The Owl Fund
William C. Dunkelberg Student Managed Fund

Initiating Coverage Report | 7 February 2024

MGP Ingredients, Inc. (MGPI)

We've Got All The Right Ingredients!

	Downside Scenario	Current Price	Price Target	Upside Scenario
Price	$66.00	$84.52	$108.00	$128.00
Return	*(22.0%)*		*27.8%*	*51.3%*

- Shares of MGPI have sold off as distilled spirits companies cut their FY'24 guidance, citing slower consumer spending concerns and macroeconomic volatility. Additionally, the higher interest rate environment has elevated holding costs for craft and multinational distillery customers, which has caused the Company to delay its payment collections, increasing DSO. In 2H'23, GLP-1 headlines also lowered industry valuations as investors feared the drugs' long-term implications.
- MGPI holds a unique position within the spirits industry, given the Company has already contracted 75.0% of FY'24 sales for its Distilling Solutions business, providing clear visibility. Moreover, a majority of its multi-year, fixed-price contracts are up for renegotiations, allowing MGPI to increase prices given robust whiskey demand amidst a supply-demand imbalance. The Atchison distillery closure in Jan'24 will increase gross margins for FY'24, allowing MGPI to focus more on brown goods.
- The recent bolt-on acquisition of Penelope Bourbon, a premium American whiskey and tequila company, will help MGPI grow its Branded Spirits segment. The acquisition has seen triple-digit growth and continues to expand its distribution points through the Company's national distribution network. Management intends to acquire another accretive company with similar qualities to Penelope Bourbon in CY'24.
- Regardless of the broader spirits industry, our team views MGPI as best-positioned to outperform given robust pricing power and demand alongside its aggressive growth strategy. The Company trades at a (25.7%) and (21.3%) discount to its one-year NTM P/E and EV/EBITDA medians, respectively. Through our DCF and multiples analyses, our team forecasts a 27.8% return, implying $108.00/share.

COMPANY OVERVIEW

MGP Ingredients, Inc. (MGPI) is a leading producer of distilled spirits, branded spirits, and food ingredients. Distilled spirits include premium whiskeys and tequilas, as well as grain neutral spirits (GNS). The Company sells its distilled spirits to manufacturers of other branded spirits and to distributors for its own portfolio of goods. MGPI also sells ingredients for consumer packaged goods (CPG). The Company reports its revenue through three segments: Distilling Solutions (52.8% of 3Q'23 revenue), Branded Spirits (31.6%), and Ingredient Solutions (15.6%). MGPI operates nine facilities in the U.S., one in the U.K., and one in Mexico. The Company reports FY'23 earnings on February 22nd.

Symbol	NASDAQ: MGPI
52-Week Range	$81.11 – $124.96
YTD Performance	(13.9%)
Market Cap (M)	$1,860
Net Debt (M)	$301.3
Dividend Yield	0.6%
NTM P/E	13.6x
NTM EV/EBITDA	10.0x
ROE	12.7%
ROA	7.9%
ROIC	9.3%

FY (Dec)	2022A	2023E	2024E
EPS (Adj.)			
Q1	1.69	1.39	1.50
YoY Change		*(17.8%)*	*7.9%*
Q2	1.15	1.49	1.59
YoY Change		*29.6%*	*6.7%*
Q3	1.06	1.34	1.54
YoY Change		*26.4%*	*14.9%*
Q4	1.01	1.35	1.49
YoY Change		*33.6%*	*10.4%*
Year	4.91	5.57	6.12

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INVESTMENT SUMMARY

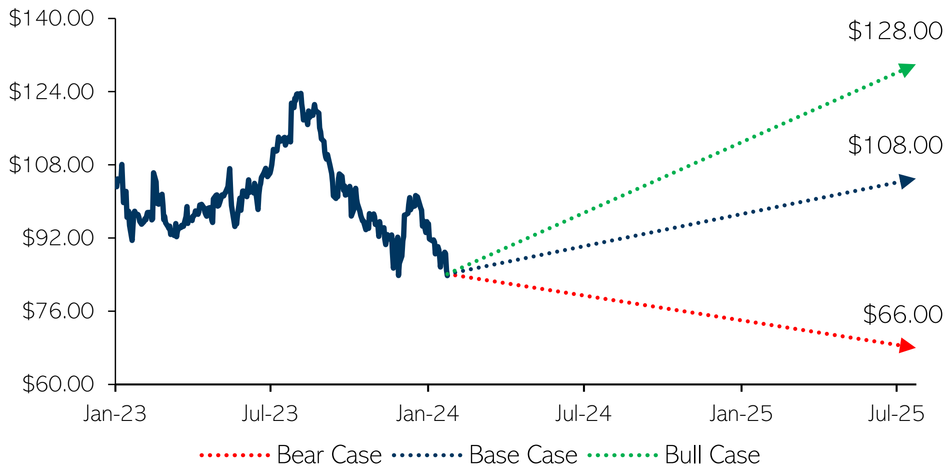
Headquarters
Atchison, KS

Chief Executive Officer
David Bratcher

Number of Employees
690 (as of FY'22)

GICS Classification
Consumer Staples

GICS Sub-Industry
Food Beverage & Tobacco



PRICE TARGET SCENARIOS

Bull Case Price Target: $128.00

12-18 Month Target Return: +51.3%

Revenue grows at HSD% between FY'25 – FY'27, allowing MGPI to outpace the broader spirits industry. Though normalization will bring long-term whiskey growth to MSD%, increasing distribution points for Penelope will help reach untapped demand. Another acquisition with Penelope's accretive growth characteristics will occur in 2H'24, further expanding the Branded Spirits reach. We factor in higher SG&A due to staffing from an acquisition. For Distilling Solutions, robust demand provides strong pricing power for contract negotiations. Brown goods and premium plus see greater-than-anticipated demand, allowing consolidated EBITDA margins to grow at a 12.5% CAGR between FY'22 – FY'27, with YoY growth skewed in FY'24 following the Atchison distillery closure. With significant EBITDA generation ahead, MGPI will maintain a net leverage ratio below 2.0x despite engaging in M&A.

Base Case Price Target: $108.00

12-18 Month Target Return: +27.8%

The Company sees revenue grow MSD% between FY'25 – FY'27, in line with the spirit industry's long-term growth. Consolidated top-line will benefit from favorable contract price negotiations for brown goods in FY'24. The demand from craft spirits and multinational customers also remains, though we conservatively factor in some contract breakage from small craft customers. Distilling Solutions revenue will remain below FY'23 levels throughout our projection period as the Atchison closure reduced white goods and industrial alcohol sales significantly. However, the margin expansion story remains a focus, as consolidated EBITDA grows at a 9.1% CAGR between FY'22 – FY'27. Premium plus benefits from Penelope's increased distribution points, and our team models in no acquisitions.

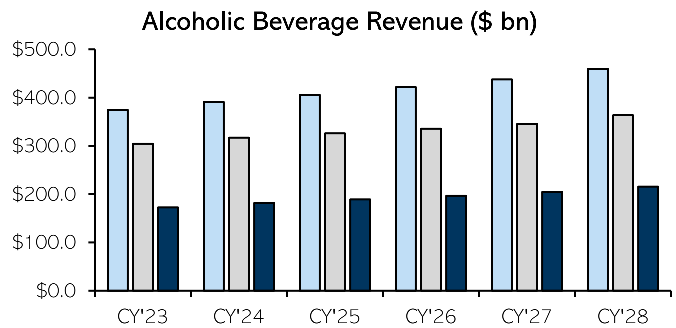
Bear Case Price Target: $66.00

12-18 Month Target Return: (22.0%)

MGPI significantly underperforms on all fronts as revenue grows at a 0.7% CAGR between FY'22 – FY'27. The Atchison distillery closure sees complications, and contract renegotiations are underpriced for brown goods. As a result, gross margins do not reach pro-forma expectations within the projection period. Consolidated EBITDA margins fail to gain momentum beyond 22.8% in FY'25 as Penelope loses its growthy nature amidst significant trade downs and shifting consumer preferences. With slower demand, inventory investments remain constrained, limiting future EBITDA generation as the Company's distillate business depends on laying down inventory in advance.

INDUSTRY OVERVIEW

That's the Spirit!



Source: Statista

Spirits have gained traction in recent years, commanding 42.1% of market share in the alcoholic beverage industry over beer's 41.9%. This growth was attributed to a change in consumer preferences toward premium brands, ready-to-drink cocktails, and health-conscious products. The outlook remains favorable, with U.S. spirits revenue slated to grow at a 4.2% CAGR by CY'28, reaching $459.7 bn. In comparison, revenue for U.S. beer is projected to grow at a 2.0% CAGR to $363.4 bn, while U.S. wine revenue is expected to reach $215.7 bn at a 4.6% CAGR. As a result, alcoholic beverage companies have taken initiatives to increase exposure to spirits through innovation and M&A. For example, in Aug'23, Molson Coors acquired whiskey-maker Blue Run Spirits, as beer consumption volumes continued to decline. The adoption of inorganic growth initiatives emphasizes the need for businesses to expand and innovate to sustain price increases.

Within the industry, craft spirits have been a target for M&A activity. Craft spirits are handcrafted and produced by a small distillery, utilizing locally sourced ingredients to emphasize quality. The quality ingredients used in craft spirits appeal to consumers, as 70.0% rate taste as the most important factor. Moreover, the localized presence of craft spirits causes customers to feel a sense of connection with the distillery. According to the International Wine and Spirits Record (IWSR), craft spirits will reach 12.0% of market share in the industry by CY'24, from 10.0% in CY'23.

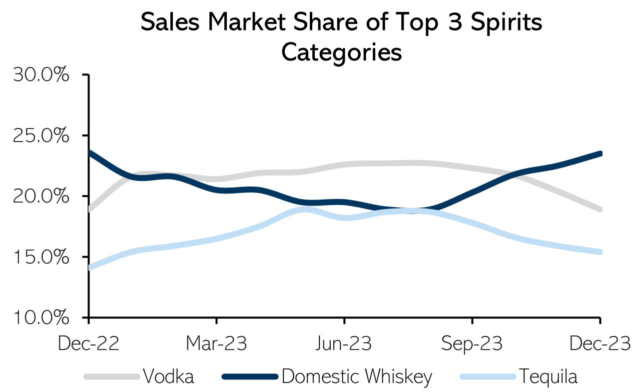
Don't Be Afraid of These Spirits

The distilled spirits industry includes many players, such as Brown-Forman (BF), Diageo (DEO), and Pernod Ricard (PRNDY), who all market a portfolio of branded alcoholic beverages. However, not all companies produce their own spirits. The process of producing and aging distillates is CapEx-intensive, forcing companies to build facilities and lay down product for years. Many beverage companies view the maintenance requirements as unfavorable for their long-term initiatives. Moreover, during a high-rate environment, third-party contract manufacturing appears more attractive to avoid high rent payments and capital constraints. Therefore, many branded spirits companies purchase supplies from distilleries such as MGPI and Bardstown Bourbon. From there, the purchased goods are either sold under their own brand or aged for flavoring in company-owned barrels. Given the lack of premium distillate sellers and tight supply-demand dynamics in certain parts of the industry, distilleries have experienced substantial demand.

