Based on revenue by geography in 2021, sales generated from the U.S. represent 93% of total revenue, while the remaining 7% is derived from foreign markets including the United Kingdom, Japan, Thailand, Canada, and Mexico.

Fig 1.1: FY2021 Revenue by Segments



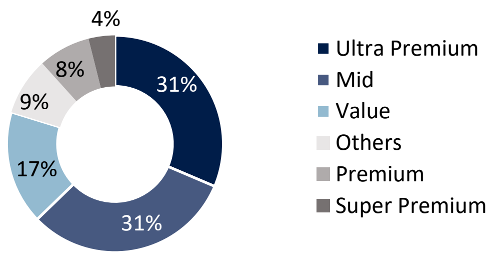
Source: Company Filings

Fig 1.2: FY2021 Revenue within Distilling Solutions Segment



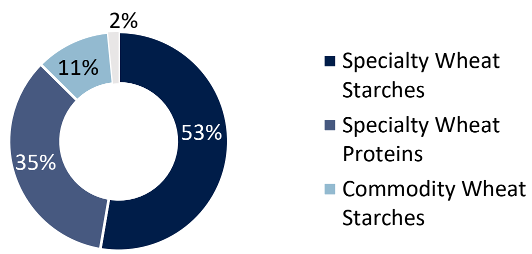
Source: Company Filings

Fig 1.3: FY2021 Revenue within Branded Spirits Segment



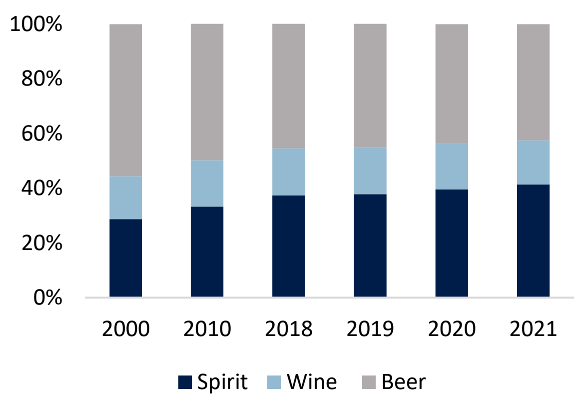
Source: Company Filings

Fig 1.4: FY2021 Revenue within Ingredient Solutions Segment



Source: Company Filings

Fig 2.1: Spirits Gaining Market Share in U.S.



Source: Statista

Industry Overview & Competitive Positioning

Distillery Products

Defying negative connotations, the spirits industry remained resilient during the Covid-19 pandemic, even as the effects of the pandemic diminished. For the 12th year in a row, strong consumer demand for premium spirits drove significant market share gains for the U.S. Spirits industry. As highlighted in the Distilled Spirits Council of the US (DISCUS) 2021 annual review of the U.S. Spirits industry, the beer category which includes hard seltzer, accounted for 42% of the U.S. beverage alcohol market. On the other hand, spirits and wine accounted for 41% and 16% respectively (Fig 2.1).

Displaying unprecedented growth, the U.S. spirits industry has soared in terms of both value and volume as revenue and volume increased by $3.8bn and 24.7mn respectively, where spirits contribution to total U.S. spirits revenue has grown to 41.3% (Fig 2.2). At this trajectory, spirits are pegged to overtake beer and wine and gain market share on a go-forward basis.

Brown and White Goods

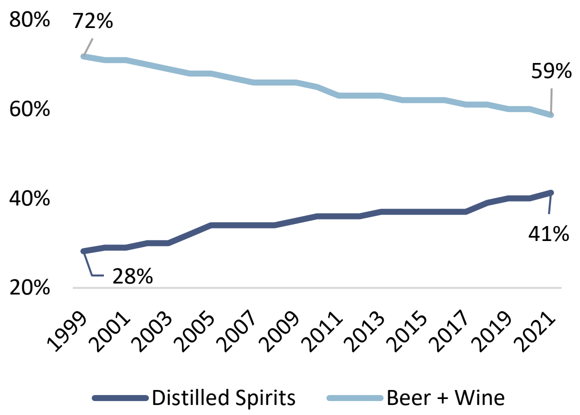
The global dark spirits market is valued at US$55.1bn in 2021 and is expected to register a CAGR of 7.5% over the forecasted period of 2022 – 2028 (Fig 2.4). Consisting of whiskey, rum, and brandy, the U.S. market is expected to register the fastest growth of 8.0% CAGR with the whiskey product segment holding the largest market share of more than 27% and is expected to maintain dominance. This can be credited to the rising popularity of high-end as well as super-premium U.S. whiskey brands. With the category gaining market share every year from 2009 to 2020, Bourbon is another brown spirit that has been consistently gaining market share within the Distilled Spirits segment. While the sales of Bourbon appeared to lose its dollar share of Distilled Spirits in recent years, Bourbon has had a strong run relative to most other spirit types over the past decade with ample whitespace for the category to make continued share gains when benchmarking to historical trends (Fig 2.5).

On the other hand, the global white spirits market is valued at US$58.1bn in 2020 and is expected to register a CAGR of 3.5% over the forecasted period of 2020 – 2027 (Fig 2.6). Consisting of vodka, gin, and tequila, vodka, and tequila are two product segments sitting at the throne. Market dynamics have been reflected in faster growth in brown goods compared to white goods, which is expected to continue over the long term. Vodka will remain an integral part of Distilled Spirits as it is the largest category from both volume and value perspective and require much less capital intensity as it is not an aged expression.

Showing no signs of abating, the overall growth and demand for brown and white goods are fuelled by the following factors:

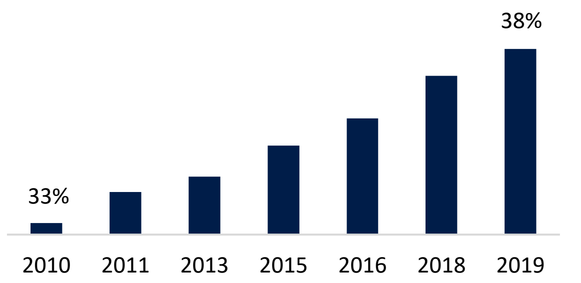
Growing Popularity of Spirit-based Cocktail Culture: Based on a consumer survey conducted by Public Opinion Strategies (POS) and economic data from DISCUS and IWSR Drinks Market Analysis, it was found that 55% of respondents prefer a spirits-based beverage to other malt-based or wine-based choices as it consisted of the flavour of their preferred choice and that they are made with real spirits. Owing to its fine quality and the shift from conventional consumption of "party shots" to luxury cocktails, white goods such as vodka and tequila witnessed remarkable popularity among consumers, accounting for $7.3bn and $5.2bn in 2021.

Fig 2.2: Distilled Spirits Gaining Ground in Alcohol Market



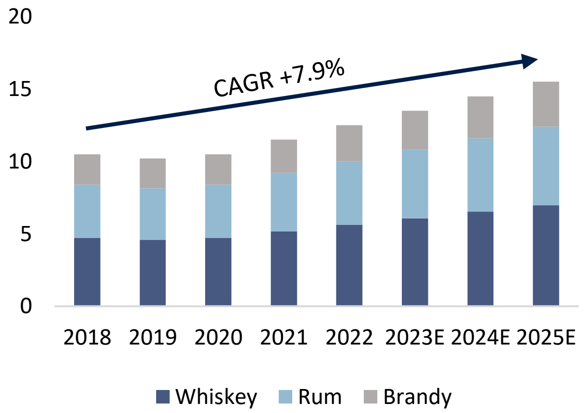
Source: DISCUS

Fig 2.3: U.S. Spirits Market Share



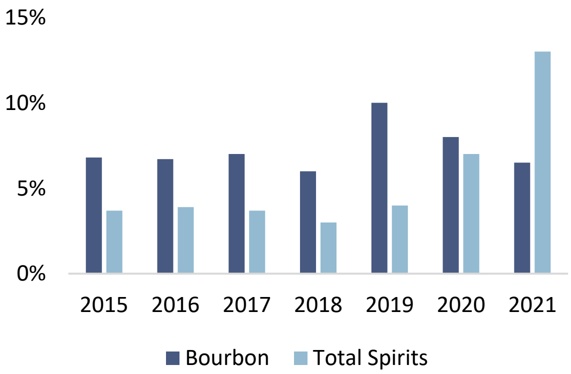
Source: DISCUS

Fig 2.4: Global Dark Spirits Sales (US$bn)



Source: Grand View Research

Fig 2.5: Bourbon Dollar Share of Total Spirits Sales

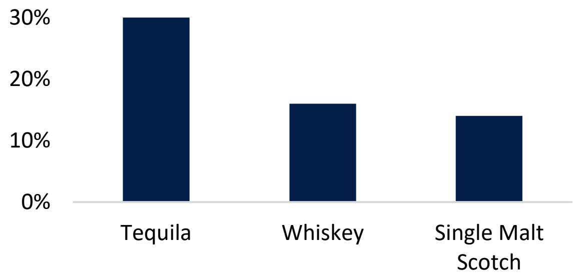


Source: DISCUS

Fig 2.6: Global White Spirits Sales (US$bn)

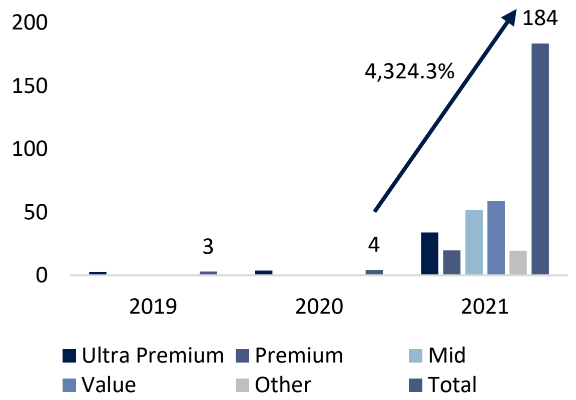
Source: Grand View Research

Fig 2.7: Younger and Higher Income Consumers Splurging More



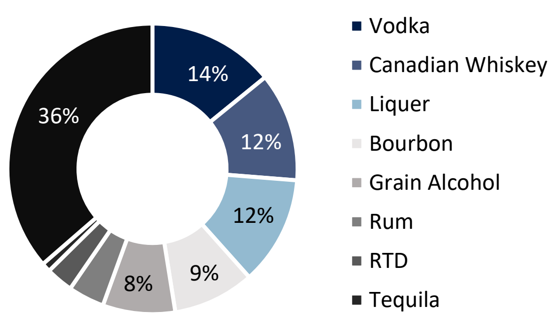
Source: McKinsey

Fig 3.1: Branded Spirits Historical Sales (US$mn)



Source: Company Filings

Fig 3.2: Luxco FY2021 Sales Mix by Type



Source: NielsenIQ and Wedbush Securities

Increasing Disposable Income among U.S. Millennials: In recent years, millennials made up a sizable portion of alcohol consumers and amount of purchasing power as total net worth more than doubled in the first quarter of 2022, reaching $9.38tn, up from $4.55tn two years prior. Based on studies from Nielsen and McKinsey, it is highlighted that millennials account for more than 30% of all spirits consumption in the U.S. where 70% of higher-income millennials intend to splurge more and are focused on brands that offer better quality (Fig 2.7). Recording a 12% YoY revenue increase to a total of $35.8bn in 2021, today's influential millennial consumers prefer premium and super-premium hard liquor, with tequila, whiskey, and vodka being the principal driver of premiumisation.

