

Monster Beverage Corporation

January Investor Meeting Preview

Reiterate Rating: BUY | PO: 65.00 USD | Price: 58.63 USD

MNST annual NYC investor meeting on 1/16

Monster Beverage (MNST) is hosting its annual Investor Meeting on Tuesday, January 16th in New York. The event will be in-person for the first time since 2020. While typically not a major catalyst for shares MNST tends to update 1) its innovation pipeline for the coming year; see our [recaps from 2023](#), [2022](#), [2021](#). 2) hosts a Q&A session with which we expect to focus on pricing dynamics within the energy category following reports of a competitor price increase from Red Bull and whether MNST will follow. 3) Path to further gross margin recovery given favorability in some inputs/packaging costs, 4) Capital return, MNST accelerated share repurchases to ~\$400mm in 3Q23. Overall, we view a favorable set up for MNST shares in 2024 and reiterate our Buy and \$65.

U.S. scanner data remains solid as we head into 2024

According to Nielsen, MNST 4Q23 sales grew +3.8% y/y. MNST typically reports sales growth above due to stronger growth in non-measured channels (See Exhibit 3). We model U.S. sales to grow +5.5% in 4Q23 (See Exhibit 4) and update our 4Q sales estimate slightly lower to 15.5% YoY as reflected in Strategic Brands case volumes based on scanner data. Note that MNST's Oct 2023 sales +25.8% YoY included an extra selling day and some load in from Bang to bottlers.

Are gross margins at an inflection point?

With a more favorable commodity environment which includes lower aluminum prices we believe that MNST is well positioned to grow gross margins next year. Exhibit 5 outlines gross margins by geographic segment.

Expect details on MNST's 2024 U.S. innovation pipeline

Innovation has developed into a meaningful growth driver for MNST. In 3 of the last 4 years, we estimate that innovation has contributed over half of U.S. sales growth. 2023 was a solid year for innovation which accounted for 80% of growth driven by Monster Zero Sugar and Ultra Strawberry Dreams. In past years MNST has announced continued expansion of the Ultra, Reserve, Java, Rehab and Reign lines and launched Beast Unleashed (hard seltzer).

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	1.29	1.12	1.53	1.75	2.00
GAAP EPS	1.29	1.12	1.56	1.75	2.00
EPS Change (YoY)	9.3%	-13.2%	36.6%	14.4%	14.3%
Consensus EPS (Bloomberg)			1.56	1.83	2.07
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	45.4x	52.3x	38.3x	33.5x	29.3x
GAAP P/E	45.4x	52.3x	37.6x	33.5x	29.3x
EV / EBITDA*	32.6x	36.6x	29.0x	25.6x	23.1x
Free Cash Flow Yield*	1.8%	1.1%	1.7%	2.8%	3.2%

* For full definitions of *IQmethod*SM measures, see page 7.

12 January 2024

Equity

Key Changes

(US\$)	Previous	Current
2023E Rev (m)	7,174.9	7,167.4
2024E Rev (m)	7,834.5	7,826.5
2025E Rev (m)	8,483.9	8,475.2

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Stock Data

Price	58.63 USD
Price Objective	65.00 USD
Date Established	15-Dec-2023
Investment Opinion	B-1-9
52-Week Range	47.13 USD - 60.47 USD
Mrkt Val (mn) / Shares Out (mn)	62,153 USD / 1,060.1
Free Float	72.2%
Average Daily Value (mn)	318.47 USD
BofA Ticker / Exchange	MNST / NAS
Bloomberg / Reuters	MNST US / MNST.OQ
ROE (2023E)	21.6%
Net Dbt to Eqty (Dec-2022A)	-18.6%
ESGMeter TM	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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Timestamp: 12 January 2024 05:00AM EST

iQprofileSM Monster Beverage Corporation

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	22.4%	17.0%	20.8%	21.9%	24.4%
Return on Equity	23.5%	17.5%	21.6%	22.7%	25.2%
Operating Margin	32.4%	25.1%	28.1%	29.4%	30.1%
Free Cash Flow	1,112	699	1,081	1,769	1,964

