



# Monster Beverage Corp (NASDAQ: MNST) Stock Pitch

Consumer Goods, Spring 2023





The RUIF Consumer Goods Sector initiates coverage of Monster Beverage Corp (MNST) with a buy recommendation and a target price of \$59.75 which implies a 13.8% holding period return.

<b>\$59.75</b>	<b>\$52.60</b>	<b>13.8%</b>	<b>\$39.58 - \$54.52</b>
Target Price	Current Price	Upside	52-Week Range



1

Industry Overview



2

Business Description



3

Management Overview



4

Competitive Landscape



5

Investment Thesis



6

Financial Analysis



7

Investment Risks



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# Industry Overview

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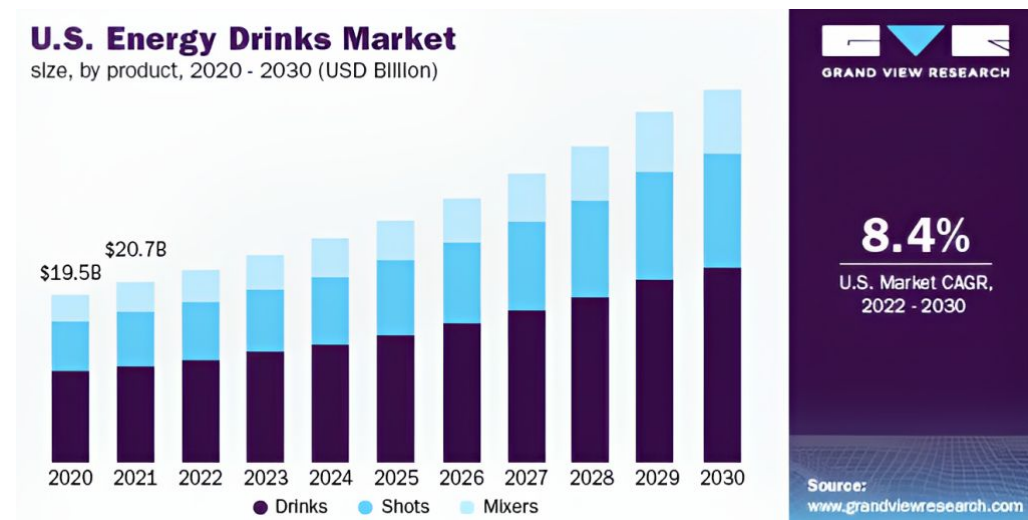
# Industry Overview

## Market Definition

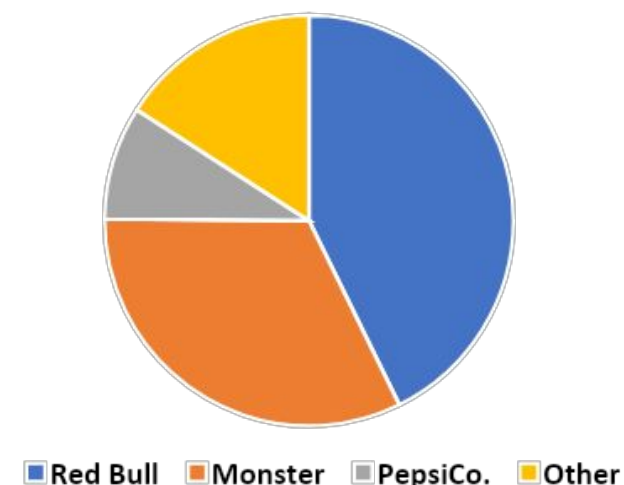
- ♦ Energy Drink - any beverage containing a high concentration of stimulants to promote physical performance and mental alertness
  - ♦ Common stimulants include caffeine, taurine, and ginseng.
  - ♦ Drinks may or may not be carbonated
  - ♦ Differ from sports drinks, which are used to replace electrolytes, and coffee or tea, which are brewed and contains less ingredients
  - ♦ Key Market Players include Red Bull, Rockstar(PepsiCo), Coca-Cola Energy/Coca-Cola with Coffee, Rip-it Energy (National Beverage Corp.), and Celsius.