Ol Glass Moment

Strong post-pandemic consumption of alcoholic beverages fueled CY'22 sales. To meet robust demand, retailers ordered high volumes of beer, wine, and spirits. However, as consumption began to moderate, orders continued. Visibility was clouded amidst the extensive supply chain and unpredictable consumer spending habits. Companies felt the consequences of inventory gluts through CY'23 as distributor and consumer destocking pressured shipments. For example, Constellation Brands (STZ) saw its Wine and Spirits sales fall (6.0%) in its 1Q'24 earnings due to distributor inventory balancing actions, while an oversupply of inventory for MGPI's Yellowstone brand resulted in Premium Plus revenue falling (14.0%) in 1Q'23. To combat the long-term effects of destocking, Managements are focused on realigning distributor inventories. CY'24 will see the benefits through a favorable YoY comparison and improving supply chain visibility. BF, DEO, and MGPI all claim that destocking will not affect sales, while companies like PRNDY maintain a cautionary tone. In CY'24, most companies expect shipments and depletions to remain in line with historical pre-pandemic levels, indicating normalized volumes. However, to avoid further supply-demand imbalance headwinds, prominent players will prioritize balancing inventory with distributor shipments. Companies with greater sales visibility will fare better in aligning supply with demand for their customers.

Can I Get'uh Jack and Coke



Source: NABCA and TD Cowen

The largest spirits categories are American whiskey, vodka, and tequila, which hold 23.5%, 18.9%, and 15.4% in dollar share, respectively. American whiskey and tequila were propelled by premiumization, with consumers gravitating toward higher-quality, expensive alcoholic beverages. Additionally, the recent popularity of craft distillates has led whiskey demand to outpace supply, causing a shortage. The tight supply-demand imbalance leaves more room for distilleries to hike prices, allowing them to expand margins. Aged distillate especially benefits, as its price increases by ~30% for each year aged. In CY'22, American whiskey and tequila revenue grew 10.5% and 17.2% to $6.0 bn and $5.1 bn, respectively. This trend has continued as both categories have experienced tremendous growth, taking market share from vodka over the past seven months. Factors contributing to the shift toward American whiskey and tequila include product diversity and strong brand affinity. For example, tequila sales were driven by high-end brands like Casamigos, which grew 16.0% YoY in FY'23. Product diversity has enabled brands to establish a comprehensive hierarchy based on qualities such as age, origin, flavor, and price points. American whiskey offers broad flavors, which are differentiated based on the wood used for storing the spirit. Differentiation in categories like vodka comes from adding flavorings because the spirit is flavorless.

Come On Down, The Price is Right!

While the definition of premium is ambiguous for each company, the IWSR labels price points above $22.50 as premium. Premium products offer several price tiers spanning from Premium to Prestige Plus. American whiskey and tequila are among the most expensive spirits, with an average price of $21.00 and $27.30 per 750mL, respectively, compared to $16.00 for the average spirit. Despite higher price points, premium spirits are growing faster than the broader industry, led by contributions from American whiskey and tequila. Premium and above-premium spirits revenue grew 4.0% and 7.0% YoY, respectively, in CY'23. Conversely, value and mid-priced spirits sales growth remained flat in CY'23, following sequential periods of deceleration in CY'22 and CY'21 as consumers refused to trade down. Premiumization has driven demand for distillate producers, enabling strong pricing power. Moreover, premium spirits have higher margins, prompting distilleries to expand their product portfolios to capture market share. Distilleries will continue benefitting from premiumization, as 24.0% of consumers plan to spend more on-premise in CY'24, demonstrating a willingness to pay for a premium drink while enjoying an in-person experience.

Recession Proof?

Alcoholic beverages fall under staples due to their relatively inelastic demand despite the economic environment. According to Goldman Sachs, spirits volumes in the U.S. have shown little correlation to economic growth. Furthermore, a Cambridge study found that during recessionary periods, average gross alcohol consumption experienced no symmetric reduction. During economic downturns, consumers prefer to drink liquor, given its more affordable compared to traditional big-ticket items, while also providing an enjoyable experience. Exemplifying the effect, the Distilled Spirits Council reported U.S. liquor sales rose 2.8%, buoyed by whiskey primarily in premium price points, which grew 4.3% YoY in CY'08. While alcoholic beverage demand does not fluctuate drastically during recessions, consumers opt away from purchasing alcohol at on-premise sites, such as bars and restaurants, to off-premise sites like liquor stores. This trend occurs because alcoholic beverages are cheaper at liquor stores, where consumers can buy in bulk. However, spirits are more resilient given the more affluent customer base. 43.0% of consumers that prefer spirits earn $100.0k or more in household income, compared to 32.0% for beer. Within the spirits industry, whiskey favors higher-income individuals, as 44.0% of consumers have a household income of at least $100.0k. Tequila skews toward lower-income customers, with 38.0% of individuals earning $100.0k or more.

BUSINESS OVERVIEW

MGPI manufactures and supplies distilled spirits, branded spirits, and food ingredients. The Company sells its products in more than 49 countries. However, less than 10.0% of MGPI's sales are international. The Company reports revenue through three segments: Distilling Solutions (52.8% of 3Q'23 revenue), Branded Spirits (31.6%), and Ingredient Solutions (15.6%). Historically, MGPI trades in line with the performance of its Penelope Bourbon and Luxco acquisitions, as well as its Distilling Solutions business. Additionally, investors have benchmarked the Company to its Branded Spirits peers, given a lack of publicly traded competitors for its Distilling Solutions segment.

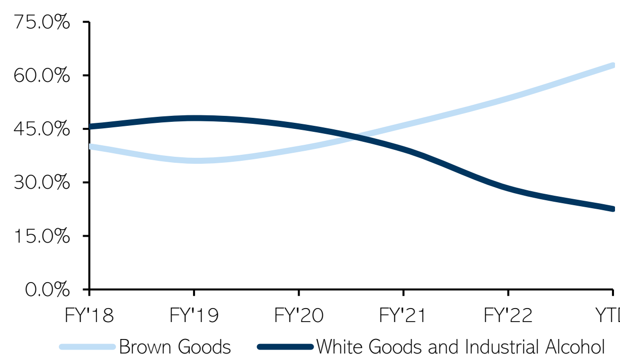
MGPI's business model requires heavy investments in inventory for its spirits. The Company holds barrels of distillate in facilities and warehouses in anticipation of future demand. This strategy centers around a need to time demand with supply, given its aged distillates require put-away (aging) for around four years before customers purchase them. Additionally, MGPI supplies its Luxco and Penelope Bourbon acquisitions with distillate to sell under Branded Spirits. As a result, the Company's finished goods (ready-for-sale products) and barreled distillate (bourbons, ryes, and other whiskeys) inventories have grown at CAGRs of 23.5% and 20.3%, respectively, between FY'17 – FY'22.

Distilling Solutions

The Company processes corn, rye, and wheat flour into food grade alcohol and distillery co-products. Accounting for the largest portion of distillery capabilities, these products compete based on characteristics, price, functionality, and flavor. For packaging, MGPI uses both new and used oak barrels, which hold the flavoring for the distilled spirit.

MGPI's food grade alcohol for beverage applications (78.5% of 3Q'23 Distilling Solutions revenue) includes brown goods and GNS. Known for its brown-colored appearance, brown goods are sold as aged and unaged distillates, whereas colorless GNS are sold in bulk quantities. Brown goods are primarily manufactured in the Company's Lawrenceburg facility, which is a top-five American whiskey producer, as well as one of the largest suppliers of rye whiskey in the U.S. MGPI's Atchison distillery is one of the largest suppliers of GNS and industrial alcohol. In Jul'24, the Company announced that its Atchison distillery would close in Jan'24 due to an oversupply of GNS and the lower relative gross margin profiles of these products.

Brown Goods vs. White Goods and Industrial Alcohol



Source: Company Financials

Food grade industrial alcohol (13.5%) is used as an ingredient in foods, such as food flavorings and vinegar. The segment also provides use cases for personal care products, cleaning solutions, and pharmaceuticals. MGPI's main distillery co-products include distillers feed and corn oil, which are derived from the mash from alcohol processing operations. Distillers feed is sold to processors of animal feed as a high protein additive. Its fuel grade alcohol is sold for blending with gasoline to increase its oxygen levels, which helps blenders meet environmental laws. Lastly, the Company provides warehouse services (6.6%), which include barrel put-away, storage, retrieval, and blending.

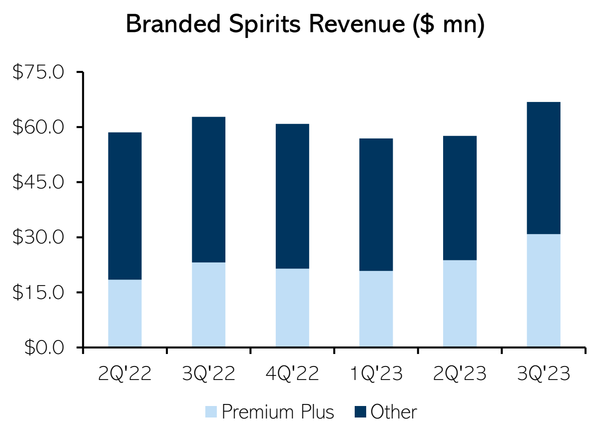
MGPI negotiates contracts for its Distilling Solutions business at least a year in advance. The Company mostly enters bill and hold agreements, in which it produces and sells its distillates to customers. After the contract is formed, the products are barreled at the customer's request. The distillates are then shipped to a company facility in accordance with the customer's instructions for location and duration. Contract revenue is recognized when the customer obtains control of the product after all specifications are met. Customer contracts are typically annual or multi-year. These agreements are either subject to pricing negotiations when nearing expiration or priced based on the spot market. Within the Distilling Solutions segment, MGPI has over 750 new and aged distillate customers. Additionally, its customer base is not concentrated, as its top five largest customers account for 16.0% of its consolidated sales. Though Management does not disclose its customers, tracking distillate consumption and orders indicates demand.

Branded Spirits

MGPI sells its own portfolio of branded spirits, which are marketed at various price points: ultra premium, super premium, premium, mid, value, and other. Revenue for this segment is derived from selling its products and providing contract bottling services. The most significant input costs for Branded Spirits are corn and other grains, as well as agave. Packaging is comprised of oak barrels, glass bottles, polyethylene terephthalate (PET), and aluminum cans. Some of its distributors are Republic National Distributing Company (one of the largest beverage alcohol distributors in the U.S.), as well as Major Brands and Allied Beverage Group. Since entering the branded spirits industry, the Company has significantly expanded its sales and distribution network to have reach across all 50 states in the U.S.

- Luxco Acquisition: In Apr'21, MGPI acquired Luxco for $475.0 mn, marking the beginning of its Branded Spirits segment. Luxco is a leading provider, bottler, and marketer of beverage alcohol products through its diverse portfolio of brands, such as Ezra Brooks, Yellowstone, and Rebel Yell. Since MGPI's acquisition of Luxco, its sales under Branded Spirits have grown to $56.9 mn as of 1Q'23, prior to its acquisition of Penelope Bourbon.