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	0.8x	0.7x	1.0x	1.0x	1.0x
Asset Replacement Ratio	0.9x	3.1x	7.8x	1.3x	1.3x
Tax Rate	23.5%	24.2%	22.0%	23.5%	23.5%
Net Debt-to-Equity Ratio	-20.2%	-18.6%	-22.4%	-19.8%	-19.2%
Interest Cover	NA	NM	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	5,541	6,311	7,167	7,826	8,475
% Change	20.1%	13.9%	13.6%	9.2%	8.3%
Gross Profit	3,109	3,175	3,809	4,285	4,704
% Change	13.0%	2.1%	20.0%	12.5%	9.8%
EBITDA	1,848	1,646	2,078	2,359	2,613
% Change	7.3%	-10.9%	26.2%	13.6%	10.7%
Net Interest & Other Income	4	(13)	69	60	60
Net Income (Adjusted)	1,377	1,192	1,623	1,805	1,999
% Change	8.8%	-13.5%	36.2%	11.2%	10.7%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	1,377	1,192	1,623	1,805	1,999
Depreciation & Amortization	50	61	65	60	60
Change in Working Capital	(362)	(487)	(156)	(87)	(86)
Deferred Taxation Charge	21	58	0	0	0
Other Adjustments, Net	69	64	57	72	72
Capital Expenditure	(44)	(189)	(509)	(80)	(80)
Free Cash Flow	1,112	699	1,081	1,769	1,964
% Change	-15.5%	-37.1%	54.7%	63.7%	11.0%
Share / Issue Repurchase	32	(707)	(673)	(2,000)	(2,000)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	3	0	(11)	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	1,326	1,307	1,795	1,565	1,529
Trade Receivables	897	1,016	1,178	1,287	1,393
Other Current Assets	2,459	2,442	2,435	2,442	2,456
Property, Plant & Equipment	314	517	751	771	791
Other Non-Current Assets	2,809	3,011	3,272	3,272	3,272
Total Assets	7,805	8,293	9,431	9,336	9,441
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	965	1,002	1,145	1,173	1,207
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	273	266	262	262	262
Total Liabilities	1,238	1,268	1,407	1,435	1,470
Total Equity	6,567	7,025	8,024	7,901	7,971
Total Equity & Liabilities	7,805	8,293	9,431	9,336	9,441

* For full definitions of iQmethodSM measures, see page 7.

Company Sector

Food Processors

Company Description

With more than \$6bn in sales, Monster Beverage Corporation (MNST) is a global leader in the energy drink beverage category with 40%+ market share in the US. Around 70% of sales are in the US and the company has two primary operating segments, Monster Energy Drinks and Strategic Brands. In June 2015, MNST closed on its transaction with The Coca-Cola Company (KO owns 19% of MNST), whereby KO became MNST's primary distributor globally.

Investment Rationale

We rate MNST shares at Buy. In our view, MNST offers superior growth to competitors and should see accelerating topline and margin growth. The company grew sales and profits nearly 10% in the 2009 financial crisis, showcasing the resiliency of the business model. In addition, MNST maintains a pristine balance sheet with strong FCF that we expect to funnel into share repurchases over the next several years.