## Outlook and Future Trends

- ♦ Market Value in 2021 = \$86.35 billion; CAGR of 8.4% from 2022 to 2030
- ♦ Key Trends:
  - ♦ Shift to healthier and natural ingredients
    - ♦ Concerns about health effects of consuming caffeine
    - ♦ Regulatory interference
  - ♦ Growth in teenagers and Asia-Pacific markets



## Market Share Distribution





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# Business Description



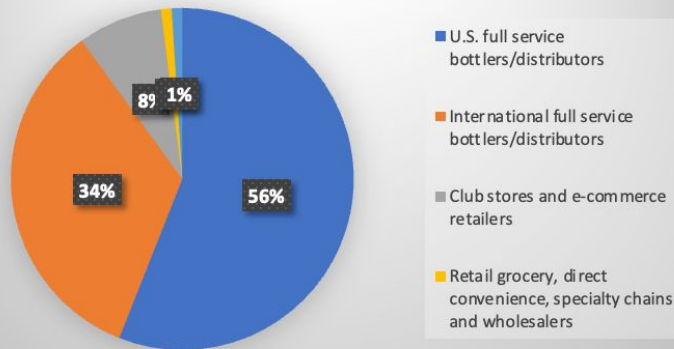
### The Largest Energy Drink Company

- The company's products are sold in 141 countries worldwide
- A portfolio of beverages in soft drinks, coffee, energy drinks, shakes, and alcohol
- 350 million cases sold in 2022, generating approximately \$4.8 billion
- Continues to launch new beverages amongst consistent sales
- Employs approximately 4,000 people worldwide

### Historical Operations

- Multinational beverage company specializing in energy drinks, soft drinks, and alternative beverages
- Large sponsorship presence to create brand value. Prevalent in motocross, NASCAR, X Games, and music festivals
- Founded in 1935 as Hansen's Juices. The company began operating under Monster Beverage Corporation in 2012
- Headquartered in Corona, California

2022 Distribution Channels





### Monster Energy Drinks

- Primary company segment, offering carbonated and non-carbonated energy drinks. The segment accounts for 92.4% and 94.2% of net sales in 2022 and 2021, respectively.
- Holds the largest market share within the industry
- Sold to beverage distributors to be held in grocers and specialty chains



### Strategic Brands

- Additional brands acquired by Monster such as NOS, Full Throttle, Burn, and Mother in accordance with its partnership with Coca-Cola
- Brands make up Monster's Concentrate segment
- Further market share for the company's target audience