- Penelope Bourbon Acquisition: In Jun'23, MGPI completed its acquisition of Penelope Bourbon, which increased its scale and market position in the Branded Spirits sector. Penelope Bourbon was a customer of MGPI in its Distilling Solutions segment. Penelope has four core expressions: Four Grain, Barrel Strength, Architect, and Toasted Series, as well as limited series releases such as its Cooper Series, Private Select, and Founders Reserve lines. Penelope Bourbon sources its distillate from the Company's Distilling Solutions segment. Penelope Bourbon's branded spirits are bottled and sold from the Lawrenceburg distillery.



Source: Company Financials

These brands cater to the Company's acquisition strategy of American whiskey and tequila. MGPI is focusing on its premium plus (46.2% of 3Q'23 segment sales) portfolio growth, which includes premium price points and higher.

Ingredient Solutions

This segment primarily consists of specialty wheat starches, specialty wheat proteins, commodity wheat starches, and commodity wheat proteins. The primary raw material is wheat flour, which the Company processes into starches and proteins. In recent years, the Company has shifted its focus toward higher-margin specialty wheat products. MGPI's five largest customers for its Ingredients Solutions segment accounted for 11.0% of its consolidated sales.

- MGPI's specialty wheat starches (52.2% of 3Q'23 segment revenue) are sold globally to food distributors and processors. These ingredients are modified for special food applications, which include improving taste, texture, appearance, and nutritional profile. Specialty wheat starches are marketed under the trademarks Fibersym Resistant Starch series and FiberRite RW Resistant Starch. Both products are FDA-approved dietary fibers, which are sold to industrial bakers and pasta makers to use in their low-carb, low-calorie baked goods.

- The Company's specialty wheat proteins (34.7%) include Arise and Proterra, both of which are non-GMO project verified. These proteins are sold to food processors and distributors, competing with other ingredients and modified proteins. Its specialty wheat proteins are primarily differentiated by price, functionality, and flavor.

- Commodity wheat starches (12.8%) have both food and non-food applications. These ingredients generally compete with other commodity starches, such as corn starches and tapioca. Commodity wheat protein (0.3%) is marketed under the name Proterra. Commodity wheat proteins are added to baked goods, processed meats, and poultry to improve the nutritional content, texture, and strength of products. These commodity ingredients have seen a lower focus from Management given the specialty ingredients have higher margins and use cases.

UNDERVALUATION

The Plan

Industry-wide concerns have caused MGPI's one-year NTM P/E and EV/EBITDA multiples to trade at (25.7%) and (21.3%) discounts to their respective medians. Our team believes investors are overreacting to peers' guidance, normalizing category growth, GLP-1 drug headlines, and a higher transitory days sales outstanding (DSO). We view MGPI as an attractive opportunity to enter an aggressive distilled spirits name and strengthen the Staples portfolio.

Fallen Foreman

Shares of MGPI sold off (9.1%) as BF reported poor 1H'24 earnings, with its U.S. and Developed International Markets posting a (5.0%) and (2.0%) decline in sales, respectively. A mixed outlook on inventory management and consumer spending prompted BF to lower its FY'24 sales growth by (2.0%). BF sold off (10.4%) following the news, but investors misplaced fears of uncertain supply chain visibility and a distilled spirits slowdown on MGPI.

- Our team sees MGPI's sell-off as unjustified given BF's guidance cut partially relates to its company-specific need to rebuild distributor inventory levels. BF's Management cited difficulty in replenishing and rebuilding its supply chain for spirits, leading to lower anticipated sales than expected. However, MGPI has completed its destocking and replenishment cycle following clouded supply chain dynamics from post-pandemic spending. 1Q'23 and 2Q'23 saw the bulk of destocking for MGPI, so FY'24 will see a favorable setup for YoY shipments.
- Sales visibility remains clear for MGPI through its Distilling Solutions segment. The Company primarily generates revenue based on multi-year fixed-price contracts, and MGPI has already contracted 75.0% of its brown goods sales for FY'24 in 3Q'23. We believe these commitments parallel robust demand, as craft spirits and multinational customers would not purchase future distillate if consumer demand waned. Additionally, the current whiskey shortage will benefit MGPI as customers must lock in agreements to guarantee secured supply.
- The alcoholic beverage industry is normalizing to pre-pandemic LSD% growth. However, distilled spirits will see MSD% growth, outpacing beer. American whiskey and tequila also continue to steal share from other categories. MGPI's Branded Spirits focuses on premium plus optimization within these favored categories. Our team expects premium plus to comprise 62.0% of segment sales in FY'25, compared to 35.7% in FY'22. MGPI's premium plus strategy will provide resiliency by catering to an insulated, higher-income customer base.

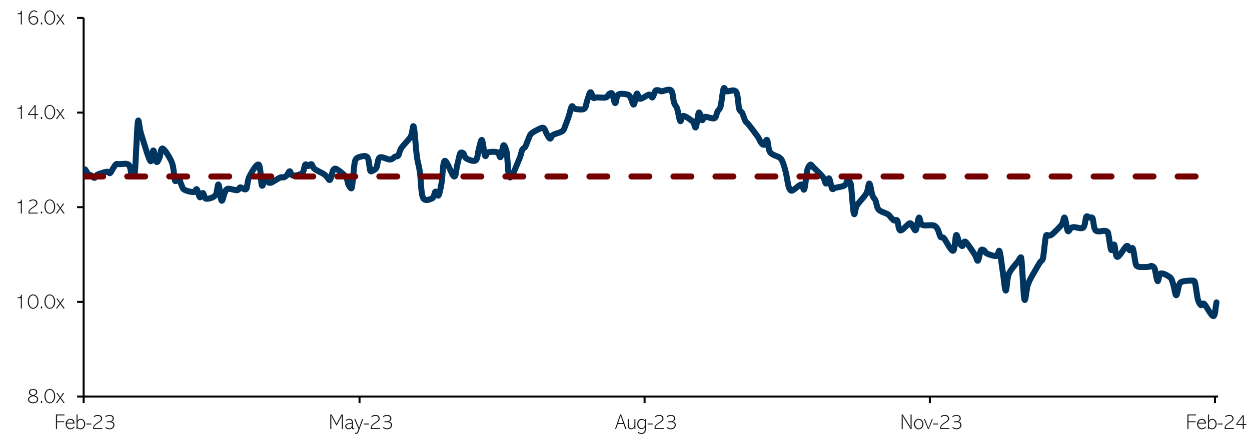
Happy & Healthy

The F&B industry saw multiples contract following headline risks of weight-loss drugs. Our team recognizes the long-term impact on the sector, but short-term reactions have unjustly altered MGPI's multiple. GLP-1 drugs lack widespread adoption to warrant near-term concerns. Additionally, Management stated that the drugs have not impacted financial performance, nor will they likely affect long-term performance. Industry concerns largely apply to high-sugar and high-carb products, which will have a more pronounced, long-term effect on beer and snacks. Moreover, MGPI's Ingredient Solutions business prioritizes specialty wheat starches and proteins. These ingredients comprised 86.9% of 3Q'23 segment revenue and cater toward plant-based, low-calorie food. Our team sees MGPI's spirits and ingredients as best positioned to withstand long-term GLP-1 headwinds, warranting a multiple re-rating.

Long-term Relationships

Management cited near-term challenges for inventory among its small craft customers. The higher-for-longer interest rate environment has increased holding costs, prompting customers to extend payment terms. Though the short-term impact on MGPI's DSO is unfavorable, our team views the decision to temporarily increase its DSO as beneficial to maintain strong customer relationships. More importantly, Management stated that customers remain committed to contracted shipments, so demand and total revenue remain unchanged. Our team believes investors should recognize the increase in DSO as a transitory headwind until interest rate cuts projected through CY'24 materialize. Until rate cuts manifest, only a smaller portion of the Company's craft customers remain affected, since the majority of contractual agreements service larger craft and multinational customers, who have continued to remain resilient.

MGPI One-Year NTM EV/EBITDA



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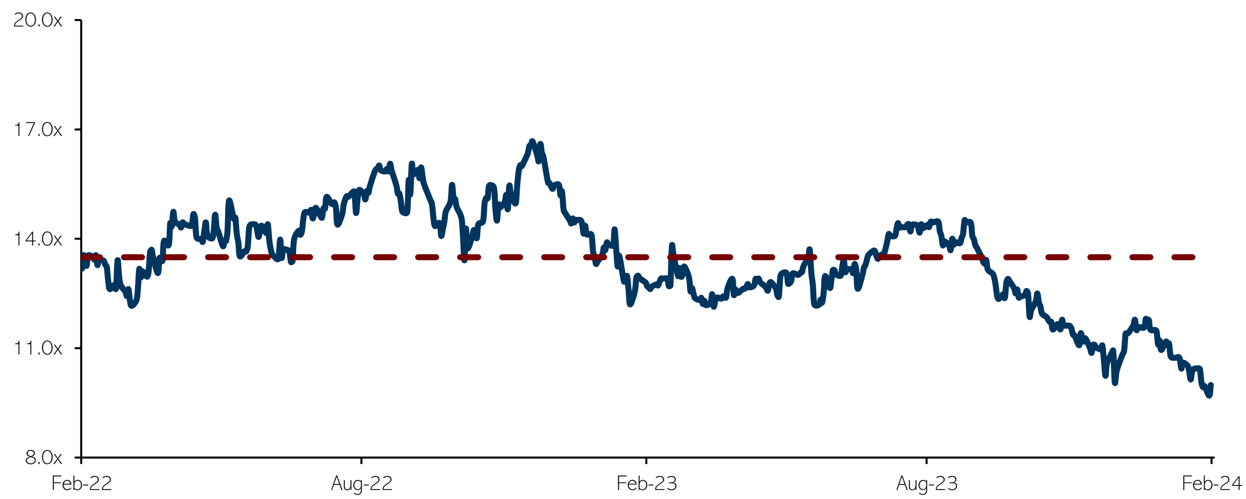

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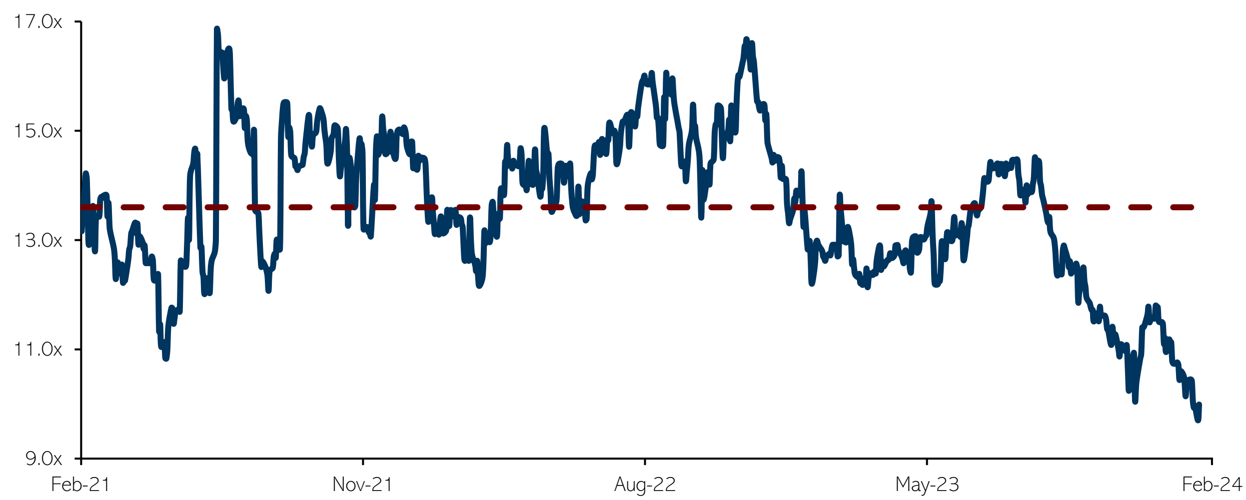


Source: FactSet

CATALYSTS & DRIVERS

Lux(i)o, I Choose You!