Stock Data

Average Daily Volume 5,431,828

Quarterly Earnings Estimates

	2022	2023
Q1	0.27A	0.38A
Q2	0.26A	0.39A
Q3	0.30A	0.41A
Q4	0.29A	0.36E

Key charts & tables

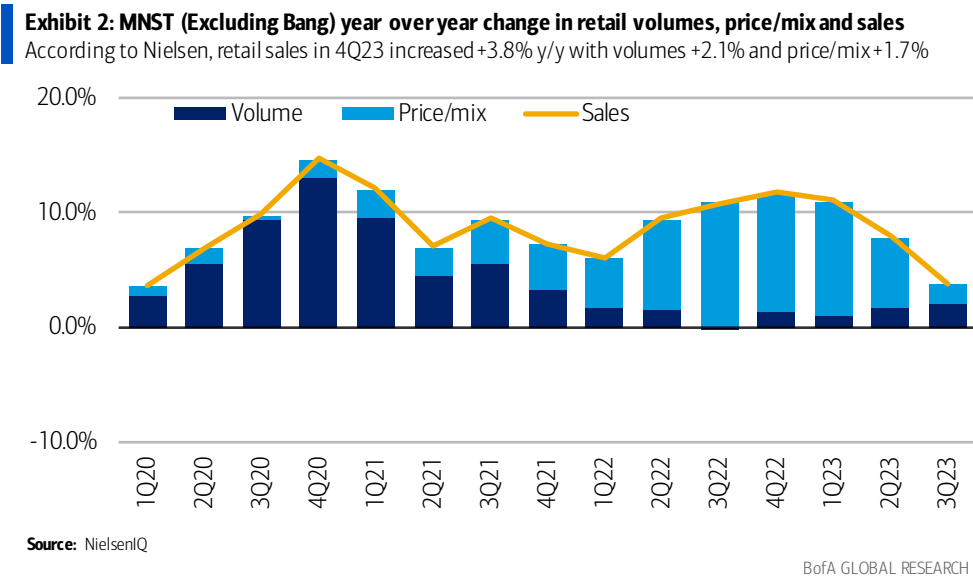
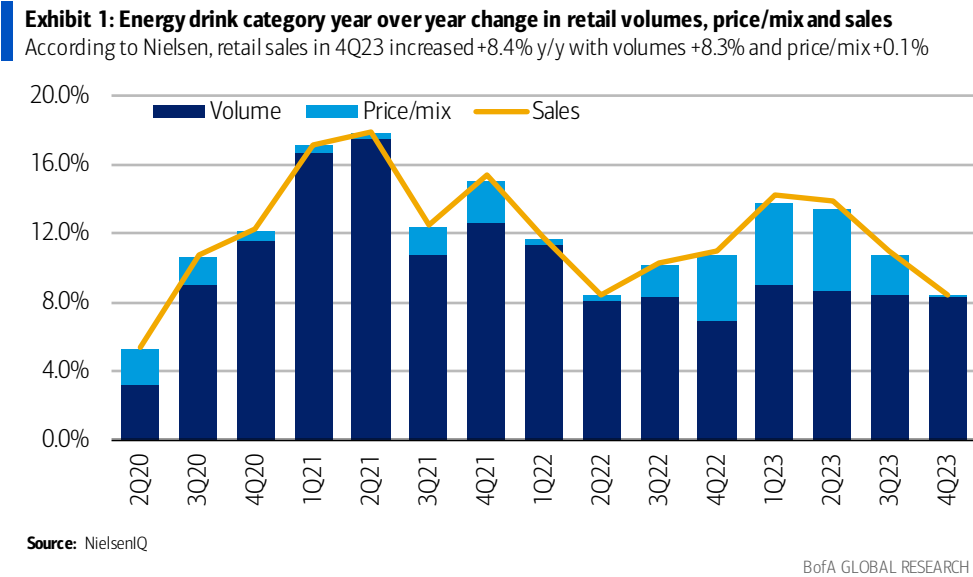
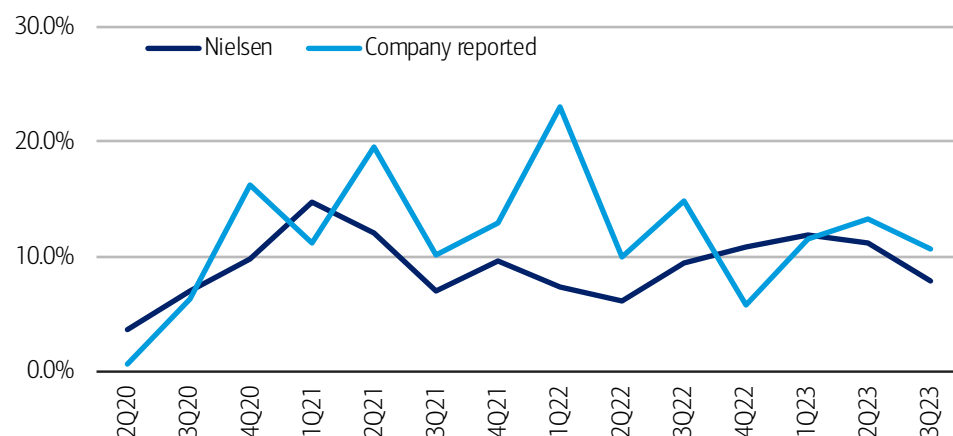