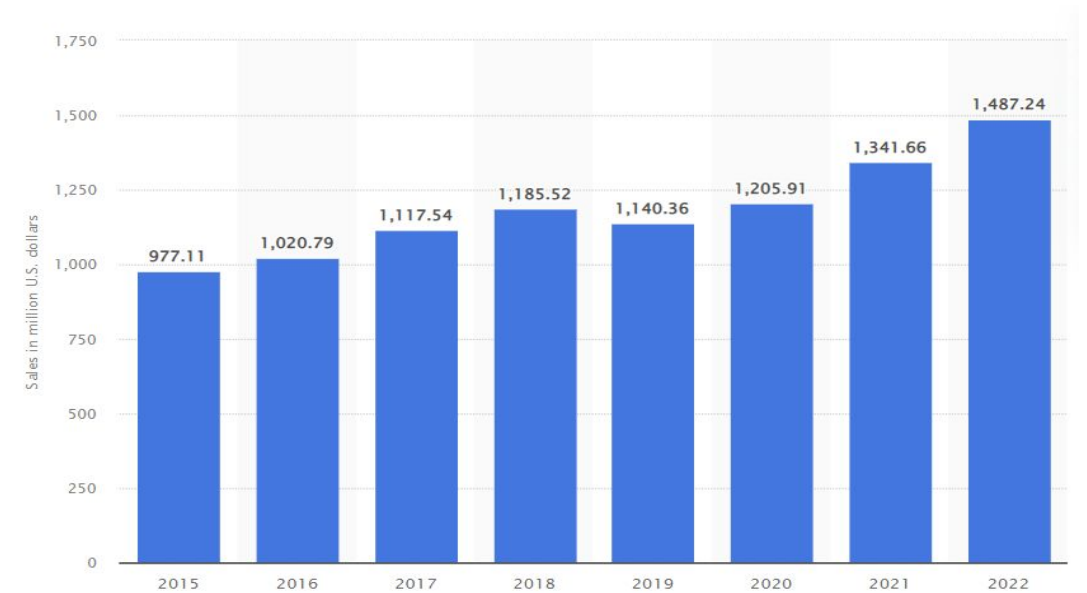
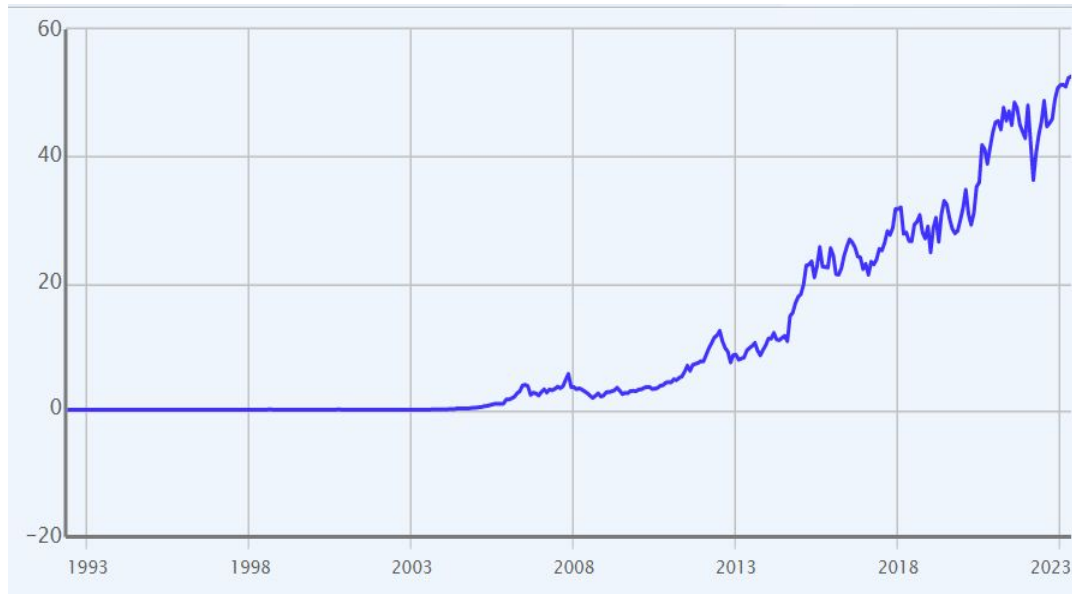
### Alcohol Brands

- Sells craft beers and hard seltzers
- Purchased as part of CANarchy Craft Brewery Collective
- Delivering a new product known as The Beast Unleashed





- Monster's non-alcoholic beverage customers are full-service beverage bottlers/distributors, retail grocery and specialty chains, wholesalers, club stores, mass merchandisers, convenience chains, food-service customers, value stores, e-commerce retailers, and the US military
- Monster's alcoholic beverage customers are primarily beer distributors that sell to retailers within the alcohol distribution system







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# Competitive Landscape



## Red Bull

A brand of energy drinks created and owned by the Austrian company Red Bull GmbH in 1987.

- ✓ Very strong brand loyalty: captured 43% of the energy drinks market
- ✓ Innovative marketing strategies include F1 team ownership and other event sponsorships
- ✗ Not diversified beyond its core product in terms of formula.
  - Small scope for expansion



## Celsius Holdings, Inc

A producer and marketer of nutritional functional foods, beverages, and dietary supplements founded in 2004.

- ✓ Considered a healthier alternative: formulated with natural ingredients and low in calories
- ✓ PepsiCo invested \$550 million in Celsius Holdings which translates into a minority stake of roughly 8.5% stake in the company
- ✗ Not planning to release a drink with alcohol due to branding themselves as a 'clean' energy drink
  - Caters a niche market



## National Beverage Corp

An American beverage company based in Fort Lauderdale, Florida, focused on flavored soft drinks.