Historically, MGPI only sold its products to manufacturers, limiting access to margin upside from selling its own portfolio to distributors. However, in 2Q'21, the Company entered the branded spirits industry through its acquisition of Luxco. The deal allowed MGPI to enter the fragmented industry with branded spirits expertise, providing a higher-margin growth opportunity alongside its core distilling business. The deal was valued at $475.0 mn (~2x annual revenue) and included Luxco's diversified portfolio of whiskeys, bourbons, and tequilas. Investors appreciated the newly-formed Branded Spirits segment, with shares rallying 11.3% after 2Q'21 earnings provided insight into Luxco.

Since then, Luxco has underperformed growth expectations, as the acquisition fails to generate more than ~$60k in revenue per quarter. Our team sees little room for the acquisition's top-line growth, attributing its shortcoming to a diversified portfolio of value (23.6% of 1Q'23 segment revenue) and mid (36.7%) price points. As a result of industry premiumization trends, consumers have traded up from lower-priced SKUs, causing Luxco's volumes to decline by (9.1%) YoY in Dec'23. However, by no means is Luxco a failed acquisition. Our team views the acquisition as a benefit to future M&A activity, given Luxco has a nationwide distribution network and has experience in branded spirits. Additionally, we see margin expansion potential as Luxco continues to phase out lower-priced SKUs in alignment with the Company's premium plus strategy. As a result, gross margins for the Branded Spirits segment grew from 30.5% in 2Q'21 to 43.2% in 1Q'23, and Luxco's price/mix increased by 4.7% MoM in Dec'23.

Tasty Penelope

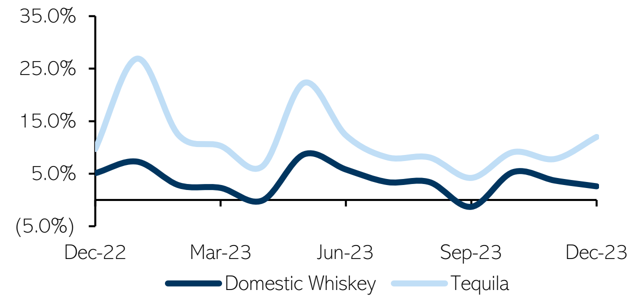
Following the Luxco acquisition, MGPI realigned its Branded Spirits M&A strategy to focus on high-growth American whiskey and tequila companies with premium plus portfolios. This strategy materialized in Mar'23 as MGPI announced its acquisition of Penelope Bourbon, a domestic bourbon company founded in CY'18. Penelope's portfolio caters to ultra premium (78.0%) and super premium (22.0%) prices, aligning with MGPI's price/mix focus.

- The deal was priced at $105.0 mn, with an additional payout of $110.8 mn through CY'25 if undisclosed performance goals are met. This structure implies a ~10x revenue valuation, in line with precedent transactions like Campari's purchase of Wilderness Trail Distillery. $98.0 mn of MGPI's $400.0 mn revolver was used to fund the acquisition, but investors welcomed the steep purchase price as shares rallied 4.1% following the news. Additionally, integration finished within a month as Penelope was an existing distillate customer of MGPI.
- Our team sees Penelope perfectly complementing the Branded Spirits segment given its high exposure to domestic whiskey and tequila, which have been stealing market share from other spirits categories. The acquisition continues to see triple-digit YoY sales growth with the help of MGPI's national distilling network and experience from Luxco. Penelope was accretive to 2Q'23 as Branded Spirits gross margins posted a record quarterly high of 45.1%, and we attribute a majority of the 7.5% share rally to the acquisition's success.
- Penelope continued its strong performance in 3Q'23, as its first full quarter helped MGPI reach a new quarterly record revenue for Branded Spirits. Our team attributes most of the segment's 6.0% YoY growth to Penelope, with ultra premium sales increasing 46.0% YoY. Management stated that the acquisition exceeded expectations in 3Q'23, which our team believes will continue in FY'24 as distribution points expand from 30 states in 2Q'23 to 37 states by CYE'23. We see Penelope reaching this goal through MGPI's national expertise.

MGPI's success with Penelope indicates a favorable M&A strategy. Our team expects Management to scale Penelope to 45 – 50 states by CYE'24 as the Company outlined an interest in growing its distribution points. Additionally, we see Penelope's growth continuing through FY'24, as the acquisition saw 125.0% sales growth in Oct'23 YoY. Given Management's focus on accretive M&A, our team expects another high-growth, bolt-on American whiskey and tequila acquisition. We also believe Management will purchase an existing customer to ensure a smooth integration process. Investors will appreciate future M&A activity as inorganic initiatives will allow MGPI to outpace the spirits industry. Given the speculative nature of an unidentified M&A opportunity, our base case assumes no acquisition, with increased distribution for Penelope driving a 7.1% revenue CAGR between FY'22 – FY'27 for Branded Spirits.

Let's Go for a (Price) Hike

Dollar Sales YoY Growth



Source: TD Cowen

Most of MGPI's Distilling Solutions contracts follow multi-year agreements, with prices fixed until renegotiations occur. Our team believes Management has missed out on price realization benefits since spirits demand has grown significantly in the last three years. Supply was unable to meet demand, and the whiskey shortage led to price hikes on the spot market. As a result, MGPI's fixed-price contracts were unable to capture the upside opportunity. However, in Dec'23, Management told Truist Securities that MPGI successfully renegotiated expiring contracts with higher prices through CY'23, and we believe MGPI will continue seeing favorable pricing for its contracts throughout CY'24.

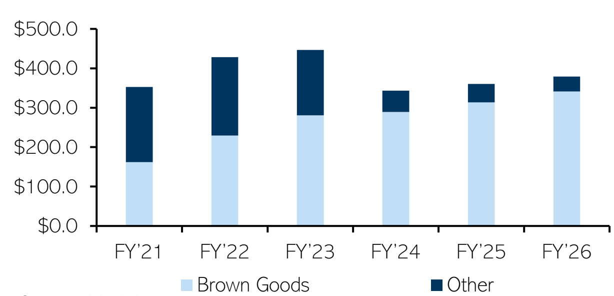
MGPI's strong pricing power will allow for gross margin benefits throughout our investment horizon, which is partially captured in our FY'24 consolidated gross margin forecast of 42.2%. Additionally, customers have increasingly requested multi-year agreements given the robust demand for aged distillate amidst a whiskey shortage. Management intends to transfer most of its spot price contracts for aged distillate to multi-year agreements in the long-term. In the past, these fixed contracts hurt the Company's ability to capture upside. However, the transition to fixed-price contracts will help protect pricing when more supply entering the market, which would reduce spot prices in the long-term. Additionally, multi-year contracts provide greater sales visibility, which investors appreciate.

Out with the Old, in with the New

In recent years, an oversupply in the market for white goods and industrial alcohol, as well as higher input costs, hampered gross margins coming from MGPI's Atchison distillery. In FY'22, gross margins for white goods and industrial alcohol decreased (16.0%) due to the unfavorable environment. The distillery was tied to an ingredients facility, which provided a waste starch stream as an input for white goods production. As a result, Management could not directly address the negative margin headwind until a plan to decouple the two facilities and handle the waste starch stream was formed. After a year, a solution was found as Management announced the planned closure of its Atchison distillery slated for Jan'24. The Company identified third parties who would use its waste starch stream at no cost to MGPI in FY'24, addressing the main problem with decoupling. Until then, MGPI continued to significantly reduce production of white goods and industrial alcohol, which saw a (30.0%) YoY decrease in 3Q'23.

Excluding the Atchison distillery, MGPI's 3Q'23 pro-forma demonstrated an increase in gross margins of 620 bps to 41.5%. The closure will result in an aggregate expense of \$23.0 – \$31.0 mn, with \$18.3 mn of CapEx charges seen in 3Q'23. Consequently, MGPI's net income decreased (45.0%) in the quarter. Management noted that the majority of these expenses have been realized in 3Q'23, with additional one-time costs for severance and equipment sales expected in subsequent quarters. Given these one-time expenses have been largely accounted for, the Atchison closure will immediately benefit Distilling Solutions, helping boost consolidated gross margins in 1Q'24 to 41.8%. Additionally, the Atchison distillery closure supports Management's ongoing gross margin expansion efforts. The shift away from white goods and industrial alcohol will allow the Company to capitalize on its higher-margin brown goods. We expect brown goods as a percentage of segment sales to increase throughout our investment horizon, which is consistent with Management's goal to prioritize the higher-margin category. We expect this growth to stem from new customer commitments and robust demand for aged distillate amidst the ongoing supply shortage.

Distilling Solutions Revenue ($ mn)



Source: Model

RISKS TO INVESTMENT THESIS

Trade Up, Trade Down, Trade All Around Town

Premiumization has been a prevalent trend throughout the alcoholic beverage industry. However, a softer consumer spending outlook provides a challenging backdrop to outperform. Certain categories have experienced weak demand, even in American whiskey, which has been the largest beneficiary of premiumization. For example, Jack Daniels is now underperforming its lower-cost competitor, Jim Beam, exemplifying recent trade downs. At the end of Nov'23, core Jim Beam revenue growth outpaced Jack Daniels by 3.8%. BF, the owner of Jack Daniels, cited a slowdown in consumer spending as the reason for its deceleration. Moreover, companies in the spirits industry expect a normalization in volumes, which will align with pre-pandemic levels. As the industry reverts to MSD% growth and consumer spending declines, the distilled spirits industry will likely realize a moderation in revenue throughout CY'24. While MGPI has not seen notable trade downs from premium spirits, a deterioration in the macroeconomic environment exposes the Company to the same headwinds that led to peers cutting their guidance.

- *Mitigant:* While peers expect normalized volumes, Management noted that the Company has already locked in 75.0% of its brown goods contracts for CY'24, much of which is for new distillate. New distillate orders represent longer-term whiskey demand because customers must lay the product down to age. Customers would not purchase orders at the same rate if the downturn is expected to hinder their performance. Additionally, the Company has historically seen no materially-significant contract breakage. Heading into CY'24, MGPI has already seen demand for its FY'25 contracts, demonstrating resilient demand for its distillate goods.
- *Mitigant:* MGPI has displayed strong momentum in its premium-priced products, which grew 33.0% YoY in 3Q'23. Heading into CY'24, the Company plans on increasing marketing expenses toward premium products, translating to more volume. Additionally, with its enhanced distribution points for Penelope, Branded Spirits volume will grow. Consequently, MGPI remains best positioned among peers to withstand recent trade downs.