Ingredient Solutions

The global speciality food ingredients market is valued at US$118.04bn in 2021. It is expected to register a CAGR of 6.4% over the forecasted period of 2022 – 2030, with growing traction in North America and Europe. With a rise in health problems among consumers, they are now more cautious about their consumption habits. Today, consumers have become more aware of the content of food products, gravitating towards "alt-protein" foods for a variety of reasons, including wellness, ethics, and flavour. As highlighted in a food and health survey conducted by International Food Information Council in 2021, consumption of plant-based meat alternatives is higher for 19% of consumers surveyed than a year ago. Moreover, when asked what they generally try to consume, protein and fibre lead the list with 62% and 56% respectively.

Owing to the growing demand for safe and plant-based products, North America has dominated the specialty food ingredients market and emerged as the second-largest revenue in 2021, with the increasing number of health-conscious consumers demanding clean-label and non-GMO food products. Due to changing consumer preferences and fast-food trends such as gluten-free food products and non-GMO food products, these explicit product qualities have presented manufacturers with the opportunity to cater to the specific requirements of consumers and venture into sensory specialty food ingredients.

Investment Thesis

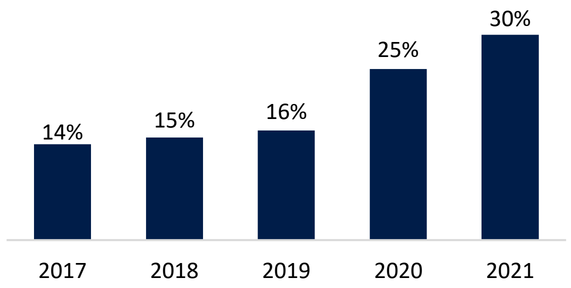
Thesis 1: Accelerating Growth Through Strategic Acquisitions

Strategic Acquisition Displayed Unequivocable Results

A key part of MGPI's long-term growth strategy is to expand the company's overall margin profile by improving the margin structure of its existing products as well as pursuing margin accretive acquisition opportunities. With the Luxco acquisition in 2021, this serves to provide MGPI with a platform for organic growth of existing brands and growth through potential future acquisitions in Branded Spirits as it evaluates opportunities to grow the profitability of the business. Moreover, it provides the company with a significantly larger presence in Branded Spirits globally while expanding the distribution of its legacy spirits brands. As a result of transformational acquisition, this has allowed MGPI to continue to realise growth in its overall business.

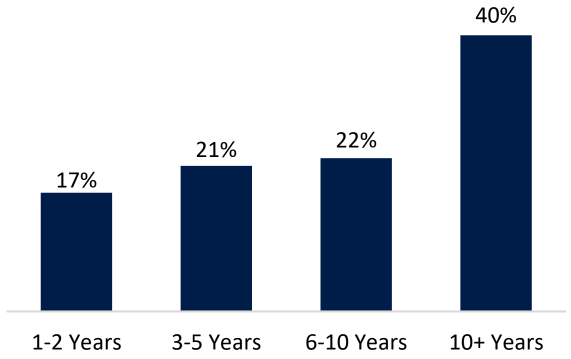
In terms of historical sales growth on its revenue in Branded Spirit segment, MGPI experienced a growth of 38.5% from FY2019 to FY2020. With the successful acquisition of Luxco, which comes with the additional brands acquired as part of the acquisition, MGPI experienced sales growth in its revenue on Branded Spirit segment of 4,324.3% from FY2020 to FY2021 (Fig 3.1). Attributable to the recent inflex demand for Tequila and Whiskey, we expect MGPI's total revenue from its Brand Spirit segment to be propelled.

Fig 3.3: Premium Plus (Ultra, Super, and Premium) Revenue Contribution



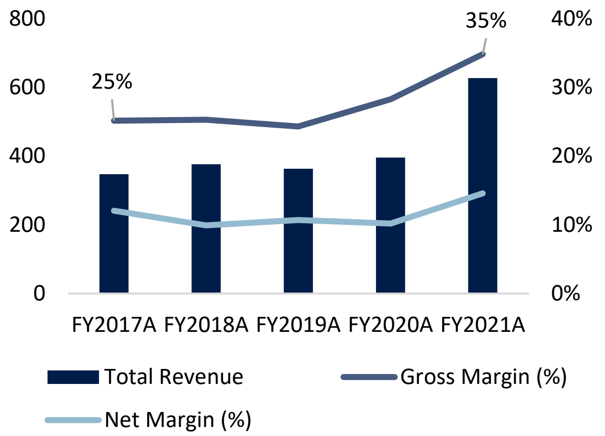
Source: Company Filings

Fig 3.4: Customer Loyalty to Alcohol Brands in U.S.



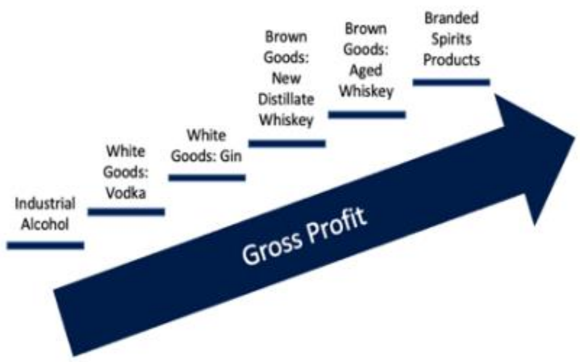
Source: Statista

Fig 3.5: Key Profitability Metrics (US$mn)



Source: Company Filings

Fig 3.6: Distilling Solutions Gross Profit Ladder



Source: Company Filings

Ability to Extend Branded Spirits' Success

Analysing MGPI's current Branded Spirits portfolio mix, the company is under-exposed to key categories that will offer the best long-term growth and premiumisation prospects. Accounting for just approximately 1% of the mix, the clear gap and opportunity would be tequila. To increase its exposure to segments that would likely result in a faster revenue growth outlook, MGPI's growth strategy involves continuous innovation of Branded Spirits, particularly the high-end American Whiskey, Tequila, and Gin in the U.S. Market. Including an extensive portfolio of award-winning brands, some of its recent innovations designed to capitalize on the fastest-growing Branded Spirits price segments are Rossville Union Barrel Proof 7-Year, Dos Primos Reposado, and Ezra Brooks 99 Proof. This showcases MGPI's continued efforts to build out its Branded Spirits portfolio following the Luxco acquisition in 2021.

Customer Loyalty to Current Products

With nearly 40% of consumers sticking to a preferred brand for 10 years or more, brand loyalty is key in the alcohol industry. In the U.S., approximately 39.8% of consumers consume their favourite alcohol brand for more than 10 years, while 22.1% of consumers have been drinking their favourite alcohol brand for 6 to 10 years (Fig 3.4). This shows that consumers tend to stick to their favourite alcohol brand once they have found an alcohol that suits their taste, and it is not a product that can be substituted easily by another brand. With the increase in sales from the branded spirit segment, sales are likely contributed by MGPI loyal customers of their branded spirit. In addition to brand loyalty, the Luxco acquisition provides MGPI with an expanded distribution of high-quality and legacy spirits brands. This serves to strengthen brand recognition and exposure, expanding MGPI's existing base of loyal customers.

Thesis 2: Margins Improvement via Operational Excellence

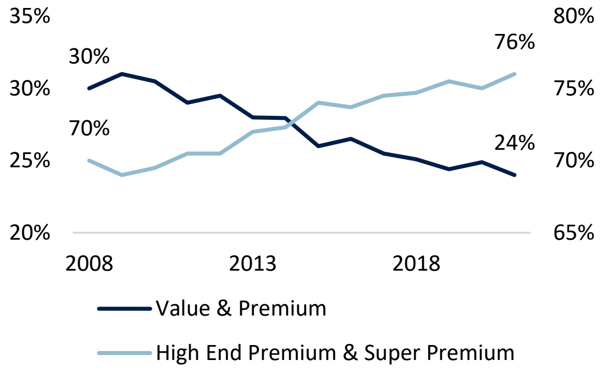
Improving Margins Through Shifting Product Mix

MGPI has seen overall improvements in Gross Profit Margins (GPM) from FY17 to FY21, with margins increasing from 25% to 35% (Fig 3.5). Much of this has alluded to the company's makeup shift towards higher margin goods in Distilling Solutions (Fig 3.6). In Distilling Solutions, MGPI has progressively climbed up to higher margin goods, from Industrial alcohol to brown goods including aged whisky and branded spirit products. Brown goods have increased the highest among distilling solution sales, registering 29% QoQ in Q2 2022. Under Branded Spirits, Ultra-premium spirits returned the highest sales, registering a QoQ increase of 18%. Ingredient Solutions' makeup has also seen a departure from Commodity Wheat Proteins to Specialty Wheat Starches and Protein. Both specialty segments have increased by >20% QoQ, while Commodity Wheat Proteins decreased by 93 basis points. We expect this shift to continue improving margins, aligning with MGPI's strategic focus on these higher margin segments.

Strong Management of Commodity Price Risks

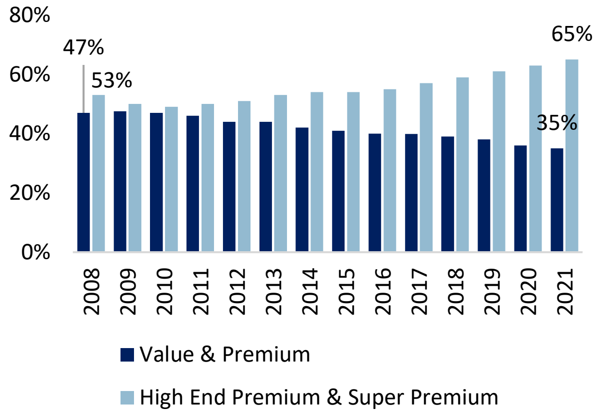
Food and energy prices have surged, worsened by the Ukraine war that could last through the end of 2024 due to disruptions in trade and production. Bloomberg's Commodity Price index reflected a 40% increase from 2019 to YTD 2022. MGPI is exposed to commodity price risk as it deals extensively within this commodity basket, including corn, wheat flour, and natural gas. To mitigate its risks, management has employed an effective risk management program that allows fixing contracted sale prices and volumes. Thus, allowing the company to price through as much commodity input inflation as possible. In other words, this means that MGPI is not only able to leverage opportune lower prices, but also pass higher input costs down to customers, especially ones purchased through the spot market.