- ✓ Diverse portfolio of drinks: LaCroix, Everfresh, Faygo
- ✗ Only produce one, lesser known, energy drink called Rip it Energy Fuel
  - Not focused on the energy drinks market



## The Coca-Cola Company

The Coca-Cola Company is an American multinational corporation founded in 1892, best known as the producer of Coca-Cola

- ✓ Are expanding into the alcoholic seltzer market
- ✓ High brand loyalty can translate into the popularity of an energy drink released in the future
- ✗ First venture into the energy drinks market failed
  - Will have to compete with very large players in the energy drinks market



## PepsiCo, Inc

PepsiCo was formed in 1965 with the merger of the Pepsi-Cola Company and Frito-Lay, Inc. Encompass all aspects of the food and beverage market.

- ✓ Entered energy drink market with \$3.85 bn buyout of Rockstar Inc
- ✓ Gatorade is entering the energy drink category with a caffeinated spin-off called Fast Twitch.
- ✓ Expanded Mountain Dew into alcoholic and energy drinks with the Mtn Dew Rise Energy drink
- ✗ Have not been able to establish brand loyalty for any of the energy drinks
  - Cover a much wider market than high-caffeine energy drinks



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# Management Overview

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# Management Overview

## Executive Board Members



Rodney C. Sacks  
Co-CEO & Chairman of  
the Board of Directors

University of  
Witwatersrand



Hilton H. Schlosberg  
Co-CEO & Vice Chairman  
of the Board of Directors

University of  
Witwatersrand



Thomas J. Kelly  
CFO & Principal  
Accounting Officer

CPA Certified with over  
36 years of experience  
in beverage industry



Emelie C. Tirre  
President - Americas

University of San  
Diego



*Note: Monster Beverages has Schlosberg and Sacks as Co-CEOs because they have been creating their company together since the very beginning. These native South Africans both acquired Hansen Natural Corporation in 1990 and Hansen's Natural Soda and Apple Juice in 1992 together. In 2012, their company changed its name to Monster Beverages.*



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# Comparable Companies Analysis

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# Comps Table



## Monster Beverage Corporation Comparable Companies Analysis - Financial Statistics and Ratios (\$ in millions, except per share data)

Valuation				LTM Financial Statistics					LTM Profitability Margins					Growth Rates					
		Equity Value	Enterprise Value	Sales	Gross Profit	EBITDA	EBIT	Net Income	Diluted EPS	Gross Profit (%)	EBITDA (%)	EBIT (%)	Net Income (%)	Revenue		EBITDA		Diluted EPS	
Company	Ticker													2022A	2023E	2022A	2023E	2022A	2023E
Monster Beverage Corporation	MNST	\$53,923.10	\$51,589.5	\$6,311.1	\$3,174.6	\$1,646.0	\$1,584.7	\$1,191.6	\$2.23	50.3%	26.1%	25.1%	18.9%	13.9%	12.9%	-11.1%	30.0%	-13.3%	35.4%
Coca-Cola Company	KO	\$259,644.8	\$307,396.5	\$42,841.0	\$24,809.0	\$13,213.0	\$11,953.0	\$9,542.0	\$2.19	57.9%	30.8%	27.9%	22.3%	10.6%	4.9%	8.8%	9.9%	-2.6%	18.5%
National Beverage Corp.	FIZZ	\$4,319.4	\$4,134.1	\$1,138.0	\$407.8	\$229.7	\$197.9	\$158.5	\$1.69	35.8%	20.2%	17.4%	13.9%	6.1%	3.0%	-10.4%	-13.6%	-9.0%	-14.0%
Celsius Holdings, Inc.	CELH	\$6,841.5	\$5,778.3	\$314.3	\$126.9	-\$2.8	-\$4.1	\$3.9	\$0.05	40.4%	-0.9%	-1.3%	1.3%	140.4%	221.7%	-128.3%	-5774.5%	-55.7%	1947.6%
Mean		\$90,268.6	\$105,769.6	\$14,764.4	\$8,447.9	\$4,479.9	\$4,048.9	\$3,234.8	\$1.31	44.7%	16.7%	14.7%	12.5%	52.4%	76.5%	-43.3%	-1926.1%	-22.4%	650.7%
Median		\$6,841.5	\$5,778.3	\$1,138.0	\$407.8	\$229.7	\$197.9	\$158.5	\$1.69	40.4%	20.2%	17.4%	13.9%	10.6%	4.9%	-10.4%	-13.6%	-9.0%	18.5%