Exhibit 3: Year over year change in U.S. retail sales from Nielsen versus Company reported U.S. sales growth

MNST typically reports growth above Nielsen



Source: NielsenIQ

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Exhibit 4: MNST 4Q23 sales forecast (excludes Alcohol and American Fruits & Flavor segments)

For 4Q23 we are forecasting sales to increase +15.5% y/y with U.S. organic sales up +5.5% y/y

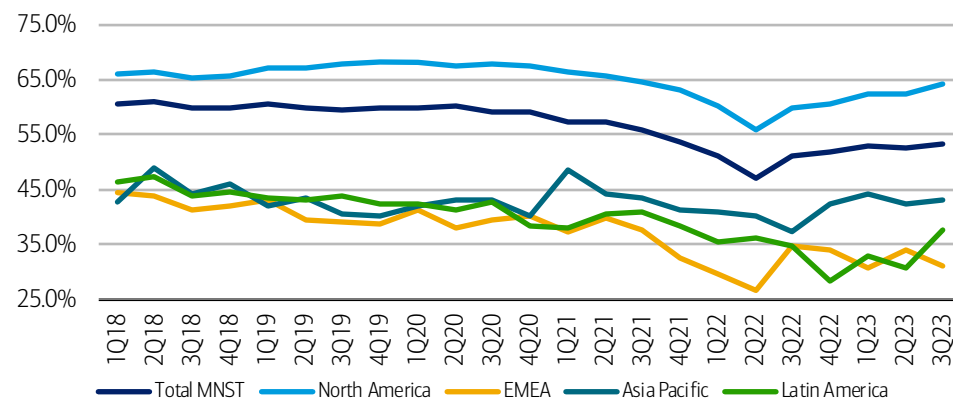
Region	Organic sales forecast	FX	Other	Net sales forecast
U.S.	5.5%	0.0%	3.6%	9.1%
EMEA	29.0%	0.0%	0.0%	29.0%
APAC	7.0%	0.0%	0.0%	7.0%
LATAM	44.0%	0.0%	0.0%	44.0%
Consolidated	13.2%	0.0%	2.3%	15.5%

Source: BofA Global Research

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Exhibit 5: Gross margins by geographic segment (All figures are BofA estimates except for Total MNST)

We believe North America gross margins are significantly higher versus international regions