Fig 3.7: Bourbon Sales Contribution by Price Tier



Source: DISCUS and Wedbush Securities

Fig 3.8: Vodka Sales Contribution by Price Tier



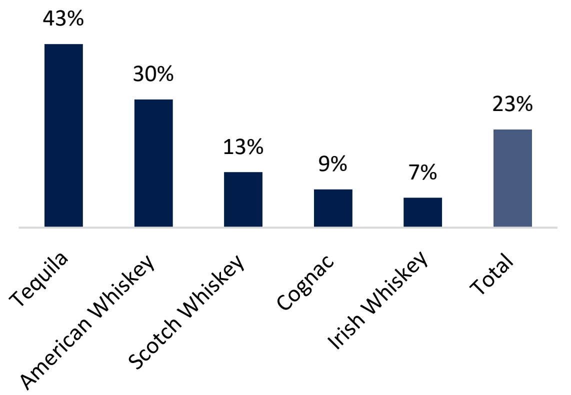
Source: DISCUS and Wedbush Securities

Fig 3.9: Sales from Higher-End Offerings

Bourbon Whiskey	52 Wk Trend	Tequila	52 Wk Trend
Ultra Premium	+10%	Ultra Premium	+25%
Super Premium	-2%	Super Premium	+9%
Premium	-4%	Premium	+7%
Mid	-8%	Mid	-8%
Value	-7%	Value	-4%
Rye Whiskey	**52 Wk Trend**	**Gin**	**52 Wk Trend**
Ultra Premium	+1%	Ultra Premium	+3%
Super Premium	-2%	Super Premium	-6%
Premium	-18%	Premium	-9%
Mid	-19%	Mid	-16%
Value	-2%	Value	-6%

Source: Company Filings

Fig 3.10: Strong Demand for Luxury Spirit Brands



Source: DISCUS

Innovation Drives MGPI Plant Efficiencies

In addition to hedging itself from economic risks associated with commodity price fluctuations, MGPI is in pursuit of operational excellence by attacking the cost side of the business. While MGPI's COGS and Operating Expenses (OPEX) have been riding the uptrend from FY2017 to FY2021, it is expected to taper in due course upon the construction of the extrusion plant. In Ingredient Solutions, MGPI has announced its plans to build a technologically advanced extrusion plant to produce 10 million pounds of ProTerra per year in 2022. Reducing its reliance on third-party and transitioning the manufacturing process in-house will reduce outsourcing costs related to manpower overhead and transportation, and lead times related to co-packer scheduling. With greater control, this grants MGPI flexibility to meet the growing demand for its ProTerra line and enhance its ability to effectively commercialise new products. Factoring MGPI's supply chain improvement plans, we expect COGS and OpEx margin to moderate in the future.

Thesis 3: Branded Spirits is Largest Area of Focus (and Opportunity)

Premiumisation Driving Branded Spirits Growth

Premiumisation dynamics continue to play out in all total beverage alcohol and have been a predominant driver of value within Distilled Spirits across almost category. Within Bourbon, over the past decade, the contribution from high-end premium and super-premium offerings have collectively advanced by 6%, though this somewhat masks the actual premiumization trends at the absolute high end as super-premium expressions have advanced by 17% within Bourbon over the comparable timeframe driven by much faster levels of relative growth. Within vodka, we have seen similar trends where high-end premium and super-premium expressions continue to increase their contribution to total revenue. From MGPI's perspective, outperformance within high-end offerings will clearly provide higher selling price points and a better margin profile considering that these trends continue to sustain.

Building out Branded Spirits will likely be among the biggest focus points for MGPI following its acquisition of Luxco in 2021. Currently, MGPI's Branded Spirits portfolio is losing market share, largely due to a high overall mix of low-to-mid value offerings relative to premium. Higher-end offerings represent less than 35% of the total portfolio mix. Not surprisingly, sales from higher-end offerings across MGPI's Branded Spirits portfolio are outpacing sales from lower-end offerings.

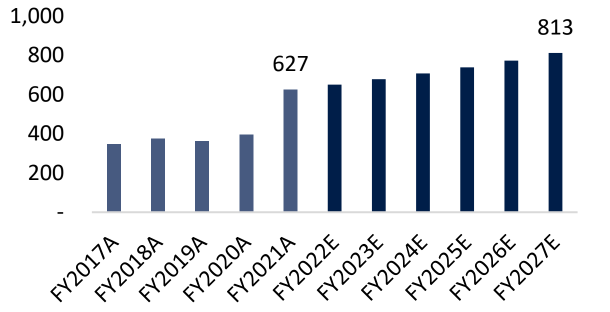
As MGPI continues to focus on improving the growth trajectory of the higher-end segment, which is broadly in line with the long-term outlook for spirits, it will need to increase its portfolio mix of higher-end products. We believe this can be achieved with MGPI's strategic plans to allocate heavier investments in leading Bourbon American Whiskey brands such as Yellowstone and Ezra Brooks, as well as capturing a greater part of the high-end category through inorganic M&A.

No Signs of Consumer Down Trading

With inflation at record levels, the big debate within the alcohol industry is centred on potential consumer down trade and this can have an impact on the premiumisation trend which has been a long-term driver of value for high-end spirits brands.

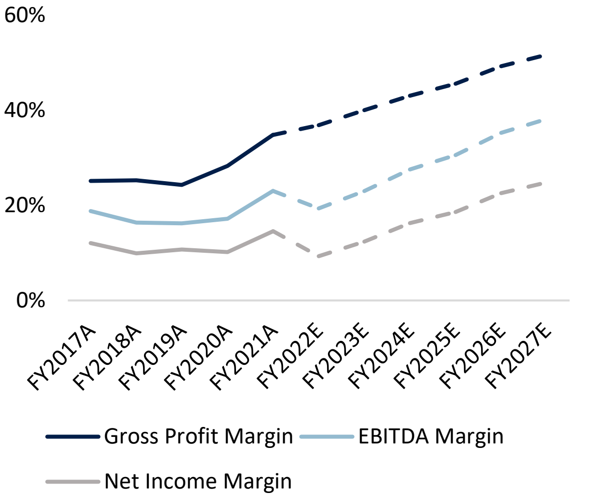
Nevertheless, consumer demand for luxury spirits brands showed no signs of slowing down despite uncertainties in current economic conditions, which proved to be an encouraging sign. Data by Distilled Spirits Council of the United States (DISCUS) identified that drinkers are still gravitating towards

Fig 4.1: Revenue Projections (US$mn)



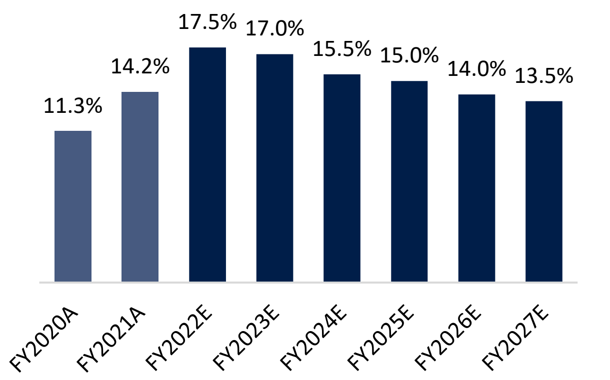
Source: Team Analysis

Fig 4.2: Improving Profitability Margins



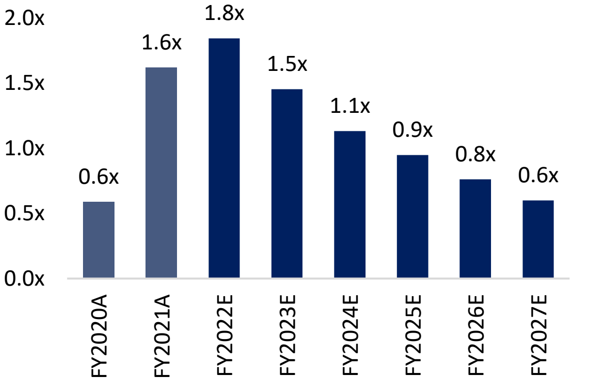
Source: Team Analysis

Fig 4.3: OpEx as % of Sales Poised to Decline



Source: Team Analysis

Fig 4.4: Debt-EBITDA Ratio Poised to Decline



Source: Team Analysis

higher-priced spirits, with luxury brands growing by 23% YoY in Q2 2022. More notably, sales were led largely by Tequila (+43%) and American Whiskey (+30%). Looking over the five-year period from 2017 to 2022, all spirits categories included in the Luxury Brand Index (LBI) were in growth, with an annual growth rate of 8% to 45%, and an average growth rate of 24%. This growth momentum is expected to continue owing to increased consumer preferences for higher-end spirits.

Financial Analysis

Revenue

Driven primarily by the sales of brown and white spirits, MGPI's revenue has been growing at a CAGR of 20% over the past five years. However, revenue volatility was observed from FY2019 to FY21 primarily due to the COVID-19 pandemic and the Luxco acquisition in FY2021. As such, the CAGR was inflated. We estimate MGPI's revenue to grow steadily at a 5-Year CAGR of 10%, a 2% increase from YoY growth in FY18 before revenue experienced volatility.

This is primarily driven by its position to continue riding on favourable industry dynamics including market share gains for Distilled Spirits and relative outperformance for Bourbon within Distilled Spirits, as well management's efforts to drive a positive mix shift through continuous investment in the higher-end spirits segment, capitalising on faster growth products.

Margins Improvement

With a positive outlook on revenue drivers and lower COGS, gross margins will exceed pre-pandemic levels reaching 36.8% in FY22. While MGPI's COGS has been riding the upward trend from FY17 to FY21, it is expected to taper in due course upon the construction of the extrusion plant. In its Ingredient Solutions Segment, it has announced its plans to build a technologically advanced extrusion plan to produce 10 million pounds of ProTerra per year in 2022. With efforts to reduce its reliance on third party vendors, transitioning the manufacturing process in-house will reduce outsourcing costs pertinent to transportation and manpower overhead.

We expect OpEx as a percentage of sales to eclipse 17.5% for the upcoming year and will climb over the back half of the year on higher investment within its Branded Spirits portfolio then moderate slightly from FY23 (Fig 4.2). From an EBIT perspective, the contraction in margin expected in FY22 will be due to the above-mentioned increases in costs and expenses. Given a better outlook on gross profit and OpEx in FY23, we would expect the EBIT margin to get back to the levels seen in 2021 (Fig 4.2).