In our bear case, we modeled a decline in revenue and adjusted diluted EPS of (12.7%) and (29.1%), respectively, in FY'24. This decline signifies an erosion of MGPI's pricing power as consumers trade down.

Input Costs Go Brrr

As a distillery, MGPI's input costs primarily consist of corn, wheat flour, and natural gas. Throughout CY'22 and CY'23, the cost of its inputs has risen due to geopolitical tensions and a constrained supply following the pandemic. For example, in 3Q'23, MGPI saw input costs for wheat flour and natural gas increase by 24.0% and 30.0%, respectively. Additionally, peers mentioned that rising input costs have hindered margin expansion initiatives. Throughout CY'23, MGPI has offset risk by transferring the higher costs onto its customers. However, with a portion of customer sales occurring on the spot market, MGPI's ability to counteract elevated input costs by raising prices could prove difficult. While commodity costs have declined over the past year, uncertainty regarding supply-demand relationships has indicated that input costs could rise. As a result, MGPI's margin expansion initiatives are vulnerable.

- *Mitigant:* MGPI engages in futures contracts to offset any fluctuations in the prices of commodities used to produce its distillates. Furthermore, the Company purchases its input costs against the contracts it receives for products. Despite offering its customers distillate through the spot market, a majority is contracted in advance.
- *Mitigant:* The most recent wheat harvest in Argentina yielded 15.1 mn tons, a 25.0% increase YoY, due to more favorable weather conditions compared to CY'22. As a result, wheat prices have substantially dropped to below $6.00 a bushel. Increasing competition following the removal of China export bans, as well as an elevated supply of wheat, restrain the price of wheat. Additionally, corn prices have plummeted from highs of $6.00 per bushel in Apr'22 to $4.77 in Feb'24 due to increases in U.S. production. Finally, natural gas prices have declined due to record production in CY'23, averaging $2.73 per MMBtu. In CY'24, natural gas prices are expected to remain stagnant with forecasts between $2.60 – $2.70 per MMBtu given excess storage inventories, limiting upward pressures. Given declining prices, we do not expect MGPI to face input headwinds.

In our bear case, we modeled an (8.7%) decline in gross profit for FY'24, displaying elevated input costs.

PEER GROUP ANALYSIS

Brown Forman (BF) manufactures, distills, bottles, exports, markets, and sells a variety of alcoholic beverage products. BF has a portfolio of over 40 spirit, ready-to-drink cocktails, and wine brands. Some of its brands include Jack Daniel, and Old Forester. The Company reports revenue in the following segments: Whiskey (68.9% of 2Q'23 revenue), Ready-to-drink (11.1%), Tequila (8.0%), Wine (5.9%), Vodka (2.3%), Non-Branded and Bulk (2.2%), and Rest of Portfolio (1.6%).

Pernod Ricard (PRNDY) is a manufacturer of wines, spirits, and non-alcoholic beverages, ranging from premium to luxury, with a recent focus on ready-to-drink cocktails. PRNDY sells its products in 75 countries and is highly acquisitive, closing four acquisitions in FY'24. It reports revenue in three segments: Americas (28.2% of 1Q'24 revenue), Asia and Rest of World (43.7%), and Europe (28.1). Some of its notable brands include Absolut Vodka, Jameson, and Cognac.

Diageo (DEO) is a global leader in the alcoholic beverage industry, selling a portfolio of over 200 brands. DEO sells its products in nearly 180 countries. The Company reports its revenue geographically through five segments: North America (42.6% of FY'23 revenue), Europe (19.8%), Asia Pacific (17.8%), Latin America and Caribbean (9.4%), and Africa (10.4%). The Company's notable brands include Guinness, Smirnoff, Captain Morgan, Hennessy, Bicardi, and Casamigos.

Primary Peer Group

		Market	Enterprise	Sales		EPS		EBITDA Margin		Profit Margin		Enterprise Value / EBITDA		Enterprise Value / Sales		Price / Earnings	
	Ticker	Cap	Value	LTM	2023E	LTM	2023E	LTM	2023E	LTM	2023E	LTM	2023E	LTM	2023E	LTM	2023E
MGP Ingredients, Inc.	MGPI	$1,870	$2,170	7.2%	5.8%	(17.2%)	13.3%	21.8%	23.5%	12.2%	14.9%	11.8x	11.1x	2.6x	2.6x	18.9x	15.1x
Brown-Forman Corporation	BF	26,360	29,097	3.3%	2.9%	(12.0%)	24.3%	31.0%	33.1%	18.3%	22.3%	22.1x	20.2x	7.1x	6.7x	35.2x	27.2x
Pernod Ricard SA	PRNDY	38,623	49,896	13.4%	(0.3%)	14.6%	(1.4%)	28.5%	30.8%	18.6%	18.2%	13.3x	13.4x	4.1x	4.1x	17.4x	17.5x
Diageo plc	DEO	63,800	81,659	7.4%	(3.9%)	1.9%	(8.9%)	32.3%	33.1%	19.7%	20.3%	13.8x	15.0x	4.9x	5.0x	19.6x	19.1x
High		$63,800	$81,659	13.4%	5.8%	14.6%	24.3%	32.3%	33.1%	19.7%	22.3%	22.1x	20.2x	7.1x	6.7x	35.2x	27.2x
Mean		32,663	40,706	7.8%	1.1%	(3.2%)	6.8%	28.4%	30.1%	17.2%	18.9%	15.3x	14.9x	4.7x	4.6x	22.8x	19.7x
Median		32,492	39,497	7.3%	1.3%	(5.0%)	6.0%	29.8%	32.0%	18.4%	19.2%	13.6x	14.2x	4.5x	4.5x	19.3x	18.3x
Low		1,870	2,170	3.3%	(3.9%)	(17.2%)	(8.9%)	21.8%	23.5%	12.2%	14.9%	11.8x	11.1x	2.6x	2.6x	17.4x	15.1x

Company		General Statistics			Returns Analysis			2022A Leverage Analysis			2022A Coverage Analysis			Liquidity Profile		Credit Profile	
								Total Debt /									
	Ticker	Tax Rate	Beta	Dividend Yield	ROIC	ROE	ROA	Cap	EBITDA	Equity	EBITDA / Int. Exp.	(EBITDA - Capex)/Int.	EBIT / Int. Exp.	Quick Ratio	Current Ratio	S&P	Outlook
MGP Ingredients, Inc.	MGPI	22.3%	0.78	0.6%	10.8%	12.8%	7.8%	0.2x	1.4x	0.3x	32.1x	23.8x	27.3x	1.53	4.31	0	0
Brown-Forman Corporation	BF	23.0%	0.78	1.6%	15.5%	24.0%	10.4%	0.5x	2.2x	0.9x	15.0x	13.0x	13.7x	1.13	3.51	A-	Stable
Pernod Ricard SA	PRNDY	22.2%	0.45	3.1%	9.6%	13.8%	5.7%	0.4x	3.2x	0.7x	13.5x	10.9x	12.0x	0.54	1.73	BBB+	Stable
Diageo plc	DEO	20.5%	0.32	2.8%	15.8%	36.4%	8.6%	0.7x	3.0x	1.9x	6.5x	5.2x	6.0x	0.57	1.63	A-	Stable
High		23.0%	0.78	3.1%	15.8%	36.4%	10.4%	0.7x	3.2x	1.9x	32.1x	23.8x	27.3x	1.53	4.31		
Mean		22.0%	0.58	2.0%	12.9%	21.8%	8.1%	0.4x	2.4x	1.0x	16.8x	13.2x	14.7x	0.94	2.79		
Median		22.3%	0.61	2.2%	13.1%	18.9%	8.2%	0.4x	2.6x	0.8x	14.2x	12.0x	12.8x	0.85	2.62		
Low		20.5%	0.32	0.6%	9.6%	12.8%	5.7%	0.2x	1.4x	0.3x	6.5x	5.2x	6.0x	0.54	1.63		

VALUATION ANALYSIS

Base Case Assumptions

In FY'24, revenue falls as the Atchison distillery closure reduces white goods and industrial alcohol sales from 28.0% of Distilling Solutions revenue to 4.0%. We assume consolidated top-line will grow MSD% between FY'25 – FY'27, fueled by favorable contract pricing renegotiations, Penelope performance, and Ingredients Solutions slowing from DD% growth to HSD%. Our team models in rising SG&A and A&P expenses as the Company expands its staff and media presence to ensure quality service. Though operating costs rise, a focus on brown goods and premium plus sales will cause MGPI's consolidated EBITDA margins to grow from 23.0% in FY'23 to above 28.5% through the projection period. Other figures to note include CapEx and inventory investments. We see facility expansions and one-time expenses elevating CapEx, so we modeled a reversion from $71.5 mn in FY'24 to historical levels of ~$55 mn as costs dissipate. Inventory investments also remain historically lower due to the Atchison facility closure.

DCF & Multiples Analyses

Turning to the model, our team opted for an equal-weight valuation methodology amongst the exit multiple, NTM EV/EBITDA, NTM P/E, and perpetuity growth methods. An 11.7x EBITDA multiple was assigned to reflect an opportune exit point. The NTM EV/EBITDA received the same implied multiple following a (7.5%) discount to the one-year median, which we believe is fair given the industry has been normalizing from post-pandemic peaks. The discount was similarly applied to the NTM P/E valuation, with our team seeing room for the Company to beat and raise adjusted diluted EPS moving through FY'24. Lastly, we view FCF generation as strong and steady following margin acceleration in FY'24. We applied a 2.25% perpetuity growth rate since our team sees whiskey and tequila growth normalizing as the industry becomes mature. FCF growth will still outpace the 2.0% long-term inflation rate.