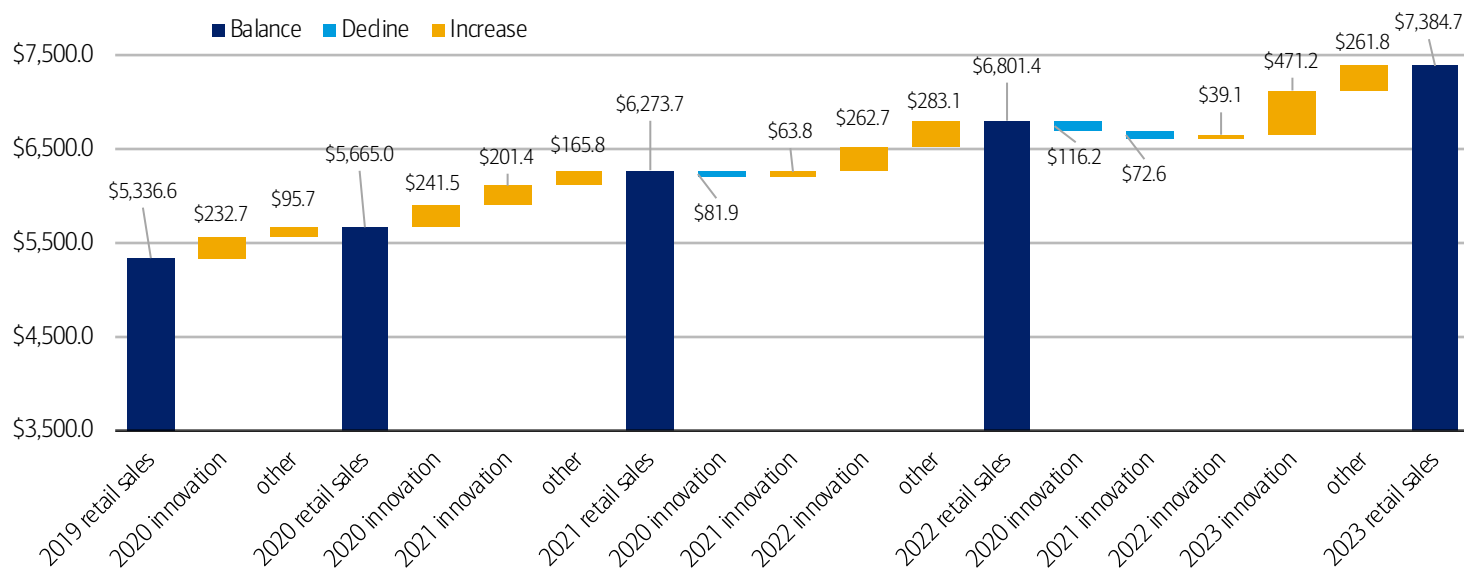


Source: BofA Global Research

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Exhibit 6: MNST U.S. retail sales bridge