Reduction in Gearing

MGPI should de-lever following the close of the Luxco acquisition in 2021. The increase in cash even with the current dividend is expected to result in the company de-levering its balance sheet. Despite assuming a modest 5% dividend increase in FY24, we expect the company's leverage to fall near 1x levels (Fig 4.4). As such, this will provide MGPI with ample flexibility on potential capital allocation, which we would expect to largely focus on M&A and specifically building out its Branded Spirits portfolio given a higher margin and multiple profiles associated with that area of the supply chain. As it stands today, the company has the capacity to focus on filling portfolio gaps and shifting the contribution towards premium spirits, as opposed to lower-end offerings, which will not offer the same growth or profitability prospects.

Valuation

We reiterate our **BUY** recommendation for MGP Ingredients, Inc. with a target price of **US$129.48** presenting a **+26.9%** upside potential based on the closing price of **USD $102.00** on 24 October 2022. We performed a DCF analysis to incorporate to capture the unique position that MGPI is in and the multiple growth levers and thus, the future free cash flow to firm that it generates. Additionally, the relative valuation was conducted as a sanity check to support our recommendation. Our Football Field summarises the various valuation methodologies (Appendix M).

DCF Valuation

To derive MGPI's intrinsic value, we forecasted MGPI's cash flows over the next 5 years and computed its Free Cash Flow to the Firm (FCFF) (Appendix G). The use of FCFF in our valuation enables us to consider MGPI's growth prospects as it expands its Spirits portfolio regardless of its capital structure.

Perpetual Growth Rate: A terminal growth rate of 2.5% was used, which aligns with the long-term U.S. GDP growth rate of 3.14%. Hence, we arrived at a terminal value of US$3.35bn and US$129.48 per share (Appendix H).

Discount Rate (WACC)

We estimated a WACC of 6.92% for MGPI (Fig 5.1). Using CAPM, we estimated its Cost of Equity to be 7.28%. Since MGPI's revenue is primarily derived from its U.S. operations, an equity risk premium of 4.24% was used. As MGPI's revenue is primarily generated from the US, the 10-year Treasury Yield of 3.25% was used as the risk-free rate. A regression beta of 0.95 was used in the computation. Using MGPI's cost of borrowing and revenue-weighted tax rate, we estimated MGPI's after-tax cost of debt to be 3.93%.

Relative Valuation (Comparable Companies Analysis)

To supplement our DCF analysis, we deployed the market approach i.e., Sum-of-the-Parts of comparable companies in the 2 key business segments as a sanity check against our target output. We revenue-weighted and performed Sum-of-the-Parts relative valuation based on 2 distinct segments of MGPI: Distillery and Ingredient Solutions, to arrive at its implied enterprise value and share price (Appendix L). We selected companies that offered Distilled Spirits and food Ingredient Solutions as industry peers. We decided against using EV/Sales as it would not reflect differing margins across companies. Additionally, the P/E ratio was not used due to unstable fluctuations and one-off occurrences affecting companies' bottom-line. Instead, FY+2 EBITDA and FY+2 EBIT was used as it paints a clearer picture and reflect operating profitability. We used a median FY+2 EBITDA for our relative valuation as it is closer to the terminal year. Forward multiples reflect the forward nature of valuation. With this approach, we arrived at a 12M target range of US$149.72 and US$206.15. Lesser emphasis was placed on precedent transactions as control premium inflates valuation output.

Scenario and Sensitivity Analysis

To examine MGPI's potential share price fluctuations, we modelled a bull and bear case. Our bull case reflects MGPI's ability and speed in building out its Branded Spirits portfolio to include higher-end, faster-growth products. In our bear case, we projected a slower-than-expected transition to expand higher-end offerings in MGPI's portfolio to capture the existing growth opportunity. A sensitivity analysis was conducted to assess the significance of changes in key inputs in our DCF model. We found that even with a decline to 2.25% of the perpetual growth rate, an upside would still be yielded. However, we believe that a perpetual growth rate below these levels would be unlikely in the long-term.

Fig 5.1: WACC Build-Up

Input	Rate
Risk-free Rate	3.25%
Beta	0.95
Equity Risk Premium	4.24%
Cost of Equity	**7.28%**
Pre-Tax Cost of Debt	5.39%
Corporate Tax Rate	27.00%
Cost of Debt	**3.93%**
Market D/E	0.12
WACC	**6.92%**

Source: Team Analysis

Fig 5.2: Sensitivity Analysis (Perpetual Growth Method)

WACC \ Terminal Growth Rate	2.00%	2.25%	**2.50%**	2.75%	3.00%
7.92%	$97	$100	$105	$109	$114
7.42%	$106	$111	$116	$121	$127
6.92%	$118	$123	**$129**	$136	$144
6.42%	$132	$139	$147	$156	$166
5.92%	$149	$159	$169	$181	$196

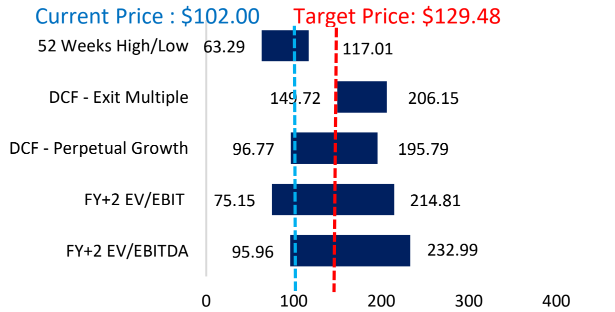
Source: Team Analysis

Fig 5.3: Sensitivity Analysis (Exit Multiple Method)

WACC \ Exit Multiple	13.9x	14.9x	**15.9x**	16.9x	17.9x
7.92%	$150	$159	$169	$178	$188
7.42%	$153	$163	$173	$182	$192
6.92%	$157	$167	**$177**	$187	$197
6.42%	$160	$171	$181	$191	$201
5.92%	$164	$175	$185	$196	$206

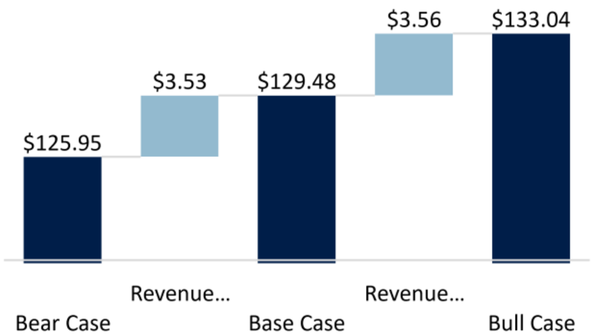
Source: Team Analysis

Fig 5.4: Football Field Chart



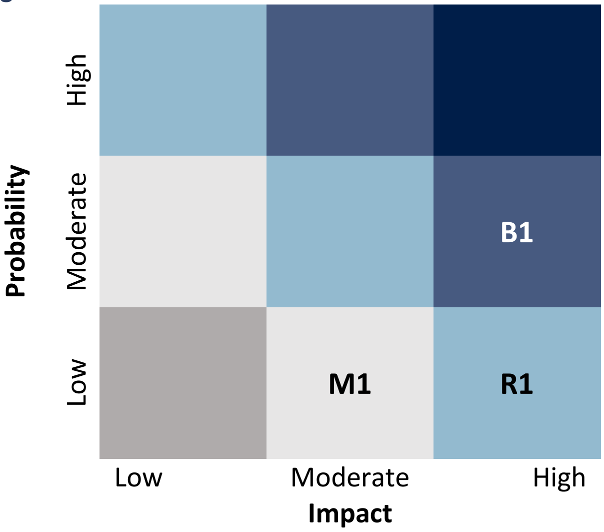
Source: Team Analysis

Fig 5.5: Scenario Analysis



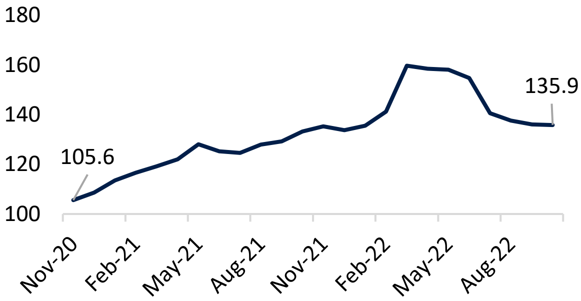
Source: Team Analysis

Fig 6.1: Investment Risk Matrix



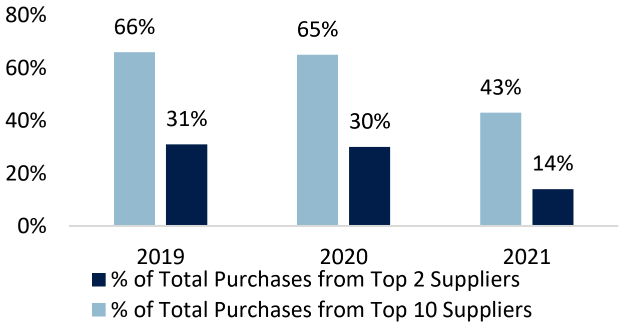
Source: Team Analysis

Fig 6.2: Rising Food Price Index in Past 2 Years



Source: Food and Agriculture Organization

Fig 6.3: MGPI Reducing Supplier Concentration Risk



Source: Company Filings

Fig 6.4: Summary of Risks and Mitigation

Risk	Mitigation
Market Risk	
Rising cost of agriculture goods	Entering contracts with suppliers and purchasing 1-24 months in advance
Business Risk	
Business expansion strategy with acquisition	Vast experience from management team in terms of acquisitions
Regulatory Risk	
FDA regulatory	Done regular checks and ensuring ingredients used are FDA approved

Source: Team Analysis

Investment Risks

Market Risk

M1 | Rising Commodity Prices

Probability: Low | Impact: Moderate

Raw ingredients such as grains and wheat flour constitute a large amount of MGPI's cost of goods. Inflated by the ongoing Ukraine war, rising costs of agricultural goods pose a threat to production costs, resulting in lower margins. Raw materials, or input costs, are corn and other grains (including rye, barley, wheat, and barley), which are essential ingredients used across all segments.

M1 | Mitigation: MGPI entered contracts with Bunge Milling, Consolidated Grain and Barge, and Ardent Mills to hedge themselves against the rising raw material price for delivery from one to 24 months into the future at negotiated prices, protecting themselves against sudden volatile fluctuations.

Business Risk

B1 | Acquisition Related Risks

Probability: Moderate | Impact: High

MGPI strategic business plan is to grow its business through acquisitions. However, failure to successfully integrate acquisitions could adversely impact its long-term competitiveness and profitability. The integration of acquisition involves several risks that could harm the business's financial condition, results of operations and competitive position. If acquisition targets fail to perform in accordance with its expectations at the time of purchase, MGPI would be impacted significantly.

B1 | Mitigation: MGPI's acquisition of Luxco, Inc has been performing well, which increases the revenue for the branded spirit segment. Having a management team with vast experience will also allow MGPI to assess proper synergies from future acquisitions and devise appropriate strategies to improve the company's business model.

