

BOSTON BEER co.

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Key Information:

September 17, 2024

Recommendation: **BUY**

Stock Price: \$270 (as of 9/17/2024)

Target Price: \$405

Upside Potential: 55.56%

Analyst:

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Company Statistics

Market Cap (\$ Bn):	\$3.30
52-Week Range:	\$254.40 - \$395.52
P/E (Current):	17.07x
Fwd P/E (FY25):	23.25x
Return on Equity:	8.66%
Beta (5Y Monthly):	1.06

Boston Beer Overview:

Boston Beer (SAM) is a high-end alcoholic beverage company and one of the largest brewers in the United States. The company is most popular for its drink brands Truly Hard Seltzer, Twisted Tea, Samuel Adams, Angry Orchard Hard Cider, as well as numerous other local craft beer brands. Boston Beer produces various types of alcoholic beverages and owns many breweries nationwide. The company was founded in 1984 originally as a craft brewery. The Beer leader headquarters is in Boston, Massachusetts, they own breweries in Boston, Cincinnati; Milton, Delaware; and Breinigsville, Pennsylvania. Boston Beer owns smaller breweries as well in Delaware, Massachusetts, California, and Ohio. The Co also operates an apple orchard in New York and a restaurant in Delaware. Most of the company's revenue is from the US, but it sells products in Europe, Canada, Israel, Australia, New Zealand, and other smaller regions. Marketing-wise, Boston Beer sponsors many Boston Sporting events and teams.

Brand Position: SAM holds a relatively small share of the overall U.S alcoholic beverage market. While the exact market share is difficult to calculate for Boston Beer, it is estimated they capture between 2-3% of the US Beer market. Boston Beer has remained a small, but notable player in the beer industry with giants like Anheuser-Busch capturing nearly 45% and Coors holding around 25%.

Shareholders: 74.85% of SAM shares are held by Institutional investors. Just below 8% are held by insiders. Top institutional holders are T. Rowe Price, Blackrock, Vanguard, and FMR.

Investment Thesis

Strong Brand

- Twisted Tea is a brand name and will benefit from industry growth
- Rest of drink portfolio remains popular

Growth Potential

- Smaller market share gives SAM great growth opportunity
- Plans to release new “American Light”

Relative Value

- Trading well below fwd p/e historical average
- Share buybacks
- Potential target for acquisition

Figure 1:
Market Share by total sales

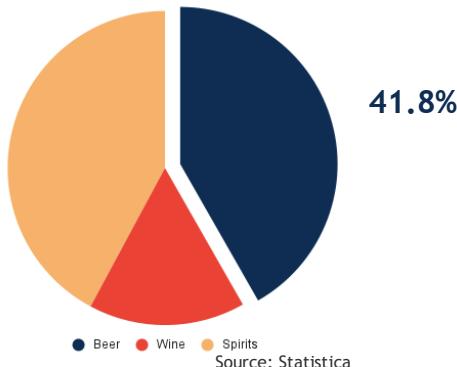
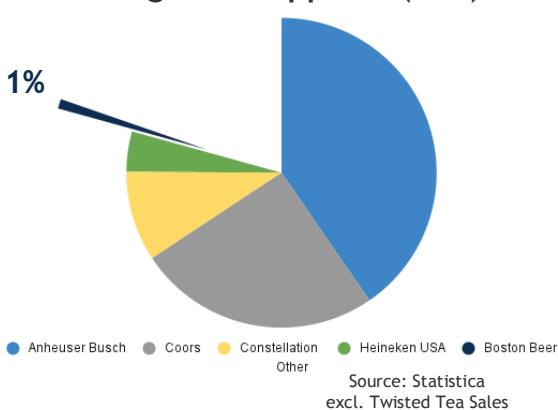


Figure 2:
Leading Beer Suppliers (USA)



Industry Analysis

- **Alcoholic Beverages: Beer** – The Alcoholic Beverages industry has seen impressive sales growth well above inflation in the last 20 years. Wholesale merchant purchases and sales have been trending up almost yearly since the 21st century began. As for the market share of beer, spirits have been expanding slightly while beer has been contracting in the last decade to spirits. Beer recently fell to second in market share, behind spirits, and ahead of wine, holding 42% of sales. The beer market is still growing and is projected to grow modestly throughout the next decade. While revenues are up, actual beer consumption remains relatively flat over the last decade and is projected to lose some steam by 2030. The Hard Tea sector is expected to have a CAGR of 25% from 2022 to 2030, offering impressive growth prospects for *Twisted Tea* as the brand holds nearly 90% of the Hard Tea sector. The outlook for the overall alcoholic beverage industry is optimistic, actual consumption of beverages show minimal growth in market projections.