Exit Multiple Method:	
Terminal Year EBITDA:	$262,489.0
Exit Multiple:	11.7 x
Terminal Value:	3,071,121
PV of Terminal Value:	2,414,757
PV of Stage 1 Cash Flows	419,858
Implied Enterprise Value:	$2,834,615
(+) Cash & Equivalents:	28,030
(-) Preferred Stock:	0
(-) Total Debt:	(316,677)
(-) Pension Obligations:	0
(-) Non-Controlling Intere:	1,404
(-) Capital Leases:	0
Implied Equity Value:	$2,547,372
Diluted Shares O/S:	22,381.5
Implied Share Price:	$113.82
% Return:	*34.7%*

EV/EBITDA	
Current Multiple	9.9x
Historical Average	12.6x
Premium/(Discount)	*(21.4%)*
Premium Applied to Historical	*(7.5%)*
Implied Multiple	11.7x
NTM EBITDA	$225,847
Implied Enterprise Value	$2,639,587
(+) Cash & Equivalents	28,030
(-) Preferred Stock	0
(-) Total Debt	(316,677)
(-) Pension Obligations	0
(-) Non-Controlling Interests	1,404
(-) Capital Leases	0
Implied Market Cap	$2,352,344
Shares Outstanding	$22,382
Implied Price Target	$105
% Return	*24.4%*

Perpetuity Growth (PGR) Method	
Terminal Year FCF:	$129,008
PGR:	2.3%
Terminal Value:	2,832,463
PV of Terminal Value:	2,227,106
PV of Stage 1 Cash Flow:	419,858
Implied Enterprise Value:	$2,646,963
(+) Cash & Equivalents:	28,030
(-) Preferred Stock:	0
(-) Total Debt:	(316,677)
(-) Pension Obligations:	0
(-) Non-Controlling Intere	1,404
(-) Capital Leases:	0
Implied Equity Value:	$2,359,720
Diluted Shares O/S:	22,381.5
Implied Share Price:	$105.43
% Return:	*24.7%*

Price/Earnings	
Current Multiple	13.6x
Historical Average	18.5x
Premium/(Discount)	*(26.3%)*
Premium Applied to Historical	*(7.5%)*
Implied Multiple	17.1x
NTM EPS	$6.35
Implied Price Target	$108
% Return	*28.3%*

Returns Profile			
	Methodology	Implied PT	Implied Return
	DCF		
25.0%	*Exit Multiple*	*$113*	*33.9%*
25.0%	*Perpetual Growth Rate*	*$105*	*24.7%*
	Historical Multiples		
25.0%	*NTM P/E*	*$108*	*28.3%*
25.0%	*NTM EV/EBITDA*	*$105*	*24.4%*
	Blended Average	*$108*	*27.8%*
	Weighted Average	*$108*	*27.8%*

Discounted Cash Flow	2020	2021	2022	1Q23	2Q23	3Q23	4Q23e	2023e	2024e	2025e	2026e	2027e
Revenue	$395,521.0	$626,720.0	$782,358.0	$201,010.0	$209,001.0	$211,624.0	$206,696.8	$828,331.8	$774,055.3	$821,436.4	$870,477.5	$921,065.5
EBITDA	66,941.0	145,233.0	170,139.0	46,458.0	49,300.0	43,949.0	50,922.5	190,629.5	232,506.5	240,672.9	249,907.1	262,489.0
EBIT	54,241.0	126,363.0	148,965.0	41,559.0	44,143.0	19,839.0	44,233.1	167,668.1	202,828.3	208,234.1	214,485.7	224,740.0
Income Tax Benefit (Expense)	(12,256.0)	(30,279.0)	(31,300.0)	(9,655.0)	(10,804.0)	(4,373.0)	(10,358.2)	(35,190.2)	(47,973.3)	(49,411.4)	(51,060.4)	(54,502.3)
NOPAT (EBIAT)	$41,985.0	$96,084.0	$117,665.0	$31,904.0	$33,339.0	$15,466.0	$33,874.9	$132,477.9	$154,855.0	$158,822.8	$163,425.2	$170,237.7
% YoY Growth		*128.9%*	*22.5%*					*12.6%*	*16.9%*	*2.6%*	*2.9%*	*4.2%*
Depreciation & Amortization				5,171.0	5,319.0	5,782.0	6,689.3	22,961.3	29,678.2	32,438.8	35,421.5	37,749.0
Stock-Based Compensation				1,215.0	2,422.0	2,014.0	1,967.1	7,618.1	7,366.6	7,817.5	8,284.2	8,765.7
Capital Expenditures				(16,237.0)	(13,818.0)	(12,007.0)	(16,535.7)	(58,597.7)	(71,480.7)	(59,554.1)	(56,581.0)	(55,263.9)
Goodwill Impairment				-	-	-	-	-	-	-	-	-
(Increase)/Decrease in Working Capital				(37,857.0)	(36,061.0)	(8,215.0)	11,415.6	(70,717.4)	(20,068.0)	(35,733.6)	(27,716.0)	(26,733.6)
(Increase)/Decrease in LT Items				-	-	-	(226.2)	(226.2)	(3,608.9)	(4,345.7)	(4,997.5)	(5,747.1)
Unlevered Free Cash Flow				($15,804.0)	($8,799.0)	$3,040.0	$37,185.0	$33,516.1	$96,742.4	$99,445.7	$117,836.5	$129,007.8
% YoY Growth									*188.6%*	*2.8%*	*18.5%*	*9.5%*
Discountable Unlevered Free Cash Flow				$0.0	$0.0	$0.0	$37,185.0	$37,185.0	$96,742.4	$99,445.7	$117,836.5	$129,007.8
Full-Year Discount								*0.10*	*1.10*	*2.10*	*3.10*	*4.10*
Mid-Year Discount								*0.05*	*0.60*	*1.60*	*2.60*	*3.60*
Discount Factor								*1.00*	*0.96*	*0.90*	*0.84*	*0.79*
Present Value of Future Free Cash Flow								$37,061.0	$92,942.2	$89,366.6	$99,051.9	$101,436.1
% Growth									*150.8%*	*(3.8%)*	*10.8%*	*2.4%*

Implied Share Price

Exit Multiple		9.7x	10.7x	11.7x	12.7x	13.7x
WACC	5.4%	$100.57	$110.27	$119.98	$129.68	$139.38
	6.2%	$97.93	$107.39	$116.85	$126.30	$135.76
	6.9%	$95.37	$104.59	$113.82	$123.04	$132.26
	7.7%	$92.90	$101.89	$110.88	$119.87	$128.86
	8.4%	$90.49	$99.26	$108.03	$116.80	$125.58

Perpetuity Growth Rate		1.3%	1.8%	2.3%	2.8%	3.3%
WACC	5.4%	$91.80	$100.54	$111.15	$124.32	$141.09
	6.2%	$89.38	$97.90	$108.25	$121.08	$137.43
	6.9%	$87.04	$95.34	$105.43	$117.95	$133.88
	7.7%	$84.77	$92.87	$102.70	$114.91	$130.45
	8.4%	$82.57	$90.47	$100.06	$111.96	$127.12

NTM P/E		15.1x	16.1x	17.1x	18.1x	19.1x
EPS	$5.08	$76.60	$81.68	$86.76	$91.83	$96.91
	$5.71	$86.18	$91.89	$97.60	$103.31	$109.02
	$6.35	$95.75	$102.10	$108.44	$114.79	$121.14
	$6.98	$105.33	$112.31	$119.29	$126.27	$133.25
	$7.62	$114.90	$122.52	$130.13	$137.75	$145.36

NTM EV/EBITDA		9.7x	10.7x	11.7x	12.7x	13.7x
EBITDA	$180,678	$65.37	$73.44	$81.51	$89.59	$97.66
	$203,263	$75.15	$84.23	$93.31	$102.39	$111.47
	$225,847	$84.92	$95.01	$105.10	$115.19	$125.28
	$248,432	$94.70	$105.80	$116.90	$128.00	$139.10
	$271,017	$104.47	$116.58	$128.69	$140.80	$152.91

Implied % Return

Exit Multiple		9.7x	10.7x	11.7x	12.7x	13.7x
WACC	5.4%	19.0%	30.5%	41.9%	53.4%	64.9%
	6.2%	15.9%	27.1%	38.2%	49.4%	60.6%
	6.9%	12.8%	23.8%	34.7%	45.6%	56.5%
	7.7%	9.9%	20.5%	31.2%	41.8%	52.5%
	8.4%	7.1%	17.4%	27.8%	38.2%	48.6%

Perpetuity Growth Rate		1.3%	1.8%	2.3%	2.8%	3.3%
WACC	5.4%	8.6%	19.0%	31.5%	47.1%	66.9%
	6.2%	5.8%	15.8%	28.1%	43.3%	62.6%
	6.9%	3.0%	12.8%	24.7%	39.5%	58.4%
	7.7%	0.3%	9.9%	21.5%	36.0%	54.3%
	8.4%	(2.3%)	7.0%	18.4%	32.5%	50.4%

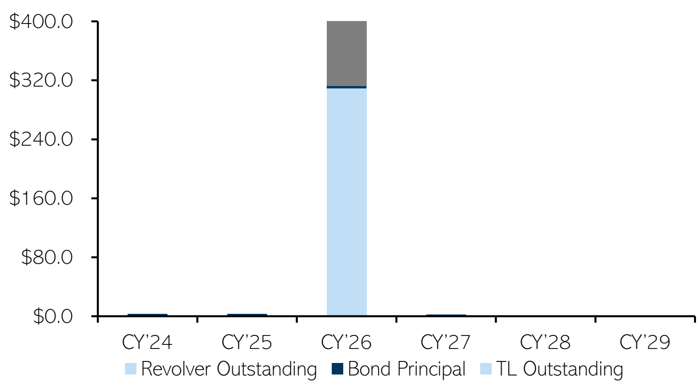
NTM P/E		15.1x	16.1x	17.1x	18.1x	19.1x
EPS	$5.08	(9.4%)	(3.4%)	2.6%	8.7%	14.7%
	$5.71	2.0%	8.7%	15.5%	22.2%	29.0%
	$6.35	13.3%	20.8%	28.3%	35.8%	43.3%
	$6.98	24.6%	32.9%	41.1%	49.4%	57.7%
	$7.62	35.9%	45.0%	54.0%	63.0%	72.0%

NTM EV/EBITDA		9.7x	10.7x	11.7x	12.7x	13.7x
EBITDA	$180,678	(22.7%)	(13.1%)	(3.6%)	6.0%	15.5%
	$203,263	(11.1%)	(0.3%)	10.4%	21.1%	31.9%
	$225,847	0.5%	12.4%	24.4%	36.3%	48.2%
	$248,432	12.0%	25.2%	38.3%	51.4%	64.6%
	$271,017	23.6%	37.9%	52.3%	66.6%	80.9%

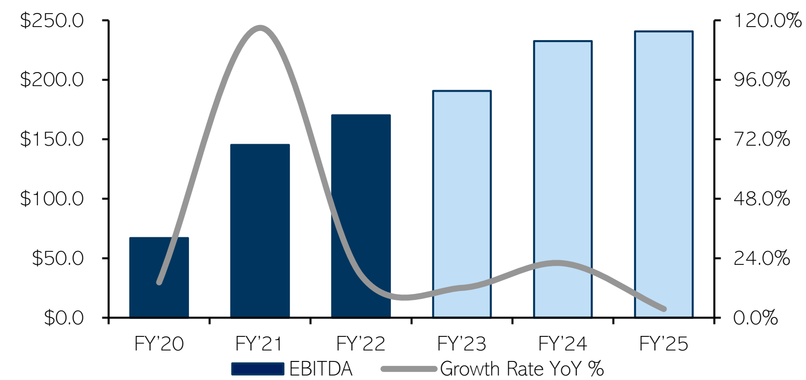
FINANCIAL ANALYSIS

Summary	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Total Company Revenue	$395,521.0	$626,720.0	$782,358.0	$828,331.8	$774,055.3	$821,436.4	$870,477.5	$921,065.5
% Growth QoQ		*0.0%*	*0.0%*	*5.9%*	*(6.6%)*	*6.1%*	*6.0%*	*5.8%*
Distilling Solutions Revenue	$317,458.0	$352,504.0	$428,478.0	$446,523.6	$343,184.6	$360,343.8	$379,261.9	$400,121.3
% Growth QoQ		*0.0%*	*0.0%*	*4.2%*	*(23.1%)*	*5.0%*	*5.3%*	*5.5%*
% of Total Revenue	*80.3%*	*56.2%*	*54.8%*	*53.9%*	*44.3%*	*43.9%*	*43.6%*	*43.4%*
Branded Spirits Revenue	$0.0	$183,566.0	$237,939.0	$250,809.8	$285,214.5	$302,327.4	$318,955.4	$334,903.2
% Growth		*0.0%*	*0.0%*	*5.4%*	*13.7%*	*6.0%*	*5.5%*	*5.0%*
% of Total Revenue	*0.0%*	*29.3%*	*30.4%*	*30.3%*	*36.8%*	*36.8%*	*36.6%*	*36.4%*
Ingredient Solutions Revenue	$78,063.0	$90,650.0	$115,941.0	$130,998.5	$145,656.2	$158,765.2	$172,260.3	$186,041.1
% Growth		*0.0%*	*0.0%*	*13.0%*	*11.2%*	*9.0%*	*8.5%*	*8.0%*
% of Total Revenue	*19.7%*	*14.5%*	*14.8%*	*15.8%*	*18.8%*	*19.3%*	*19.8%*	*20.2%*