Regulatory Risk

R1 | Ingredient Regulations

Probability: Low | Impact: High

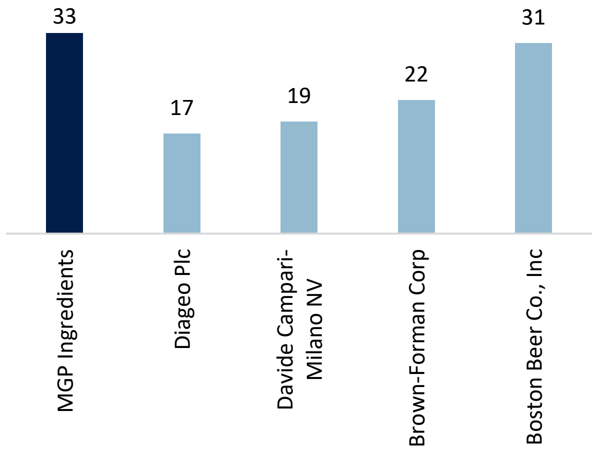
The ingredients used by MGPI are heavily regulated by the Food and Drug Administration (FDA) and the Alcohol and Tobacco Tax Trade Bureau (TTB). FDA primarily regulates all foods and food ingredients introduced into or offered for sale in interstate commerce, while the TTB laboratory enforces these restrictions during the testing of alcohol product samples. Failure to comply at any point would have an adverse impact on MGPI.

R1 | Mitigation: Regular checks can be conducted to ensure the ingredients are in good condition, as well as, having strict quality control teams and constant up-to-date quality assurance on its end products such as the alcohol and plant-based bakery products. Additionally, MGPI has also sought to ensure that its products are FDA-approved such as their flagship brands of Fibersym Resistant Starch series, and FiberRiteRW Resistant Starch.

Environmental, Social, and Governance

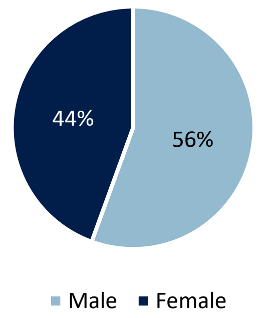
MGPI has performed relatively well in its ESG efforts, undertaking progressive steps towards reducing emissions. MGPI also excels in its governance with a strong and diverse leadership team. While MGPI currently falls short in its social responsibility efforts, management has laid out the framework for growth in the following years, using 2021-2022 as the benchmark year.

Fig 7.1: MGPI ESG Ratings vs Peers



Source: Sustainanalytics

Fig 7.2: MGPI's Board Gender Diversity



Source: Company Filings

Fig 7.3: MGPI's Social Responsibility Pillars

Pillar 1: Diversity, Equity, and Inclusion (DEI)
Inclusion of employees from minority and diverse backgrounds allows them to feel included and perform to the best of their abilities.
Pillar 2: Alcohol Responsibility
Advocating for responsible alcohol consumption habits to combat prevalent issues e.g., drunk driving and underage drinking.
Pillar 3: Community Responsibility
Participating in and leading reputable community projects as well as providing sponsorships.

Source: Company Filings

Fig 7.4: MGPI's Key Management and Tenure

Name	Designation	Years at MGPI
David Colo	President & CEO	2
David Bratcher	COO	1
Brandon Gall	CFO	10
Stephen Glaser	VP, Production & Engineering	11
David Dykstra	VP, Alcohol Sales & Marketing	13
Michal Buttshaw	VP, Ingredient Sales & Marketing	12

Source: Company Filings

Environmental – Good

MGPI through its initiatives has demonstrated a strong commitment towards environmental sustainability through initiatives to increase water and energy usage efficiency and the use of packaging materials derived from sustainable resources. Aligning with its commitment to reduce carbon footprints, MGPI has eliminated the use of Styrofoam and single-use plastics in all operating facilities. Alternatively, the company has replaced these harmful materials with compostable and biodegradable alternatives.

MGPI has also undertaken waste reduction activities, where the company is focused on minimising non-hazardous wastes sent to landfill through consistent recycling efforts in all operating facilities. Recently, MGPI has renewed its contract agreement with Westar Energy Inc to obtain 100% of its electrical needs from renewable wind powers.

Social – Average

In 2021, MGPI has developed a framework to outline its social responsibility efforts. Enclosed in its framework, the company is focused on three of the following pillars. In the first pillar, (1) Diversity, Equity, and Inclusion (DEI) represents the first focus area which is designed to allow employees from diverse backgrounds to feel included and supported. As such, encouraging employees to perform to the fullest of their abilities in the workplace. In the second pillar, (2) Alcohol Responsibility spells out the objective of advocating for responsible alcohol consumption habits to combat prevalent issues related to drunk driving and underage drinking. In the third pillar, (3) Community Responsibility represents the last focus area of the framework. MGPI has maintained a positive presence in local and regional communities by participating in and leading reputable community projects as well as providing sponsorships to worthy groups and events. This is accomplished in part through a formalised corporate philanthropic gifts program and volunteer services by MGPI personnel.

Governance - Good

MGPI is led by President and CEO David Colo, with 30 years of leadership experience in general management, operations, and supply chain management within the food industry. He is also supported by a strong executive management team comprising individuals with extensive experience in the food ingredient and spirits industry. Additionally, MGPI's Board of Directors consists of nine individuals with prior experience either serving as a director or C-level executives in different companies.

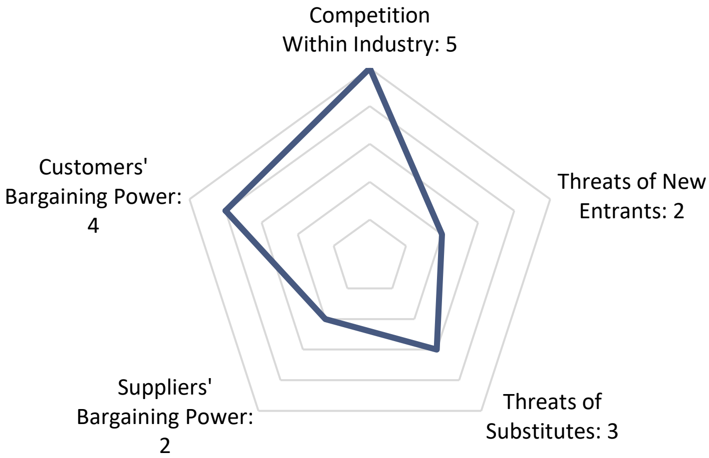
MGPI's board has diversity in gender and professional experience. The Board of Directors has a great mixture of both males and females, where 4 out of 9 of the directors are female. The board also has a good mix of specialist skills and knowledge. For instance, Ms Lori Mingus has in-depth knowledge of facets of graphic design, and interior and exterior design while Mr Kevin Rauckman has rich knowledge in financial consultancy and advisory.

ESG Scoring

Overall, we contend that MGPI has an average ESG performance. Based on our analysis, MGPI currently lacks behind its peers. However, this is purely attributable to the fact that MGPI has only begun its ESG journey in FY21, taking FY21-22 as its benchmark. While it still has ground to make up on its industry peers, MGPI has demonstrated a strong commitment towards growing its brand and products responsibly, with a goal to continuously improve in the upcoming years from FY23-FY26.

List of Appendices

Appendix A – Porter's Five Forces



Competition Within Industry – Very High (5): While the overall market environment has offered considerable growth opportunities for MGPI, competition within the Distillery Products, Branded Spirits, and Ingredient Solutions industry is very high. Competing with giants such as Anora Group Oyj, Brown-Forman Corporation, Archer-Daniels-Midland, competition is primarily based on product quality, innovation, service, brand recognition, loyalty, product launches, effective advertising campaigns, marketing programs, and price. To differentiate itself, MGPI's initiatives include building an extrusion plant to produce its ProTerra line of texturised proteins and partnering with Luxco to offer an extensive portfolio of fast-growing premium Distilled Spirits.

Threats of New Entrants – Low (2): Barriers to entry remain high given the significant capital expenditure required to construct a distilling and warehousing facility and invest in operational equipment. On the regulatory side, stringent quality assurance processes enforced also pose an obstacle. New entrants are less likely to enter a dynamic industry where established players such as MGPI have existing economies of scale, as well as reliable branding and reputation.

Threats of Substitutes – Moderate (3): Production of plant-based products is booming with increases in environmental and health awareness as consumers pay more attention to the food they consume. While consumers are willing to pay higher for premium spirits and plant-based products, low switching costs allow consumers to purchase a similar product at a lower price. Striving to capture a larger share of the industry, MGPI is continuously innovating to create value for consumers by developing its own line of specialty wheat starches, specialty wheat proteins. To stay ahead of its competitors, MGPI differentiates itself by offering ingredients that are certified as low FODMAP in its Arise series and a wider range of wheat starch and protein products.

Suppliers' Bargaining Power – Low (2): Primarily manufacturing in the U.S., MGPI has entered in and out of contracts with Bunge Milling, Consolidated Grain and Barge, and Ardent Mills for the purchase of homogeneous inputs such as grain and wheat flour while the other ingredients are acquired from readily available sources in the market. Purchasing inputs from one to 24 months into the future at negotiated prices under its grain and wheat flour supply agreements, MGPI has substantially eroded suppliers' bargaining power.

Customers' Bargaining Power – Moderate (3): With many competitors operating in the distillery products, Branded Spirits, and alternative food solutions market, customers will be bestowed with the luxury of choosing low-cost providers with the highest value. In other words, this means that switching costs are low and buyer power is relatively high. However, in terms of Ingredient Solutions, MGPI's wheat protein in the Arise series are low FODMAP certified unlike competitor's offerings.

Appendix B – SWOT Analysis

Strengths:	Weaknesses:
• Strong distribution network • Strategic partnerships • Extensive portfolio of innovative products & high-quality spirit brands	• Under-exposed to key categories offering best long-term growth and premiumisation prospects (e.g., Tequila)
Opportunities:	**Threats:**
• Increasing demand of quality plant-based product & premium spirits • International expansion	• Intense Competition • Stringent Regulations • Unexpected change in consumer preference

Strengths:
MGPI has established a strong distributor and dealer community by forming strategic partnerships with RNDC and standard beverage to build brand awareness, support the continued growth and sales of MGPI's award-winning proprietary spirits brands: TILL American Wheat Vodka, George Remus Straight Bourbon Whiskey, Remus Repeal Reserve Straight Bourbon Whiskey, Rossville Union Straight Rye Whiskey, Eight & Sand Blended Bourbon Whiskey and Green Hat Gin. Moreover, the Luxco acquisition serves to help MGPI achieve a significantly larger presence in Branded Spirits while providing expanded distribution of its legacy spirit brands across all 50 states in the U.S. MGPI has also established itself as a strong distributor of plant-based protein innovative products, where MGPI's wheat protein in the Arise series are low FODMAP certified which are not found among its competitors wheat protein product lines.