Competitive Positioning

Moat Analysis: Semi-Protected, Narrow

- **Brand Recognition** – Boston Beer has multiple drinks that bring enormous brand recognition. Flagship drinks like *Twisted Tea*, and *Truly Hard Seltzer* provide a strong name to Boston Beer's company. The brand recognition is also very prevalent in Boston with popular beer, *Samuel Adams*. In conclusion, Boston Beer does have brand recognition along with competitors.
- **Diversified Drink Portfolio** – Boston Beer's portfolio of different drinks is a real benefit for the company. They tap into many different types of consumers from light beer to popular party drinks. With an assortment of drink offerings, Boston Beer can access numerous types of consumers at different ages and classes. This helps dampen any specific downturn periods of a singular beverage.
- **Scale Distribution & Shelf Space** – SAM's distribution abilities and network appear to be impressive and certainly contributes to the economic moat. Though Boston Beer is not a mega producer of alcoholic beverages, they hold leverage against most craft brewers. This allows the company to leverage larger distribution networks and marketing budgets that smaller craft beer competitors cannot match, giving SAM a cost advantage. Boston Beer also has maintained relationships with distributors and retailers for decades allowing them preferred shelf space in a more affordable manner than competitors. Because these relationships have been built over years, it is harder for smaller drink companies to replicate.
- **Regulatory Expertise** – Boston Beer's expertise in regulatory compliance is important as the alcoholic beverage industry is heavily regulated in the United States. Navigating regulations effectively can put the company ahead of smaller competitors who may have greater difficulty doing so. Due to the industry, this can act as a barrier to entry for new competition. Boston Beer certainly can recognize this as a form of moat protection.

Figure 3: Porter's Five Focus

Porter's Five Focus

Threat of New Entrants – Low (3 out of 5) Boston Beer faces risk of new competition in multiple different ways. Existing alcoholic beverage companies can tap into Boston Beer's strengths of hard tea: *Twisted Tea* as well as hard seltzer dominance: *Trulys*. The alcoholic beverage industry is always seeing new competition as well, though hard to break in.

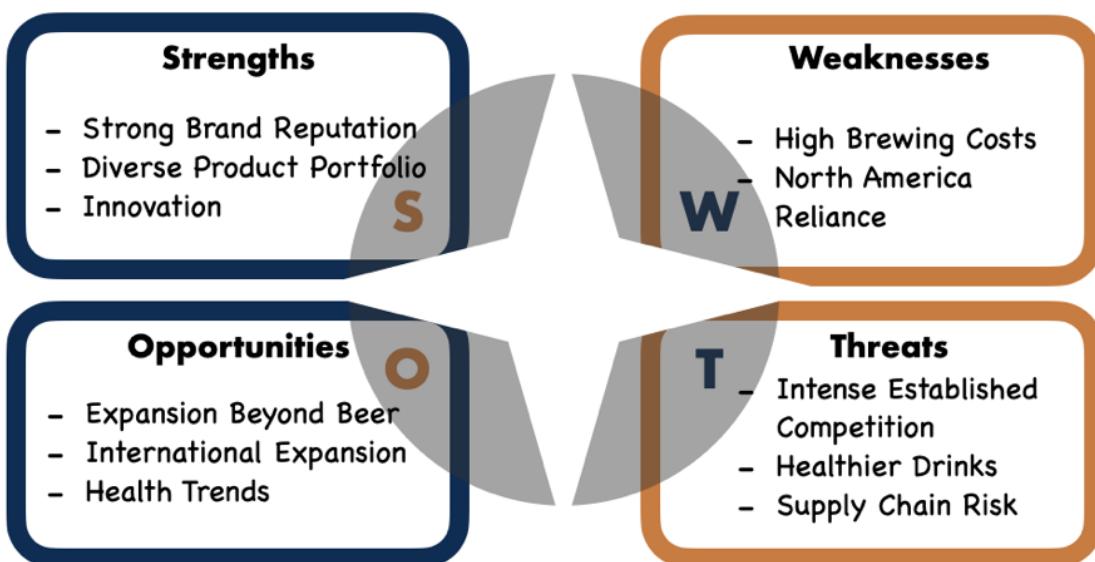
Threat of Substitutes – High (0 out of 5) Boston Beer inevitably faces extreme competition, and due to the nature of the alcoholic beverage industry, the threat of substitutes is very present. Consumers have preferences but also choose cheap alcohol that is in front of them. Health-conscious consumers will seek alternative beverages not in the alcohol sector which can also hurt Boston Beer in terms of substitutes.