General		Return on Investment				Leverage Metrics				Rating	EV / EBITDA			P / E					
Company	Ticker	Current Share Price	% of 52-wk. High	ROIC (%)	ROE (%)	ROA (%)	Div. Yield (%)	Debt / Tot. Cap. (%)	Debt / EBITDA (x)	Net Debt / EBITDA (x)	EBITDA / Int. Exp. (x)	EBIT / Int. Exp. (x)	S & P	2021A	2022A	2023E	2021A	2022A	2023E
Monster Beverage Corporation	MNST	\$103.22	97.9%	25.4%	17.5%	14.8%	N/A	0.0%	.03 x	-1.61 x	55.42 x	53.33 x	B+	26.05 x	30.60 x	23.76 x	37.35 x	45.53 x	34.17 x
Coca-Cola Company	KO	\$60.01	89.3%	15.4%	40.5%	10.2%	2.8%	62.7%	3.07 x	2.19 x	15.35 x	10.62 x	B+	24.92 x	23.15 x	21.18 x	26.30 x	29.00 x	23.08 x
National Beverage Corp.	FIZZ	\$46.27	80.3%	47.0%	53.2%	30.7%	0.0%	20.4%	.19 x	.06 x	574.25 x	494.75 x	B+	10.12 x	17.87 x	20.83 x	26.12 x	26.03 x	31.76 x
Celsius Holdings, Inc.	CELH	\$89.19	73.0%	2.4%	2.5%	1.8%	0.0%	0.6%	-.43 x	5.27 x	-376.59 x	554.05 x	C	910.96 x	-45.65 x	36.03 x	439.39 x	1470.81 x	85.92 x
Mean		\$65.16	80.87%	21.61%	32.07%	14.22%	0.92%	27.92%	2.83 x	2.51 x	71.00 x	353.14 x	NA	315.3 x	-1.54 x	26.0 x	163.9 x	508.6 x	46.9 x
Median		\$60.01	80.30%	15.41%	40.51%	10.20%	0.00%	20.37%	.19 x	2.19 x	15.35 x	494.75 x	NA	24.9 x	17.87 x	21.2 x	26.3 x	29.0 x	31.8 x



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# WACC Analysis

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Cost of Equity							
Comparable Companies	Raw Beta	Tax Rate	(1 - T)	Total Debt	Total Equity	Debt / Equity	Unlevered Beta
Coca-Cola Company	0.54	18%	0.82	\$42,279	\$271,692	0.16	0.48
National Beverage Corp.	0.99	24%	0.77	\$41	\$4,479	0.01	0.98
Celsius Holdings, Inc.	1.84	23%	0.77	\$1	\$6,778	0.00	1.84
						Mean	1.10
Risk-free Rate	3.30%						
Total Equity Risk Premium	4.80%						
Levered Beta	0.87						
Small-Cap Premium	0.0%						
Cost of Equity	7.77%						

WACC	
Target Debt-to-Capital Ratio	0.50%
Cost of Equity	7.77%
Cost of Debt	5.40%
WACC	7.75%
WACC (rounded)	8.00%



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# Discounted Cash Flow Analysis