Weaknesses:
Currently, MGPI procures grain supply (primarily corn), wheat flour, textured wheat proteins, barrels, glass, and bottle closures through a third-party toll manufacturer in the U.S. In the case where third-party manufacturers encounter any operational issue and fail to meet MGPI's supply demands, this will result in supply chain disruption and higher prices than those negotiated. To combat this issue, MGPI has plans to build an extrusion plant to produce its ProTerra line of texturised proteins in-house.

Opportunities:
The U.S. spirits industry is experiencing a period of exceptional growth. American whiskey and Irish whiskey have seen a surge of 6.7% and 16.3%, respectively. To add on, with effect from 1 January 2022, the EU will drop its tariffs on American whiskey. With the drop of tariff in the EU, American whiskey are expected to experience growth in terms of exporting. This opportunity gives MGPI to tap into the EU's American whiskey market without tariffs as well as its growth opportunities.

Recently, MGPI releases a new product line, Proterra Crumbles which is a range of chef-seasoned plant-based protein crumbles designed for food service companies. Proterra pea protein crumbles, which are prepared in a matter of minutes, can assist cafeterias in addressing rising customer demand for tasty and filling plant-based diets. The plant-based food market is also experiencing exceptional growth, where the market could make up to 7.7% of the global protein market by 2030, with a value of over $162 billion, up from $29.4 billion in 2020, according to Bloomberg Intelligence. The plant-based alternatives are becoming a long-term choice for customers all around the world because to the industry's increasing range of product possibilities.

Threats:
MGPI faces strong competition within the Distillery Products, Branded Spirits, and Ingredient Solutions industry. Competing with principal competitors such as Anora Group Oyj, Brown-Forman Corporation, Archer-Daniels-Midland, competitors that are larger size have substantial financial and marketing resources to market its products and expand its customer bases and improve brand recognition. As the global beverage alcohol industry has continued to experience consolidation, creating new and larger competitors, this poses a threat to MGPI's profitability along with the change in customer preference for premium spirits.

At the beginning of this year, Archer-Daniels-Midland's multinational joint venture, PlantPlus Foods that focus on developing and producing plant-based foods to America, has successfully closed a $100 million deal with Canadian vegan food manufacturer Sol Cuisine. The successful acquisition is expected to accelerate PlantPlus Foods' expansion and strong foothold across America's plant-based market. This could potentially pose a threat to MGPI's Ingredient Solutions segment particularly their plant-based protein ingredient products.

Appendix C – Financial Analysis

MGP Ingredients, Inc. (NASDAQ:MGPI)	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022E	FY2023E	FY2024E	FY2025E	FY2026E	FY2027E
Revenue Growth (YoY)											
Distillery Products		7.9%	-6.3%	6.5%	12.5%	4.1%	4.1%	4.2%	4.4%	4.5%	4.7%
Ingredient Solutions		9.9%	5.6%	19.2%	16.1%	8.0%	8.4%	8.6%	8.9%	9.1%	9.3%
Branded Spirits				38.5%	4324.3%	1.8%	2.0%	1.9%	2.2%	2.4%	2.6%
Total Revenue		8.2%	-3.5%	9.0%	58.5%	4.0%	4.2%	4.2%	4.5%	4.7%	5.0%
Profitability Margins (% of Revenue)											
Gross Profit Margin	25.1%	25.2%	24.3%	28.3%	34.8%	36.8%	40.0%	43.0%	45.6%	49.2%	51.7%
EBITDA Margin	18.8%	16.4%	16.2%	17.1%	23.0%	19.3%	23.0%	27.5%	30.6%	35.2%	38.2%
EBIT Margin	15.5%	13.3%	13.0%	13.9%	20.0%	16.6%	19.9%	24.0%	26.5%	30.7%	33.1%
Net Income Margin	12.0%	9.9%	10.7%	10.2%	14.6%	9.3%	12.4%	16.3%	18.6%	22.6%	24.8%
OCF Margin		80.0%	52.9%	137.2%	219.0%	159.5%	174.2%	168.6%	144.6%	152.0%	138.1%
		0.5%	-3.8%	16.3%	23.1%	5.9%	8.6%	7.6%	5.8%	8.1%	4.9%
YoY Growth											
Total Revenue		8.2%	-3.5%	9.0%	58.5%	4.0%	4.2%	4.2%	4.5%	4.7%	5.0%
Gross Profit		8.7%	-7.2%	26.9%	95.1%	10.1%	13.1%	12.2%	10.6%	13.2%	10.1%
EBITDA		-5.7%	-4.4%	15.3%	112.6%	-12.6%	23.8%	24.8%	16.0%	20.8%	13.7%
EBIT		-7.2%	-6.2%	14.5%	130.2%	-14.9%	26.1%	26.8%	16.1%	21.8%	13.7%
Net Profit		-10.9%	4.0%	4.0%	126.3%	-33.6%	38.5%	37.0%	19.5%	27.0%	15.5%
OpEx as % of Revenue											
COGS	74.9%	74.8%	75.7%	71.7%	65.2%	63.2%	60.0%	57.0%	54.4%	50.8%	48.3%
Advertising and Promotion	0.0%	0.0%	0.8%	0.7%	2.6%	4.5%	4.0%	3.5%	3.5%	3.0%	3.0%
SG&A	9.5%	8.9%	7.3%	10.6%	11.6%	13.0%	13.0%	12.0%	11.5%	11.0%	10.5%
OPEX as a % of Revenue	9.5%	8.9%	8.1%	11.3%	14.2%	17.5%	17.0%	15.5%	15.0%	14.0%	13.5%
Expense Analysis (% of Revenue)											
Capex/Revenue	6.1%	8.2%	4.6%	5.0%	7.6%	5.7%	7.0%	8.1%	9.1%	10.0%	10.7%
Liquidity Ratio											
Current Ratio	3.2	4.1	4.7	4.2	4.1	4.7	5.2	6.0	6.9	6.9	9.3
Quick Ratio	1.0	1.2	1.2	1.5	1.4	2.3	2.8	3.6	4.5	4.9	6.9
Cash Ratio	0.1	0.1	0.1	0.4	0.2	1.5	2.0	2.8	3.6	4.1	6.0
Efficiency Ratio											
Asset Turnover Ratio	1.4	1.4	1.1	1.1	0.6	0.6	0.6	0.6	0.5	0.5	0.5
Inventory Turnover Ratio	2.8	2.6	2.0	2.0	1.7	2.0	2.0	1.9	1.8	1.8	1.7
Inventory Days	130.7	141.2	182.0	181.4	219.7	180.1	186.2	192.1	197.9	208.3	214.6
Receivables Turnover Ratio	10.1	9.7	8.9	6.9	6.8	9.5	9.7	9.8	9.9	10.1	10.2
Receivables Days	36.1	37.7	41.2	52.6	53.9	38.3	37.8	37.2	36.8	36.3	35.8
Accounts Payable Turnover Ratio	8.7	11.1	9.3	9.4	7.6	7.8	7.4	7.1	6.8	6.4	6.2
Accounts Payable Days	42.1	32.9	39.2	38.9	48.0	47.0	49.1	51.2	53.4	56.9	59.3
Cash Conversion Cycle	124.6	145.9	183.9	195.0	225.6	171.4	174.9	178.1	181.3	187.7	191.1
Financial Leverage											
Debt to Equity Ratio	0.1	0.2	0.2	0.2	0.4	0.3	0.3	0.2	0.2	0.2	0.1
Debt to Capital Ratio	0.1	0.1	0.2	0.1	0.3	0.2	0.2	0.2	0.2	0.1	0.1
Debt to Asset Ratio	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Debt to EBITDA Ratio	0.4	0.5	0.7	0.6	1.6	1.8	1.5	1.1	0.9	0.8	0.6
Asset to Equity Ratio	1.4	1.4	1.4	1.4	1.6	1.6	1.5	1.4	1.4	1.3	1.3
Rate of Return											
Return on Equity	24.8%	18.5%	16.8%	15.4%	14.2%	8.6%	10.6%	12.7%	13.2%	14.4%	14.2%
Return on Assets	17.4%	13.4%	12.0%	11.0%	8.8%	5.5%	7.2%	9.0%	9.7%	11.0%	11.4%

Appendix D – Ingredient Solutions Comparable Companies

Ticker	Company Name	EV/EBITDA			EV/EBIT		
		LTM	FY+1	FY+2	LTM	FY+1	FY+2
Target Company							
NASDAQGS:MGPI	MGP Ingredients, Inc.	17.0x	15.3x	15.3x	19.9x	17.8x	17.8x
Comparable Companies							
LSE:TATE	Tate & Lyle plc	12.3x	11.6x	12.3x	16.9x	15.7x	15.7x
NYSE:CTVA	Corteva, Inc.	12.5x	14.8x	14.8x	19.1x	17.7x	17.7x
NasdaqGS:COCO	The Vita Coco Company, Inc.	71.7x	21.9x	21.9x	93.5x	30.4x	30.4x
NasdaqGS:STKL	SunOpta Inc.	23.3x	19.1x	19.1x	58.6x	71.8x	71.8x
NYSE:CHD	Church & Dwight Co., Inc.	17.3x	16.4x	16.4x	20.7x	20.1x	20.1x
NasdaqGS: CHEF	The Chefs' Warehouse, Inc.	15.8x	13.4x	13.9x	21.9x	20.1x	20.1x

Appendix E – Distillery Solutions Comparable Companies

Ticker	Company Name	EV/EBITDA			EV/EBIT		
		LTM	FY+1	FY+2	LTM	FY+1	FY+2
Target Company							
NASDAQGS:MGPI	MGP Ingredients, Inc.	17.0x	15.3x	15.3x	19.9x	17.8x	17.8x
Comparable Companies							
BIT:CPR	Davide Campari-Milano N.V.	18.9x	17.6x	17.6x	20.7x	20.6x	20.6x
NYSE:BF.B	Brown-Forman Corporation	24.3x	23.5x	23.5x	25.8x	25.1x	25.1x
LSE:DGE	Diageo plc	18.1x	16.0x	16.0x	19.4x	17.7x	17.7x
NYSEAM:SBEV	Splash Beverage Group, Inc.	-1.9x	35.9x	35.9x	-1.8x	39.9x	39.9x
TSX:BR	Big Rock Brewery Inc.	-8.9x	21.2x	21.2x	-5.2x	NM	NM
NYSE:SAM	The Boston Beer Company, Inc.	32.4x	21.4x	21.4x	71.1x	35.4x	35.4x

Appendix F – WACC Build-Up

Input	Rate	Remarks
Risk-free Rate	3.25%	US 10y treasury yield
Beta	0.95	Yahoo Finance
Equity Risk Premium	4.24%	Blended; Damodaran
Cost of Equity	**7.28%**	CAPM
Pre-Tax Cost of Debt	5.39%	
Corporate Tax Rate	27.00%	Blended; Damodaran
Cost of Debt	**3.93%**	
Market D/E	0.12	
% of Debt	10.85%	
% of Equity	89.15%	
WACC	**6.92%**	