Bargaining Power of Suppliers – Insignificant (4 out of 5) Boston Beer being one of the largest craft brewers in America is a desired customer by numerous suppliers. The abundance of suppliers that Boston Beer can choose from for its raw materials helps them be the price-maker in these relationships.

Bargaining Power of Customers – Moderate (2 out of 5) Due to the nature of the industry, Boston Beer's bargaining power of customers is not significant. There is a wide variety of beers nationwide which directly compete with Boston Beer. Many of these brands also carry a loyal base, increasing the difficulty for BBC to have power.

Competitive Rivalry – Moderate (2 out of 5) Similar to the bargaining power of customers, the beer and alcohol market is extremely competitive. Though the company holds some brand protection against competitors, the competitive nature of the industry remains present. This creates a moderate threat for Boston Beer.

S.W.O.T Analysis



Revenue Drivers

Figure 4:

Year	Annual Revenues	
	Revenue (\$mm)	YoY Growth
2016	\$906	-5.63%
2017	\$863	-4.75%
2018	\$996	15.41%
2019	\$1,250	25.50%
2020	\$1,736	38.88%
2021	\$2,058	18.55%
2022	\$2,090	1.55%
2023	\$2,009	-3.88%
2024E	\$2,019	0.47%
2025E	\$2,080.20	3.06%
2026E	\$2,176	4.61%

Source: Boston Beer 10K

Core drivers behind Boston Beer Company's revenue:

Truly Hard Seltzer: Truly's have had a great impact on driving BBC's revenue as they appeal to health-conscious consumers. The carbonated seltzer drink has seen explosive growth over the past few years while competing with other big-name seltzer brands. The low-calorie offering is attractive to a large population.

Samuel Adams Brand: The Samuel Adam's brand reputation is a strong position Boston Beer Company holds. With a loyal consumer base and strong reputation, it serves as a core driver to BBC. Year-round offerings as well as seasonal beers have remained popular to craft beer enjoyers.

Beyond Beer Portfolio: BBC's portfolio is diverse and consists of numerous drinks outside of the beer sector. *Twisted Tea* and *Apple Orchid Hard Cider* both have been major revenue contributors. The company's ability to diversify its drinks allows Boston Beer to expand into different market segments.

Distribution Expansion: Boston Beer has capability to keep expanding into new restaurants to offer their signature craft beer titles. As they expand into new locations to reach new consumers, naturally their sales will be pushed upwards along with exposure to potential new loyal customers.

Financials

Key Financials	2018	2019	2020	2021	2022	2023
Income Statement (\$mm, except per share data)						
Total Revenue	995.60	1,249.80	1,736.40	2,057.60	2,090.30	2,008.60
Cost of Goods	483.40	635.70	922.00	1,259.80	1,228.30	1,156.30
Operating Expenses	395.60	467.50	566.40	740.80	736.20	730.70
Gross Profit	512.20	614.20	814.50	797.80	862.00	852.40
Net Income	93.20	111.40	195.00	53.20	94.90	93.30
Balance Sheet (\$mm)						
Total Assets	639.90	1,054.10	1,378.80	1,386.80	1,420.80	1,430.00
Cash and Equivalents	108.40	36.70	163.30	26.90	180.60	298.50
Total Liabilities	179.50	318.40	421.90	403.40	352.20	352.10
Cash Flow (\$mm)						
Cash from Operating Activities	163.40	178.20	253.40	56.30	199.90	265.20
Cash from Investing Activities	(55.30)	(258.80)	(139.10)	(146.60)	(88.50)	(62.40)
Cash from Financing Activities	(65.30)	8.90	12.30	(6.60)	2.80	(84.80)
Free Cash Flow	108.00	85.00	113.40	(91.60)	109.40	201.10
Per Share Data					Current	2024E
E.P.S	\$7.90	\$9.26	\$15.83	\$1.19	\$5.40	\$6.23
P/E	30.57	40.84	62.91	120.89	42.95	45.5
Profitability					2025E	\$9.67
Gross Margin	51.45%	49.14%	46.90%	38.77%	41.24%	42.44%
Net Profit Margin	9.36%	8.92%	11.23%	2.59%	4.54%	4.65%
Return on Equity	20.97%	18.40%	22.68%	1.50%	6.56%	7.10%

Financial statement extracts and forecasts for Boston Beer *some data points unavailable*

Profitability: Boston Beer has seen drastic decreases in margins across the board throughout recent years. These declines can be attributed to a mixture of increasing supply costs as well as increasing expenses with an uptick of competition. Recent increased competition has prompted Boston Beer to expand spending into marketing to hold and gain market share.