Innovation is a solid contributor to MNST's sales growth

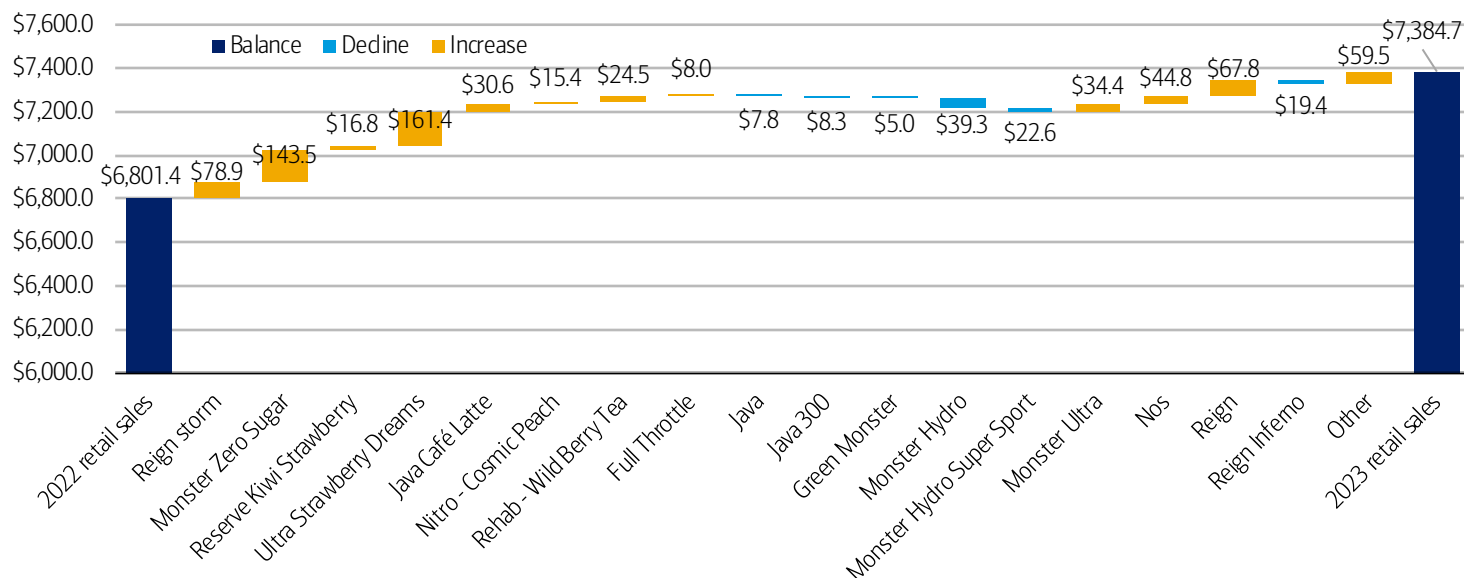


Source: NielsenIQ

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Exhibit 7: MNST U.S. retail sales bridge - 2022 to 2023

Monster Zero Sugar and Ultra Strawberry Dreams were key drivers of U.S. retail sales growth



Source: NielsenIQ

*2023 innovation includes: Monster Zero Sugar, Ultra Strawberry Dreams, Reign Storm, Reserve Kiwi Strawberry, Java Café Latte, Nitro - Cosmic Peach and Rehab Wild Berry Tea

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Price objective basis & risk

Monster Beverage Corporation (MNST)

Our \$65 price objective is based on 32.5x our 2025E EPS estimate. At 32.5x, we value MNST shares at a premium to both the large-cap beverage group trading and to other consumer staples growth companies. We believe the premium multiple is warranted, given its faster relative growth and favorable margin structure.

Downside risks: 1) maturing category that could be losing share, 2) limited impact from new product launches 3) slower than expected benefit from international expansion, 4) a rotation from defensive names back into value names 5) greater than expected impact from COVID-19 global headwinds 6) negative currency movements.

Analyst Certification

I, Peter T. Galbo, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Consumables Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	BellRing Brands Inc	BRBR	BRBR US	Bryan D. Spillane
	Celsius Holdings Inc	CELH	CELH US	Jonathan Keypour
	Coca-Cola Europacific Partners plc	CCEP	CCEP US	Bryan D. Spillane
	Colgate-Palmolive Company	CL	CL US	Bryan D. Spillane
	Constellation Brands	STZ	STZ US	Bryan D. Spillane
	Coty Inc.	COTY	COTY US	Anna Lizzul
	e.l.f. Beauty	ELF	ELF US	Anna Lizzul
	Freshpet, Inc.	FRPT	FRPT US	Bryan D. Spillane
	Kenvue Inc.	KVUE	KVUE US	Anna Lizzul
	Keurig Dr Pepper	KDP	KDP US	Bryan D. Spillane
	Kraft Heinz Company	KHC	KHC US	Bryan D. Spillane
	Lamb Weston Holdings Inc	LW	LW US	Peter T. Galbo, CFA
	McCormick & Co.	MKC	MKC US	Peter T. Galbo, CFA
	Mondelez International	MDLZ	MDLZ US	Bryan D. Spillane
	Monster Beverage Corporation	MNST	MNST US	Peter T. Galbo, CFA
	PepsiCo	PEP	PEP US	Bryan D. Spillane
	Philip Morris International	PM	PM US	Lisa K. Lewandowski
	Pilgrim's Pride Corp.	PPC	PPC US	Peter T. Galbo, CFA
	The Coca Cola Company	KO	KO US	Bryan D. Spillane
	The Procter & Gamble Company	PG	PG US	Bryan D. Spillane
NEUTRAL				
	Altria Group	MO	MO US	Lisa K. Lewandowski
	Church & Dwight	CHD	CHD US	Anna Lizzul
	Clorox	CLX	CLX US	Anna Lizzul
	Conagra Brands, Inc.	CAG	CAG US	Peter T. Galbo, CFA
	Estee Lauder Companies Inc.	EL	EL US	Bryan D. Spillane
	General Mills	GIS	GIS US	Bryan D. Spillane
	JM Smucker Company	SJM	SJM US	Peter T. Galbo, CFA
	Kellanova	K	K US	Peter T. Galbo, CFA
	Molson Coors Beverage Company	TAP	TAP US	Bryan D. Spillane
	The Duckhorn Portfolio, Inc.	NAPA	NAPA US	Peter T. Galbo, CFA