Appendix G – Free Cash Flow to Firm (FCFF) Calculation

Unlevered Free Cash Flow Calculation	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	FY2026A	FY2027A
EBIT	53.9	50.1	47.2	54.9	125.1	108.2	135.0	169.7	196.1	237.5	268.7
EBIAT	39.4	36.6	34.5	40.1	91.3	79.0	98.5	123.9	143.1	173.4	196.1
Add: D&A	11.3	11.4	11.6	13.0	19.1	17.9	21.2	25.2	29.9	35.4	41.5
Less: Changes on Adj. NWC	(17.2)	(23.2)	(28.2)	(18.3)	(14.9)	57.8	(4.7)	(3.7)	(5.9)	(5.8)	(6.1)
Less: Capex	(21.1)	(31.0)	(16.7)	(19.7)	(47.4)	(37.2)	(47.2)	(57.2)	(67.2)	(77.2)	(87.2)
Free Cash Flow to Firm(FCFF)	12.4	(6.2)	1.2	15.0	48.1	117.5	67.8	88.2	100.0	125.8	144.3

Appendix H – DCF Valuation

Discounted Cash Flow		FY2022A	FY2023A	FY2024A	FY2025A	FY2026A	FY2027A
Valuation Date	24/10/2022						
Fiscal Year End	31/12/2022						
Free Cash Flow to Firm (FCFF)		117.5	67.8	88.2	100.0	125.8	144.3
Period (Including Stub Period)		0.2	1.2	2.2	3.2	4.2	5.2
Period incl Stub Period & Mid Year Discounting		0.1	0.7	1.7	2.7	3.7	4.7
Present Value of Adjusted FCFF		**116.7**	**64.8**	**78.8**	**83.5**	**98.3**	**105.5**

DCF Model Output	Perpetual Growth	Exit Multiple
Present Value of Cumulative FCFF	$547.6	$547.6
Present Value of Terminal Value	$2,449.1	$3,488.3
Implied Enterprise Value	**$2,996.7**	**$4,035.9**
Less: Debt	($273.0)	($273.0)
Less: Non-Controlling Interest	($0.5)	($0.5)
Add: Cash	$123.9	$123.9
Implied Equity Value	**2847.20**	**3886.39**
Implied Share Price	**$129.48**	**$176.73**
Upside	26.9%	73.3%

Current Share Price	$102.00

Terminal Value Computation

Perpetual Growth		
Terminal Growth Rate		2.50%
Terminal Year FCFF	144.3	
Terminal Value		3,350.37
Present Value of Terminal Value		$2,449.08

Exit Multiple	EBITDA
Exit Multiple	15.9x
Terminal Year EBITDA	310.20
Terminal Value	4934.22
Present Value of Terminal Value	**$3,488.27**

Appendix I – Pro-Forma Income Statement

Income Statement	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	FY2026A	FY2027A
Total Revenue	**347.4**	**376.1**	**362.7**	**395.5**	**626.7**	**651.8**	**678.9**	**707.8**	**739.7**	**774.5**	**813.0**
Cost of Goods Sold	(260.1)	(281.1)	(274.6)	(283.8)	(408.7)	(411.7)	(407.4)	(403.2)	(402.7)	(393.1)	(393.0)
Gross Profit	87.3	95.0	88.1	111.8	218.1	240.2	271.6	304.6	337.0	381.3	420.0
Operating Expenses											
Advertising and Promotion Expense	-	-	(2.8)	(2.7)	(16.1)	(29.3)	(27.2)	(24.8)	(25.9)	(23.2)	(24.4)
SG&A Expenses	(33.1)	(33.5)	(26.5)	(41.9)	(72.8)	(84.7)	(88.3)	(84.9)	(85.1)	(85.2)	(85.4)
Total Operating Expense	(33.1)	(33.5)	(29.3)	(44.6)	(88.9)	(114.1)	(115.4)	(109.7)	(111.0)	(108.4)	(109.8)
Non-operating Expenses/Income											
Non-Recurring Items	11.0	-	-	0.6	15.1	-	-	-	-	-	-
Total Expenses	(22.1)	(33.5)	(29.3)	(43.9)	(73.8)	(114.1)	(115.4)	(109.7)	(111.0)	(108.4)	(109.8)
EBITDA	**65.3**	**61.5**	**58.8**	**67.8**	**144.2**	**126.1**	**156.2**	**194.9**	**226.0**	**272.9**	**310.2**
Depreciation and Amortisation	(11.3)	(11.4)	(11.6)	(13.0)	(19.1)	(17.9)	(21.2)	(25.2)	(29.9)	(35.4)	(41.5)
EBIT	53.9	50.1	47.2	54.9	125.1	108.2	135.0	169.7	196.1	237.5	268.7
Interest Expense	(1.2)	(1.2)	(1.3)	(2.3)	(4.0)	(5.2)	(5.1)	(4.9)	(4.8)	(4.7)	(4.0)
EBT	52.8	49.0	45.9	52.6	121.1	103.0	129.9	164.7	191.3	232.9	264.7
Income Tax Expense	(10.9)	(11.7)	(7.1)	(12.3)	(30.3)	(42.4)	(45.9)	(49.7)	(53.8)	(58.2)	(63.0)
Net income to Company	**41.8**	**37.3**	**38.8**	**40.3**	**90.8**	**60.7**	**84.0**	**115.1**	**137.5**	**174.7**	**201.7**
Net income	41.8	37.3	38.8	40.3	91.3	60.7	84.0	115.1	137.5	174.7	201.7

Appendix J – Pro-Forma Balance Sheet

Balance Sheet	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	FY2026A	FY2027A
ASSETS											
Cash And Equivalents	3.1	5.0	3.3	21.7	21.6	123.9	171.7	244.8	332.8	453.5	581.5
Accounts Receivable	34.3	38.8	40.9	57.0	92.5	68.4	70.3	72.1	74.6	77.0	79.8
Other Receivables	2.0	0.7	1.0	0	5.5	2.5	2.4	2.3	2.2	2.1	2.0
Inventory	93.1	108.8	136.9	141.0	245.9	203.1	207.8	212.2	218.3	224.3	231.0
Prepaid Exp.	2.2	1.3	2.0	2.6	1.5	3.2	3.1	3.1	3.0	3.0	2.9
Total Current Assets	134.7	154.6	184.2	222.3	367.1	401.2	455.4	534.5	630.9	760.0	897.2
Net Property, Plant & Equipment	103.1	120.8	134.9	137.1	217.0	236.3	262.3	294.3	331.5	373.4	419.0
Long-term Investments	-	-	-	-	4.9	4.9	4.9	4.9	4.9	4.9	4.9
Goodwill	-	-	1.5	2.7	226.3	226.3	226.3	226.3	226.3	226.3	226.3
Other Intangibles	-	-	0.4	0.9	218.8	218.8	218.8	218.8	218.8	218.8	218.8
Deferred Charges, LT	-	-	-	-	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Other Long-Term Assets	2.5	2.5	1.6	3.5	5.8	4.8	4.8	4.8	4.8	4.8	4.8
Total Assets	**240.3**	**277.9**	**322.6**	**366.6**	**1,041.5**	**1,093.8**	**1,174.1**	**1,285.2**	**1,418.9**	**1,589.7**	**1,772.7**
LIABILITIES											
Accounts Payable	30.0	25.4	29.5	30.3	53.7	53.0	54.8	56.6	58.9	61.2	63.8
Accrued Exp.	11.2	11.7	7.1	18.6	29.0	23.0	23.6	24.1	24.9	25.6	26.5
Curr. Port. of LT Debt	0.4	0.4	0.4	1.6	3.2	5.6	6.4	6.4	6.4	22.0	5.9
Curr. Port. of Leases	-	-	2.2	2.1	2.9	2.9	2.4	1.8	1.4	1.1	0.1
Curr. Income Taxes Payable	-	-	-	0.7	-	-	-	-	-	-	-
Total Current Liabilities	41.6	37.5	39.3	53.3	88.8	84.5	87.2	89.0	91.6	110.0	96.3
Long-Term Debt	24.2	31.6	40.7	38.3	230.2	226.9	220.5	214.1	207.7	185.6	179.7
Long-Term Leases	-	-	4.3	3.1	7.0	6.2	6.3	7.3	7.5	7.5	8.6
Unearned Revenue, Non-Current	2.2	1.6	1.2	-	-	-	-	-	-	-	-
Pension & Other Post-Retire. Benefits	3.1	2.6	2.5	1.5	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Def. Tax Liability, Non-Curr.	-	1.7	1.9	2.3	66.1	66.1	66.1	66.1	66.1	66.1	66.1
Other Non-Current Liabilities	0.5	1.5	1.7	5.6	4.0	4.0	3.8	3.6	3.3	3.1	2.8
Total Liabilities	71.6	76.5	91.6	104.0	397.2	388.9	385.2	381.2	377.3	373.5	354.7
Common Stock	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7
Additional Paid In Capital	13.9	15.4	14.0	15.5	315.8	315.8	315.8	315.8	315.8	315.8	315.8
Retained Earnings	167.1	198.9	230.8	262.9	344.2	404.9	488.9	604.0	741.5	916.2	1,117.9
Treasury Stock	(18.7)	(19.4)	(20.2)	(23.1)	(22.4)	(22.4)	(22.4)	(22.4)	(22.4)	(22.4)	(22.4)
Comprehensive Inc. and Other	(0.3)	(0.2)	(0.2)	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Others	(0.0)	0.0	(0.1)	(0.0)	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Minority Interest	-	-	-	-	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Total Equity	168.7	201.4	231.0	262.5	644.3	704.9	788.9	904.0	1,041.5	1,216.2	1,418.0
Total Liabilities And Equity	**240.3**	**277.9**	**322.6**	**366.6**	**1,041.5**	**1,093.8**	**1,174.1**	**1,285.2**	**1,418.9**	**1,589.7**	**1,772.7**