Growth: Boston Beer is projecting significant growth over the next three to five years. The company is looking to grow their EPS at a 10% CAGR over the next five years while growing over 50% from 2023 to 2024. This will show a strong sign to investors of their ability to slash costs and operate more efficiently compared to recent years. While earnings expect to grow, revenue projections remain at showing steady, but moderate growth over the next couple of years.

Valuation

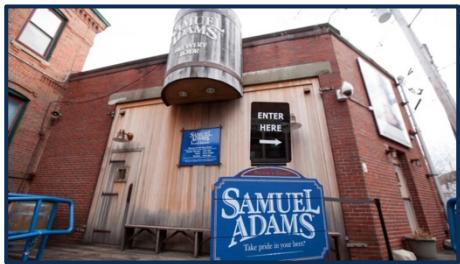
Figure 5:

Ticker	Company	Forward P/E
SAM	Boston Beer	22.99
KO	Coca Cola	23.53
CEG	Constellation Brands	21.6
BUD	Anheuser-Busch	16.81
DEO	Diageo	15.58
TAP	Molson Coors	9.38

Source: Yahoo Finance

I am placing my 2025/2026 price target on (SAM) at **\$405**, which represents **55.56%** upside from the current share price. I found a target share value at \$405 through the following assumptions and valuation techniques:

- I used a Discounted Cash Flow analysis to analyze Boston Beer's potentially large increase in FCF in the coming years. I used the Weighted Average Cost of Capital to achieve an 8.57% discount factor. The DCF provided an output price target of \$418. Capital Expenditure projections take a hit in the projected FCF for the short-term period. Short-term growth is set at 20%, slightly lower than consensus while perpetuity growth is set at 3%. (See *DCFs in appendix*)



- I utilized Relative Valuation analysis to compare Boston Beer to the similar companies within the Alcoholic Beverage sector. The average p/e ratio for the sector is 23.39x. I placed a 15% premium on Boston Beer's p/e relative to the sector due to growth potential, and more importantly, the historical elevated p/e BBC has traded at. With this premium, the assumed p/e for Boston Beer sits just below 27x, well below the historical average of over 40x. With projected 2026 EPS of \$14.50, and an assumed p/e of 27x, the price target output from this relative valuation analysis is \$390. (See *Relative Valuation below*)

Valuation Analysis: Overall Boston Beer's valuation places it on the higher end of the spectrum in relation to the sector. But this slight premium is due to the underlying growth that BBC is projected to see in margins throughout the next few years. Boston Beer also holds a smaller market share of the overall market offering more growth potential as management continues to seek sales growth. I split our price target by utilizing 50/50 method from our output target prices from the Relative Valuation and Discounted Cash Flow models. This sets the price target at \$405 for 2025/2026 as margin recovery and stable sales will drive up net income.

Figure 6:

Relative Valuation Analysis

Comparable Companies	P/E Ratio
Boston Beer Company	35.25
Anheuser-Busch	28.05
Molson Coors	10.08
Constellation Brands	18.81
Diageo	19.11
Coca Cola	29.02
Comparable Average	23.39

Deserved Premium / Discount to Avg
Target P/E Multiple

15%
26.89

Period	Actual (millions)	Projected Annual Forecast				
		Future Yr 1	Future Yr 2	Future Yr 3	Future Yr 4	Future Yr 5
Revenue	\$2,008	\$2,088.3	\$2,171.9	\$2,258.7	\$2,349.1	\$2,443.0
Net Income	\$7,850.0	\$315.1	\$378.1	\$446.2	\$490.8	\$539.9
Earnings per Share (EPS)	\$6.21	\$9.61	\$12.01	\$14.50	\$17.07	
Intrinsic Value per Share	\$389.97					
Current Share Price	269.00					
Upside Potential	45.0%					

Investment Risks

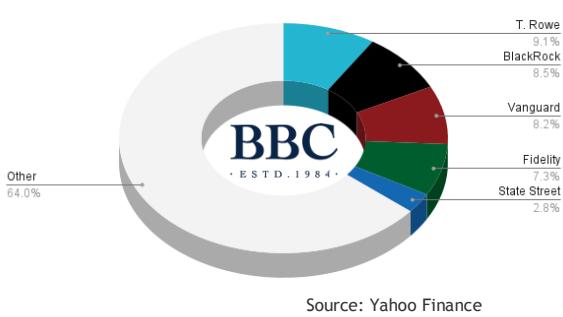
- **Market Competition:** Because Boston Beer lies in a very competitive market, the company is subject to risk paired with market share growth or shrinkage. Increased competition will also pressure SAM to allocate more spending towards marketing to keep up with other brand names.
- **Consumer Preference:** Boston Beer inevitably faces the risk of changes in consumer preferences. On the other hand, BBC has a diversified portfolio through malt beverages and hard seltzers. One particular risk that the company will face is shifting to healthier drinks, non-alcoholic beverages.
- **Regulation:** With any alcohol producer, Boston Beer faces regulatory risk as the alcoholic sector is heavily regulated through changes in taxes, advertising restrictions, and distribution hurdles. These regulation changes can affect Boston Beer's profitability through fluctuating operating expenses and market access.
- **Supply Chain:** Being a drink producer, SAM faces supply chain risk. The company relies on raw materials to produce, and disruptions can hinder the ability to access some materials. Any issue regarding access to materials will put pressure on Boston Beer's profit margins and cause short-term distribution issues.