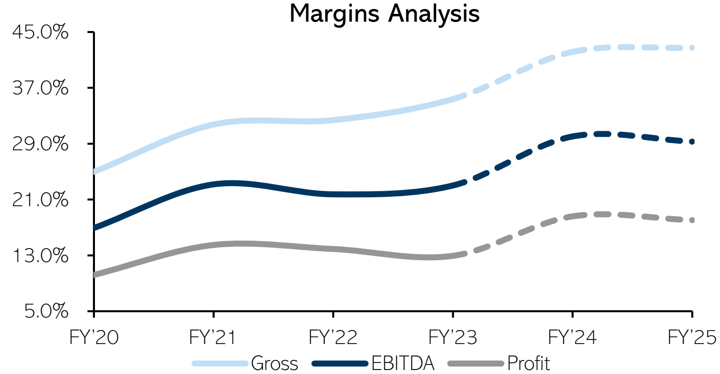
MGPI - Debt Distribution ($ mn)



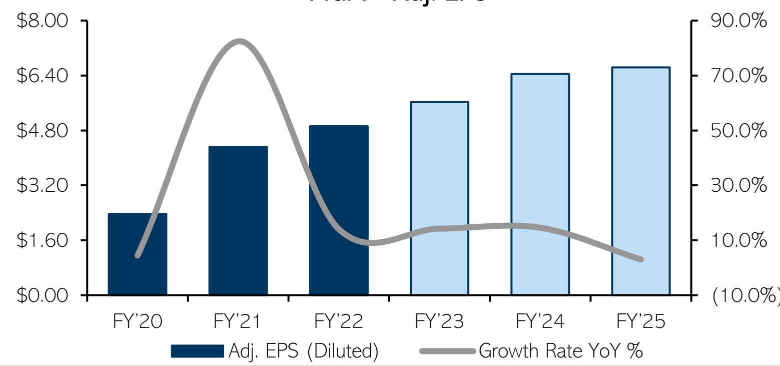
MGPI - EBITDA ($ mn)



Margins Analysis



MGPI - Adj. EPS



APPENDIX

Exhibit I: Sell Side Discussion Summary

Analyst: Gerald Pascarelli | $135.00 PT | Overweight Rating

- **Wedbush Investment Thesis:** MGPI is one of Gerald's top choices, given the name has been oversold due to an unjust comparison to BF and is best-positioned to capture growth of premiumization trends. Following massive consumption in CY'20 and CY'21, the alcoholic beverage industry will see a normalization of volumes. Consequently, top-line growth should moderate. However, the distilled spirits industry is decelerating less than the broader industry due to premiumization. Moreover, MGPI has contracted out much of its FY'24 revenue, shielding the Company from industry-wide headwinds. Gerald believes MGPI's strong positioning within distilled spirits will become more evident once the Company exits the Atchison distillery. The facility has experienced negative margins due to an excess supply of white goods and industrial alcohol, as well as higher input costs.

- **True Drivers:** While MGPI has driven top-line growth over the past few years, Gerald emphasized that the story with MGPI is mainly margin expansion through Distilling Solutions. The Company will sustain robust pricing power in Distilling Solutions given its favorable exposure to whiskey and tequila, which continue to gain share in the industry. With respect to Branded Spirits, Gerald affirmed his confidence in the Company to pursue M&A. He expects an acquisition of a small, fast-growing craft brand that has an existing relationship with MGPI.

- **Branded Spirits Performance:** Gerald questions the recent performance of MGPI's Branded Spirits segment since metrics point to an overreliance on certain parts of the portfolio. For example, Penelope has been driving recent outperformance through triple-digit growth. The broader segment has seen weakness outside of a few brands, and this trend is set to continue in CY'24 as consumers spend less. Ending on a positive note, he indicated that the Company should trade more based on its Distilling Solutions business than Branded Spirits.

- **GLP-1:** Companies across the F&B industry have experienced declines in share price as a result of GLP-1 headlines. Gerald and his team acknowledged the long-term implications if the usage of GLP-1 becomes widespread. However, they believe it will not materially affect companies in the near-term. Survey data points to massive declines across salty snacks and sweet confectionaries. However, alcoholic beverages are relatively insulated. Moreover, Gerald claimed that beer would see the largest impact from GLP-1 headwinds if the drugs enter the alcoholic beverage industry. Distilled spirits are protected given their low-carb properties, unlike beer.

Analyst: Marc Torrent | $122.00 PT | Overweight Rating

- **Wells Fargo Investment Thesis:** Marc's team views MGPI's valuation as an attractive entry point to invest in a Company with considerable room for growth. He is especially bullish on MGPI's positioning in the alcoholic beverage space, as it benefits from structural tailwinds. The Company will continue to benefit from favorable demand in the whiskey market amidst constrained supply. As a result, MGPI will exert stronger pricing power and expand margins in FY'24, while clear visibility through brown goods provides a favorable near-term outlook.

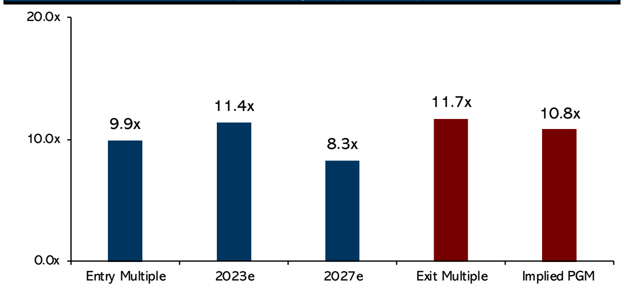
- **Concerns:** While Marc and the Street remain bullish on MGPI's growth prospects and fundamentals, he acknowledges the potential downside. While its premium products have demonstrated tremendous growth, the softer consumer spending environment does pose a risk. Other brands have seen pockets of trade downs occur for premium products, and Marc believes MGPI is not immune to this headwind. Additionally, given a normalization of volumes, pricing power will weaken following FY'24. Relationships with its customers also remain strong. However, if headwinds persist, MGPI will continue granting favorable terms at its own expense.

WELLS FARGO

WEDBUSH

Exhibit II: Model Output

Multiples Analysis (EV/EBITDA)



Return Summary

Exit Multiple Method	
Implied Enterprise Value:	$2,834,615
Implied Equity Value:	2,547,372
Implied Share Price:	$114
% Return:	34.7%

Perpetuity Growth Method	
Implied Enterprise Value:	$2,646,963
Implied Equity Value:	2,359,720
Implied Share Price:	$105
% Return:	24.7%

	Annuals							CAGR	CAGR
Consolidated Financials	2021	2022	2023e	2024e	2025e	2026e	2027e	Historical	Projected
Revenue	$626,720	$782,358	$828,332	$774,055	$821,436	$870,478	$921,066	*40.6%*	*3.3%*
YoY % Growth	*58.5%*	*24.8%*	*5.9%*	*(6.6%)*	*6.1%*	*6.0%*	*5.8%*		
Gross Profit	$198,965	$253,306	$293,151	$326,322	$351,164	$376,394	$402,966	*60.1%*	*9.7%*
% Margin	*31.7%*	*32.4%*	*35.4%*	*42.2%*	*42.8%*	*43.2%*	*43.8%*		
YoY % Growth	*101.4%*	*27.3%*	*15.7%*	*11.3%*	*7.6%*	*7.2%*	*7.1%*		
EBITDA	$145,233	$170,139	$190,629	$232,506	$240,673	$249,907	$262,489	*59.4%*	*9.1%*
Margin	*23.2%*	*21.7%*	*23.0%*	*30.0%*	*29.3%*	*28.7%*	*28.5%*		
YoY % Growth	*133.0%*	*17.9%*	*12.0%*	*22.0%*	*3.5%*	*3.8%*	*5.0%*		
Net Income (Loss)	$90,817	$108,872	$107,159	$143,920	$148,234	$153,181	$163,507	*64.3%*	*8.5%*
Margin	*14.5%*	*13.9%*	*12.9%*	*18.6%*	*18.0%*	*17.6%*	*17.8%*		
YoY % Growth	*125.1%*	*19.9%*	*(1.6%)*	*34.3%*	*3.0%*	*3.3%*	*6.7%*		
Adj. EPS (Diluted)	$4.32	$4.92	$5.63	$6.44	$6.64	$6.86	$7.32	*44.2%*	*8.3%*
YoY % Growth	*82.4%*	*14.0%*	*14.2%*	*14.6%*	*3.0%*	*3.3%*	*6.7%*		
Free Cash Flow	($54,545)	$37,216	$805	$82,049	$85,385	$104,306	$119,258	*3.8%*	*248.9%*
YoY % Growth	*(257.9%)*	*(168.2%)*	*(97.8%)*	*9,995.0%*	*4.1%*	*22.2%*	*14.3%*		

	Annuals							Average	Average
Capitalization and Key Ratios	2021	2022	2023e	2024e	2025e	2026e	2027e	Historical	Projected
Leverage									
Total Debt / EBITDA	1.6x	1.4x	1.7x	1.3x	1.2x	1.1x	1.0x	*1.2x*	*1.3x*
Total Debt / Equity	0.4x	0.3x	0.4x	0.3x	0.3x	0.2x	0.2x	*0.3x*	*0.3x*
Total Debt / Total Assets	0.2x	0.2x	0.2x	0.2x	0.2x	0.2x	0.1x	*0.2x*	*0.2x*
Liquidity									
Current Ratio	4.3x	4.6x	5.5x	6.8x	7.4x	8.0x	8.6x	*4.4x*	*7.3x*
Quick Ratio	1.3x	1.6x	2.1x	2.9x	3.3x	3.8x	4.3x	*1.5x*	*3.3x*
Cash Ratio	0.3x	0.5x	0.7x	1.4x	1.9x	2.6x	3.3x	*0.4x*	*2.0x*
Profitability									
Return on Assets (ROA)	8.7%	9.4%	7.6%	9.4%	8.9%	8.4%	8.3%	*9.7%*	*8.5%*
Return on Equity (ROE)	14.1%	14.6%	12.6%	14.6%	13.1%	11.9%	11.3%	*14.7%*	*12.7%*
Return on Inv. Capital (ROIC)	10.3%	11.2%	9.2%	11.1%	10.4%	9.8%	9.5%	*11.6%*	*10.0%*
Coverage									
Interest Expense	$4,037	$5,451	$7,224	$10,161	$9,767	$9,374	$5,810	*$3,709*	*$8,467*
Capital Expenditures	47,389	45,323	58,598	71,481	59,554	56,581	55,264	*37,471*	*60,296*
EBIT / Interest	31.3x	27.3x	20.7x	20.0x	21.3x	22.9x	38.7x	*30.6x*	*24.7x*
EBITDA / Interest	36.0x	31.2x	26.4x	22.9x	24.6x	26.7x	45.2x	*36.0x*	*29.2x*
(EBITDA - CapEx) / Interest	24.2x	22.9x	18.3x	15.8x	18.5x	20.6x	35.7x	*25.3x*	*21.8x*
Efficiency									
Asset Turnover	0.6x	0.7x	0.6x	0.5x	0.5x	0.5x	0.5x	*0.8x*	*0.5x*
Days Sales Outstanding	43.5	47.1	54.3	64.3	58.0	52.0	46.0	*46.9*	*54.9*
Days Inventory Outstanding	165.1	184.8	212.3	279.4	310.0	325.0	340.0	*175.6*	*293.3*
Days Payables Outstanding	35.8	41.4	45.3	52.8	55.0	57.0	60.0	*37.0*	*54.0*
Cash Conversion Cycle	172.8	190.4	221.2	291.0	313.0	320.0	326.0	*185.5*	*294.2*