US - Consumables Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	The Hershey Company	HSY	HSY US	Bryan D. Spillane
	Utz Brands	UTZ	UTZ US	Peter T. Galbo, CFA
	WK Kellogg Co	KLG	KLG US	Peter T. Galbo, CFA

UNDERPERFORM

	Brown-Forman Corporation	BFB	BF/B US	Bryan D. Spillane
	Campbell Soup Company	CPB	CPB US	Peter T. Galbo, CFA
	Canopy Growth	YWEED	WEED CN	Lisa K. Lewandowski
	Canopy Growth	CGC	CGC US	Lisa K. Lewandowski
	Cronos Group	YCRON	CRON CN	Lisa K. Lewandowski
	Cronos Group	CRON	CRON US	Lisa K. Lewandowski
	Dole plc	DOLE	DOLE US	Bryan D. Spillane
	Herbalife Nutrition Ltd	HLF	HLF US	Anna Lizzul
	Hormel Foods Corp.	HRL	HRL US	Peter T. Galbo, CFA
	Kimberly-Clark	KMB	KMB US	Anna Lizzul
	Tyson Foods, Inc.	TSN	TSN US	Peter T. Galbo, CFA

RSTR

	The Vita Coco Company, Inc.	COCO	COCO US	Bryan D. Spillane
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IQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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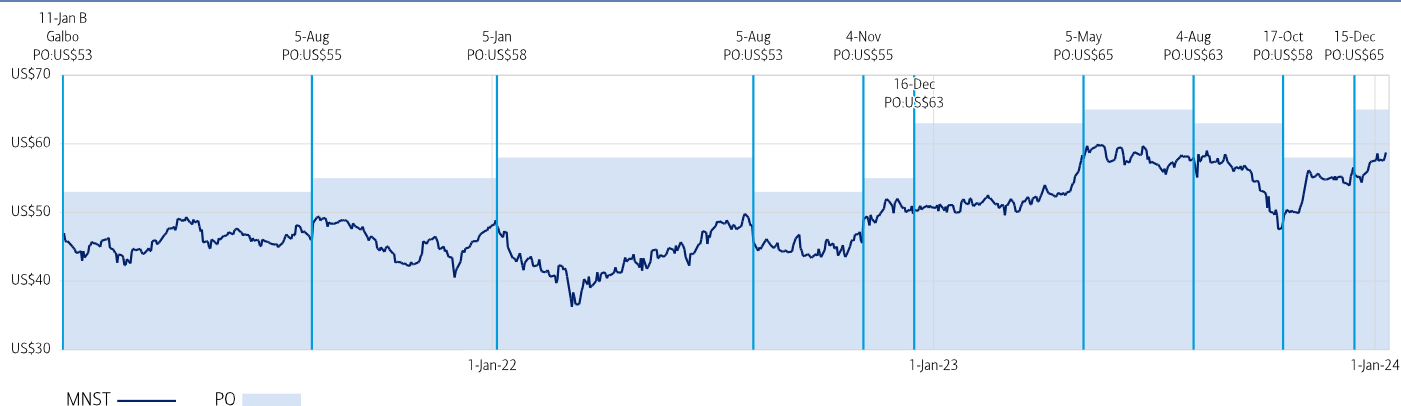
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Disclosures

Important Disclosures

Monster Beverage (MNST) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Food Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	33	49.25%	Buy	16	48.48%
Hold	17	25.37%	Hold	10	58.82%
Sell	17	25.37%	Sell	8	47.06%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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