Appendix K – Pro-Forma Cash Flow Statement

Cash Flow	FY2017A	FY2018A	FY2019A	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025A	FY2026A	FY2027A
Net Income	41.8	37.3	38.8	40.3	91.3	60.7	84.0	115.1	137.5	174.7	201.7
Depreciation & Amort.	11.3	11.4	11.6	13.0	17.5	17.9	21.2	25.2	29.9	35.4	41.5
Amort. of Goodwill and Intangibles	-	-	-	-	1.6	-	-	-	-	-	-
Depreciation & Amort., Total	11.3	11.4	11.6	13.0	19.1	17.9	21.2	25.2	29.9	35.4	41.5
(Gain) Loss On Sale Of Invest.	(11.4)	-	-	-	-	-	-	-	-	-	-
(Income) Loss on Equity Invest.	7.5	-	-	-	1.6	-	-	-	-	-	-
Stock-Based Compensation	2.6	3.1	3.3	3.0	5.6	-	-	-	-	-	-
Other Operating Activities	(3.4)	1.7	0.1	1.1	(9.9)	5.2	5.1	4.9	4.8	4.7	4.0
Change in Acc. Receivable	(8.3)	(4.5)	(2.1)	(16.2)	(6.0)	24.1	(1.9)	(1.8)	(2.4)	(2.4)	(2.7)
Change In Inventories	(14.3)	(15.6)	(28.2)	(3.9)	(14.2)	42.8	(4.7)	(4.4)	(6.1)	(6.0)	(6.7)
Change in Acc. Payable	6.2	(2.5)	2.1	1.8	5.3	(0.7)	1.8	1.8	2.3	2.3	2.6
Change in Unearned Rev.	(0.8)	(0.6)	-	-	-	(1.7)	0.1	0.1	0.1	0.1	0.1
Changes in Accrued Expense	-	-	-	-	-	(6.0)	0.6	0.5	0.8	0.7	0.8
Changes in Operating Lease	-	-	-	-	-	(0.8)	(0.3)	0.3	(0.2)	(0.2)	0.1
Changes in Non/Current Liabilities	-	-	-	-	-	-	(0.2)	(0.2)	(0.2)	(0.3)	(0.3)
Change in Inc. Taxes	0.7	1.3	(0.3)	1.8	(6.2)	-	-	-	-	-	-
Change in Other Net Operating Assets	1.5	2.0	(5.6)	12.4	1.8	4.1	0.1	0.1	0.1	0.1	0.1
Cash from Ops.	33.4	33.5	19.7	53.2	88.3	145.6	105.6	141.7	166.4	209.0	241.2
Capital Expenditure	(21.1)	(31.0)	(16.7)	(19.7)	(47.4)	(37.2)	(47.2)	(57.2)	(67.2)	(77.2)	(87.2)
Sale of Property, Plant, and Equipment	-	-	-	2.9	-	-	-	-	-	-	-
Cash Acquisitions	-	-	-	(2.8)	(149.0)	-	-	-	-	-	-
Invest. in Marketable & Equity Securt.	22.8	-	-	-	(1.5)	-	-	-	-	-	-
Other Investing Activities	-	-	(1.2)	(0.1)	15.2	-	-	-	-	-	-
Cash from Investing	1.7	(31.0)	(17.9)	(19.7)	(182.7)	(37.2)	(47.2)	(57.2)	(67.2)	(77.2)	(87.2)
Total Debt Issued	45.9	29.0	37.4	54.7	443.6	-	-	-	-	-	-
Total Debt Repaid	(57.2)	(21.6)	(28.5)	(56.2)	(331.4)	-	-	-	-	-	-
Net Change in Old Debt	-	-	-	-	-	(0.8)	(5.6)	(6.4)	(6.4)	(6.4)	(22.0)
Repurchase of Common Stock	(4.7)	(2.3)	(5.5)	(4.4)	(0.8)	-	-	-	-	-	-
Common Dividends Paid	(2.7)	(5.4)	(6.8)	(8.1)	(9.9)	-	-	-	-	-	-
Special Dividend Paid	(14.2)	-	-	-	-	-	-	-	-	-	-
Other Financing Activities	(0.9)	(0.1)	(0.1)	(1.2)	(7.1)	(5.2)	(5.1)	(4.9)	(4.8)	(4.7)	(4.0)
Cash from Financing	(33.8)	(0.4)	(3.5)	(15.2)	94.4	(6.0)	(10.7)	(11.4)	(11.2)	(11.1)	(26.0)
Net Change in Cash	1.5	1.9	(1.7)	18.4	(0.1)	102.4	47.7	73.1	88.0	120.7	128.0
Beginning Cash Balance	1.6	3.1	5.0	3.3	21.7	21.6	123.9	171.7	244.8	332.8	453.5
Ending Cash Balance	3.1	5.0	3.3	21.7	21.6	123.9	171.7	244.8	332.8	453.5	581.5

Appendix L – Sum-of-the-Parts (SOTP) Relative Valuation

Sum-of-the-Parts (SOTP) Valuation

Current Share Price (USD)	102.98

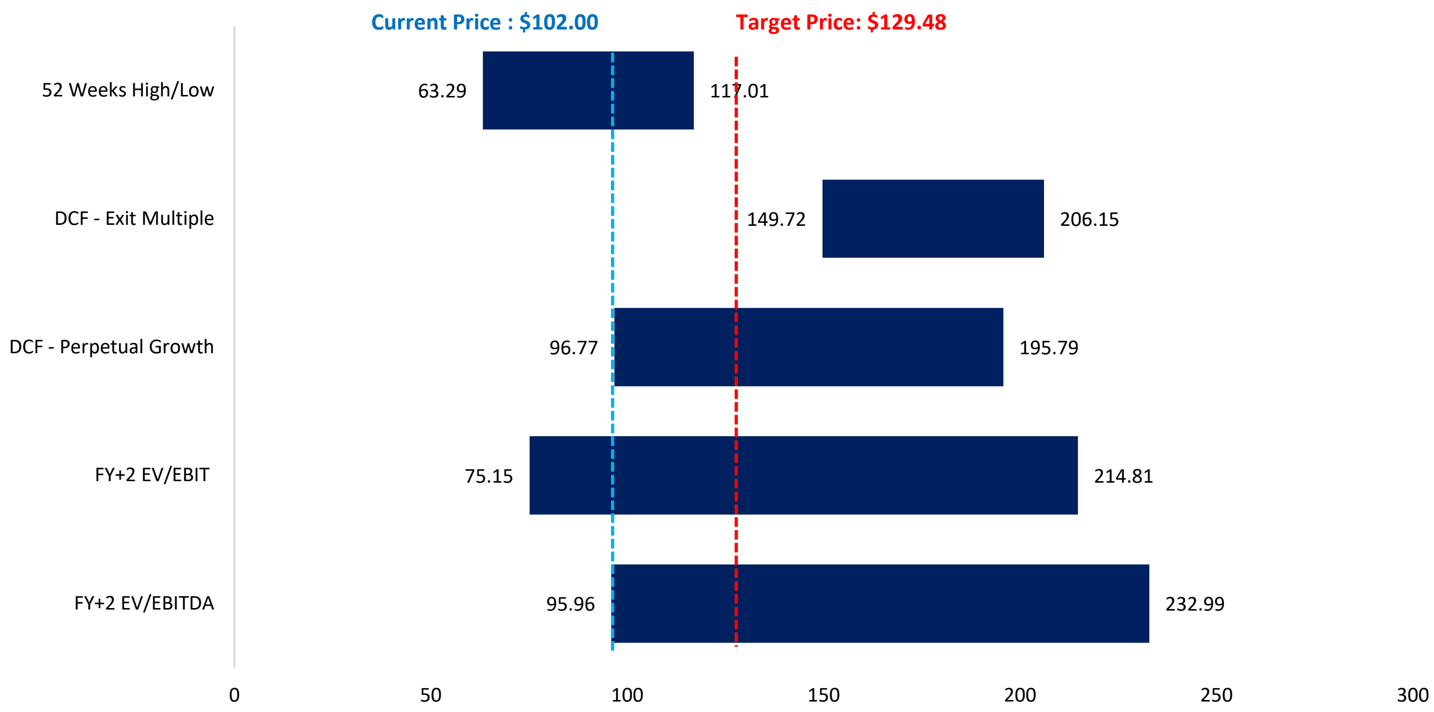
FY + 2 EBITDA	156.15
FY + 2 EBIT	108.23

	2023E Revenue	% of Revenue	FY+2 EBITDA	FY+2 EBIT
Distillery Product	572.82	84.37%	131.74	91.31
Ingredient Solutions	106.13	15.63%	24.41	16.92
Total	**678.95**	**100.00%**	**156.15**	**108.23**

FY+2 EBITDA	Min	25th Percentile	Mean	Median	75th Percentile	90th Percentile	Max
Distillery							
Multiple	15.6x	15.9x	20.8x	19.4x	21.9x	27.2x	35.9x
Implied EV	**2058.1**	**2092.1**	**2746.5**	**2557.0**	**2885.6**	**3584.6**	**4726.2**
Ingredient Solutions							
Multiple	7.8x	10.2x	13.8x	12.4x	16.4x	19.7x	21.9x
Implied EV	**189.40**	**249.78**	**335.88**	**302.75**	**401.51**	**479.98**	**534.56**
Total Implied EV	**$2,247**	**$2,342**	**$3,082**	**$2,860**	**$3,287**	**$4,065**	**$5,261**
Add: Cash	95.3	95.3	95.3	95.3	95.3	95.3	95.3
Less: Debt	232.6	232.6	232.6	232.6	232.6	232.6	232.6
Implied Equity Value	**2110.2**	**2204.6**	**2945.1**	**2722.5**	**3149.8**	**3927.3**	**5123.4**
Shares O/S	21.99	21.99	21.99	21.99	21.99	21.99	21.99
Implied Share Price	**$95.96**	**$100.26**	**$133.93**	**$123.81**	**$143.24**	**$178.59**	**$232.99**
Upside/(Downside)%	**-6.82%**	**-2.64%**	**30.05%**	**20.22%**	**39.10%**	**73.43%**	**126.25%**

FY+2 EBIT	Min	25th Percentile	Mean	Median	75th Percentile	90th Percentile	Max
Distillery							
Multiple	17.7x	20.6x	27.8x	25.1x	35.4x	38.1x	39.9x
Implied EV	**1619.3**	**1880.3**	**2535.7**	**2295.6**	**3236.5**	**3482.6**	**3646.7**
Ingredient Solutions							
Multiple	10.1x	15.2x	23.9x	17.7x	20.1x	38.7x	71.8x
Implied EV	**170.47**	**257.43**	**403.90**	**299.00**	**339.50**	**654.72**	**1214.26**
Total Implied EV	**$1,790**	**$2,138**	**$2,940**	**$2,595**	**$3,576**	**$4,137**	**$4,861**
Add: Cash	95.3	95.3	95.3	95.3	95.3	95.3	95.3
Less: Debt	232.6	232.6	232.6	232.6	232.6	232.6	232.6
Implied Equity Value	**1652.5**	**2000.5**	**2802.3**	**2457.3**	**3438.7**	**4000.0**	**4723.6**
Shares O/S	21.99	21.99	21.99	21.99	21.99	21.99	21.99
Implied Share Price	**$75.15**	**$90.97**	**$127.43**	**$111.75**	**$156.37**	**$181.90**	**$214.81**
Upside/(Downside)%	**-27.03%**	**-11.66%**	**23.75%**	**8.51%**	**51.85%**	**76.64%**	**108.59%**

Appendix M – Football Field Analysis



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