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# DCF Model



Key Information								
WACC	7.8%					Total Debt	\$7.8	
Terminal Multiple	20.0x					Cash	\$2,670	
Perpetuity Rate	4.4%					Net Debt	(\$2,662)	
Projected Financials								
(\$ in millions)							Terminal	'23 - '27
	2022E	2023E	2024E	2025E	2026E	2027E	Year	CAGR
Revenue	\$6,311	\$7,201	\$8,123	\$9,170	\$10,500	\$12,369	\$12,369	14%
% growth		14%	13%	13%	15%	18%		
<b>EBITDA</b>	<b>\$1,645</b>	<b>\$2,180</b>	<b>\$2,660</b>	<b>\$2,961</b>	<b>\$3,268</b>	<b>\$3,844</b>	<b>\$3,844</b>	<b>15%</b>
% margin	26%	30%	33%	32%	31%	31%		
Less: D&A	(\$61)	(\$75)	(\$81)	(\$92)	(\$99)	(\$111)	(\$111)	
<b>EBIT</b>	<b>\$1,584</b>	<b>\$2,105</b>	<b>\$2,579</b>	<b>\$2,869</b>	<b>\$3,169</b>	<b>\$3,733</b>	<b>\$3,733</b>	<b>15%</b>
% margin	25%	29%	32%	31%	30%	30%		
Cash Taxes	(\$380)	(\$501)	(\$614)	(\$683)	(\$754)	(\$888)	(\$888)	
% tax rate	24%	24%	24%	24%	24%	24%		
Tax Adjusted EBIT	\$1,204	\$1,604	\$1,966	\$2,187	\$2,415	\$2,845	\$2,845	15%
Depreciation & Amortization	\$61	\$75	\$81	\$92	\$99	\$111	\$111	
Capital Expenditures	(\$189)	(\$274)	(\$179)	(\$210)	(\$210)	(\$246)	(\$246)	
Decrease (Increase) in NWC	\$9	\$134	(\$159)	(\$185)	(\$244)	(\$356)	(\$356)	
<b>Free Cash Flow</b>	<b>\$1,085</b>	<b>\$1,540</b>	<b>\$1,709</b>	<b>\$1,883</b>	<b>\$2,060</b>	<b>\$2,354</b>	<b>\$2,354</b>	<b>11%</b>
% growth		42%	11%	10%	9%	14%		

# DCF Model



Terminal Multiple Method	
Terminal Year EBITDA	\$3,844.5
Terminal EBITDA Multiple	20.0x
Terminal Value	\$76,889.1
Discount Period	5.00
Discount Rate	7.8%
Discount Factor	1.452
Present Value of Terminal Value	\$52,939.4
Present Value of Cash Flows	\$7,842.8
Total Enterprise Value	\$60,782.2
Less: Net Debt, NCI & Preferred	\$2,662.2
Implied Equity Value	\$63,444.4
Diluted Shares	1,061.8
Implied Share Price	\$59.8
Terminal Year Free Cash Flow	\$2,353.7
Implied Perpetuity Growth Rate	4.4%

Perpetuity Growth Method	
Terminal Year Free Cash Flow	\$2,353.7
Perpetuity Growth Rate	4.4%
Terminal Value	\$74,072.4
Discount Period	4.50
Discount Rate	7.8%
Discount Factor	1.399
Present Value of Terminal Value	\$52,939.4
Present Value of Cash Flows	\$7,842.8
Total Enterprise Value	\$60,782.2
Less: Net Debt, NCI & Preferred	\$2,662.2
Equity Value	\$63,444.4
Diluted Shares	1,061.8
Implied Share Price	\$59.8
Terminal EBITDA	\$3,844.5
Implied Terminal EBITDA Multiple	20.0x



# Investment Thesis

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## Investment Thesis

Monster's established brands, leading competitive advantages and efficient operations will keep them on top of a volatile industry.



### Leader in Alternative Beverage Industry

#### Leading Energy Drinks



- ✓ Monster Energy has a market share of approximately 30%.

#### Diverse Strategic Brands



- ✓ 15 different brands under Strategic Brand

### Expanding Expertise and Innovation

#### Seltzer



- ✓ Robust pipeline of growing hard seltzer portfolio.