Exhibit III: Model Football Field

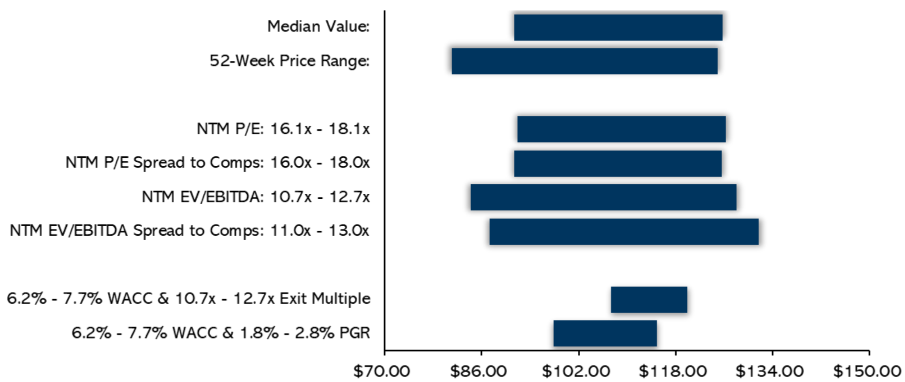


Exhibit IV: Ingredient Solutions Discussion

Investors do not seem focused on Ingredient Solutions, so we chose to prioritize the main catalysts. However, the segment still has notable drivers in place to continue its HSD – DD% revenue growth. Ingredient Solutions caters to plant-based, low-carb foods, and with GLP-1 drug headlines and health trends emphasized following the pandemic, our team sees Ingredient Solutions maintaining its growth trajectory. Management stated that the segment continues to outpace the global texturized vegetable protein and resistant starch markets, which are expected to grow at CAGRs of 7.4% and 6.1%, respectively, between CY'22 – CY'27. Our team believes Ingredient Solutions remains an overlooked segment. Its revenue share remains low, but we see value given specialty wheat starches and proteins have seen strong demand and sequential price increases, excluding one-time circumstances.

Proterra Line

In 4Q'21, Management stated that its third-party suppliers constrained capacity for undisclosed reasons. This restriction limits growth prospects, so MGPI is constructing its own $16.7 mn facility, which is slated for 4Q'23. In-house production for Proterra, MGPI's plant-based meat alternative, will allow the Company to decrease lead times and meet demand from its third-party co-manufacturers. The facility will produce 10.0 mn pounds of product, and at a $3.00 – $4.00 estimated selling price per pound, Management expects an additional $30.0 – $40.0 mn in annual revenue. More importantly, the in-house production will allow MGPI to scale its other texturized ingredients over time. Management has not shared further news on the segment as the focus remains on distilled spirits, though the Company is currently selling its new Proterra proteins as a test run to colleges and universities. In the long-term, MGPI plans to expand into new, ready-to-eat plant-based snacking channels, as well as introduce its products in Asia and South America through new distribution partners. The expansion goal will likely occur in 2H'25 or beyond.

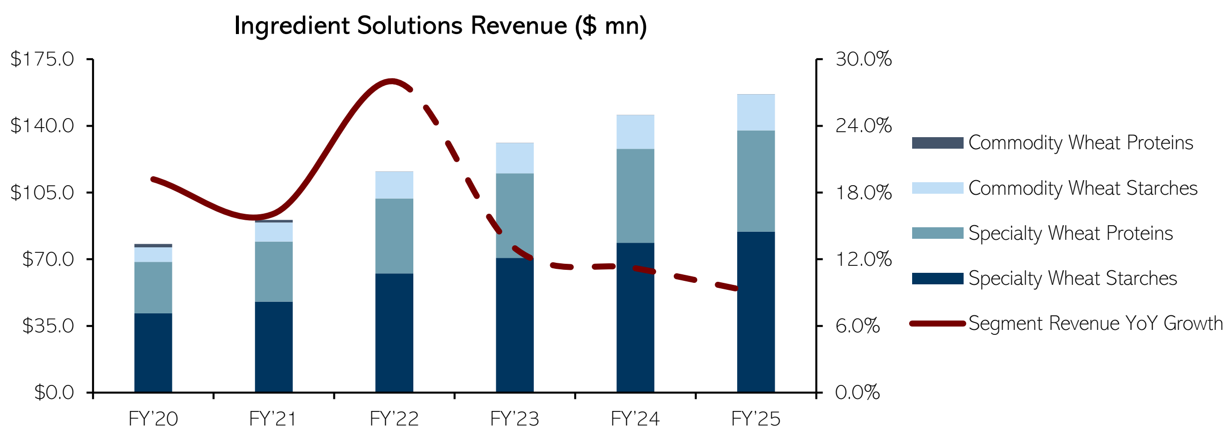


Exhibit V: Distillation Process

Spirits are alcoholic beverages produced by distilling wine, fermented fruits, or grains, with some of the most popular spirits consisting of whiskey, vodka, and tequila. Distillation is the process of separating alcohol from water through evaporation and condensation. Through distillation, the remaining alcohol is concentrated and purified. As a result, the alcohol content of spirits is higher compared to beers and wines, ranging from 20.0 – 50.0% alcohol by volume. After distillation, the alcohol is then aged over a certain amount of time, usually two to three years, based on the type of spirit. Aging a liquor removes the harsh flavors from raw alcohol while developing specific flavor characteristics from the stored vessel. Typically, spirits are aged in wooden barrels, contributing to the change in color. Following the aging process, the spirit is blended with other liquor to create a flavor profile. Prior to bottling, distillers filter the remaining spirit to improve its quality and ensure no contaminants mask the spirit's flavor attributes.

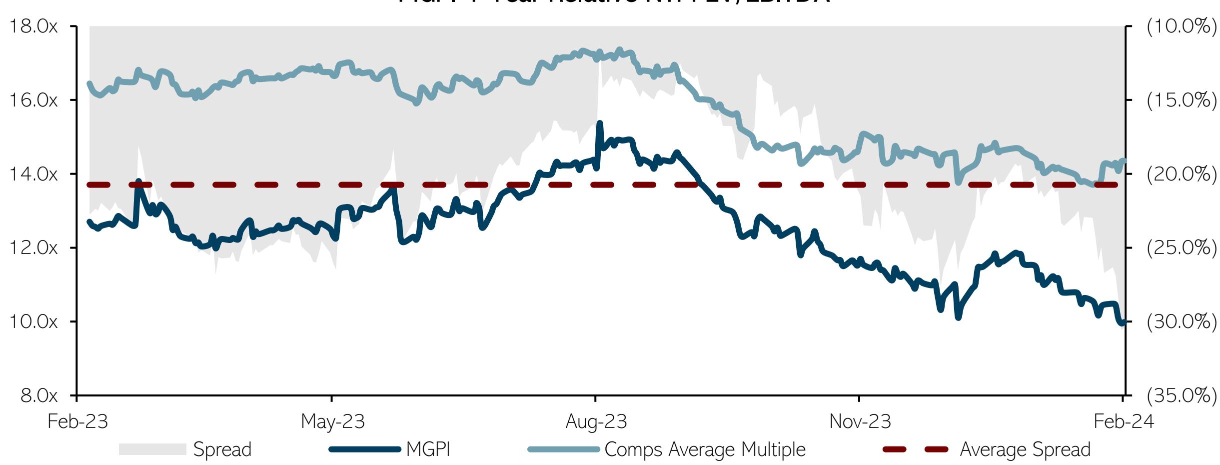
Exhibit VI: Relative Valuation and Multiple Re-Rating

Our team did not opt for a relative valuation, though we believe commentary on the topic is necessary to understand MGPI's long-term goal. The Company is not a pure-play branded spirits name, warranting a discount to its peer group (BF, PRNDY, and DEO) since its Distilling Solutions business yields lower margins. However, Management's long-term agenda prioritizes its growth of Branded Spirits. This strategy is demonstrated through the acquisitions of Luxco and Penelope, with clear plans to make future ones. Management stated that its net leverage ratio should not exceed 2.0x, leaving ample room to lever with its credit agreement for a bolt-on acquisition. Moreover, the consolidated business will see bottom-line benefits through FY'24, which will lower the Company's leverage ratios.

As long as MGPI remains strategically focused on M&A with similar characteristics to Penelope, we welcome all future acquisitions. Investors hold the same view since shares appreciated following the announcement and successful integration of both acquisitions. As the Company's Branded Spirits arm grows and outpaces the other two segments, the relative average spread will tighten, allowing MGPI to benefit from a multiple re-rating. With respect to the spread widening recently, the Fed's recent emphasis on only three cuts in CY'24 led to shares declining. Meanwhile, MGPI's peers benefitted following news of declining sales for Louis Vuitton's (LVMH) spirits, as investors believe these companies have been stealing market share from LVMH, prompting shares to appreciate. Given MGPI holds little exposure in Europe, the relative spread between the Company and peers widened recently.

We see higher-for-longer rates as a double-edged sword. Customers will request higher DSO temporarily to combat elevated holding costs, which may delay revenue payments from smaller craft customers. However, our team believes the Distilling Solutions business will benefit from higher rates as small-scale distilleries struggle to maintain facility costs, increasing the customer base and reliance on MGPI. Additionally, the Distilling Solutions business contracts more mid-sized and multinational customers, so we do not expect a substantial effect on top-line in FY'25.

MGPI 1-Year Relative NTM EV/EBITDA



Source: Bloomberg

TFA STATEMENT

Established in honor of Professor William C. Dunkelberg, former Dean of the Fox School of Business, for his tireless dedication to educating students in "real-world" principles of economics and business, the William C. Dunkelberg (WCD) Owl Fund will ensure that future generations of students have exposure to a challenging, practical learning experience. Managed by Fox School of Business graduate and undergraduate students with oversight from its Board of Directors, the WCD Owl Fund's goals are threefold:

- Provide students with hands-on investment management experience
- Enable students to work in a team-based setting in consultation with investment professionals.
- Connect student participants with nationally recognized money managers and financial institutions

Earnings from the fund will be reinvested net of fund expenses, which are primarily trading and auditing costs and partial scholarships for student participants.

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