#### CANarchy Acquisition



- ✓ completed acquisition of CANarchy, a craft beer company for \$329.5 million

# Investment Thesis

Rising demand in new product lines that will lead to more future growth



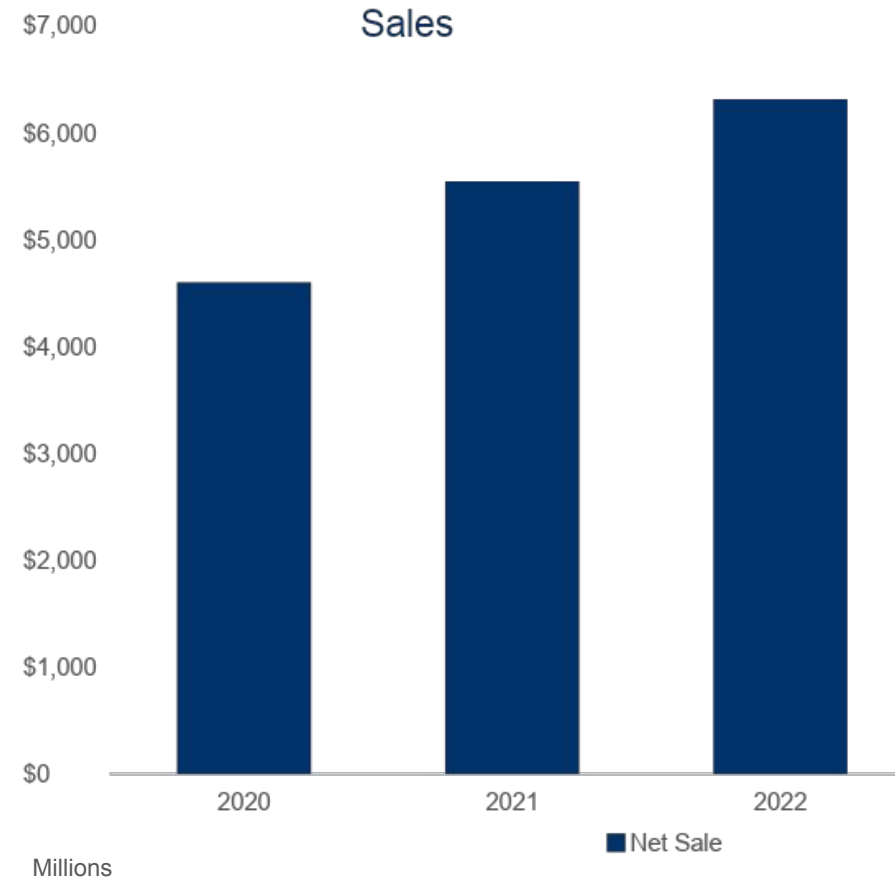
## Strong Growth in Strategic Brands Portfolio

- ✓ Sales rose by 19% year over year, or 26% on a currency-adjusted basis.
- ✓ Consumer demand for Monster's energy is rising despite recent price increases. Monster energy will continue to introduce price increases across Europe and Asia, which will boost revenue.

## Innovative New Drinks

- ✓ Beast and Monster Zero are the most important innovations from MNST in years. It is driven by increased distribution, with plans to rollout internationally
- ✓ A second wave of alcoholic beverage introduction is planned and offered internationally for a more strategic rollout

MSNT Net Sales





## Consistent Profitability



### Strong Growth



### Improving Gross Margin



### Resilience in Volatile Markets

- ✓ Return on Assets is at 17.6% versus sector average of 10.2%.
- ✓ In the beverages/drinks sector of S&P 500, MNST has the 2nd highest total assets and 3rd highest revenues

- ✓ Net profit margin has averaged 27.3% in the last 3 years and the Return on Equity is high at 21.0%.
- ✓ earnings over the next few years are expected to increase by more than 15%, indicating a highly optimistic future ahead.

- ✓ Consumer demand are highly resilient to macroeconomic downturns
- ✓ The alternative drink industry is historically inelastic, meaning that as prices for products in these industries increase, their demand will remain relatively the same.





# Investment Risks



## Risks

### Government Regulation

### Supply Chain Risks

### Failure to Enter New Markets

## Mitigants

- ♦ Government regulation has always been a threat to the entire energy drink industry. Monster is thought to have relatively safer ingredients.

- ♦ Monster has a strong and well established supply chain so would likely suffer less than the rest of the industry

- ♦ Monster has very little long term debt associated with new product lines
- ♦ Still have established presence in energy drink market