Management & Governance

Figure 7:

Shareholders



CEO, Michael Spillane of Boston Beer has recently taken on the role following Dave Burwick, CEO since 2018. Spillane has history of leadership through other large corporations such as president position at Nike, short-term CEO at Converse, and other smaller companies through his career. Spillane graduated from University of Massachusetts.

- **Shareholders** – Institutional shareholders hold most shares at 74.91% throughout 430 institutions. The largest shareholder is T. Rowe Management, with Blackrock and Vanguard following behind.
- **Independence** – The board of directors consists of 10 members. 8 of the 10 members are independent (non-company executives). As for board of directors, no suspicious or red flag transactions and incidents have shown up in recent years.



ESG Considerations

Boston Beer ranks on the lower end in ESG scores across limited sources. SAM is across the lower end of the ESG spectrum due to a few reasons. Lacking in environmental and social efforts, the score has been pushed lower. Over the past three years, SAM's ESG score has been trending up.

E.S.G

- **Environment:** Boston Beer has sustainable energy management policies and procedures in order. The company also utilizes sustainable packaging which has earned recognition from ESG reports. Many of the environmental factors for ESG within Boston Beer is limited, due to the reporting and research of ESG firms, many environmental aspects like water and supply chain management are lagging data. Overall, though the score is low, it is evident that the company puts effort in environmental factors as energy management remains efficient through conservative usage, and sustainability efforts through packaging methods.
- **Society:** Socially, Boston Beer also lacks data regarding several contributing factors. Due to the nature of being an alcohol producer, SAM does face ESG headwinds on marketing practices to sell alcoholic beverages. Aside from this, Boston Beer faces little concerns regarding societal considerations.
- **Corporate Governance:** The BBC leads the industry in governance scores. The diversity in the board reflects on to the high score that the company receives for governance. The audit committee and reputation are highly reputable. Most importantly, executive compensation is fully disclosed and does not display any suspicious framework. The only lacking field in governance is director voting and terms.

Artificial Intelligence

Though Boston Beer is not a technology company, it is still utilizing A.I through several areas of business.

Product Development: Boston Beer is enhancing product development with A.I to analyze consumer trends. A.I can assist in finding popular flavors, beverages, marketing trends, etc. Overall, AI can aid BBC through deep diving into market data.

Supply: Boston Beer can certainly use A.I to improve supply chain management. With A.I, the company can better prepare order volumes to match current demand. This will optimize the company's supply and minimize waste.

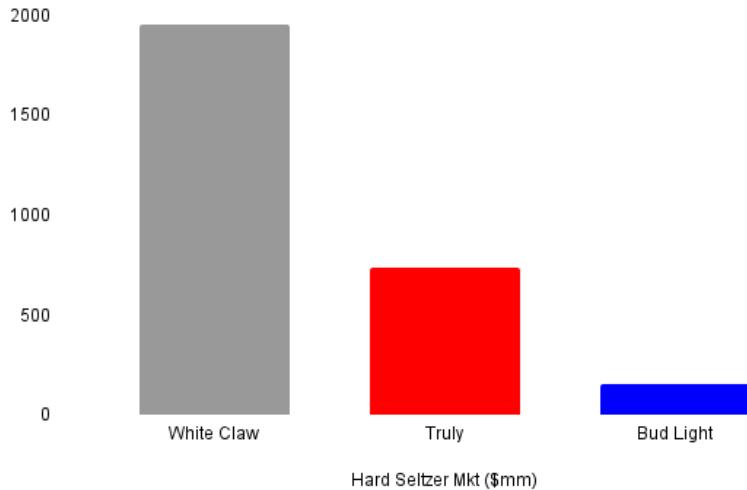
Quality Assurance: A.I is being used worldwide to ensure consistency in packaging, drinks, and overall quality of product. A.I can help Boston Beer to detect anomalies and maintain consistency.



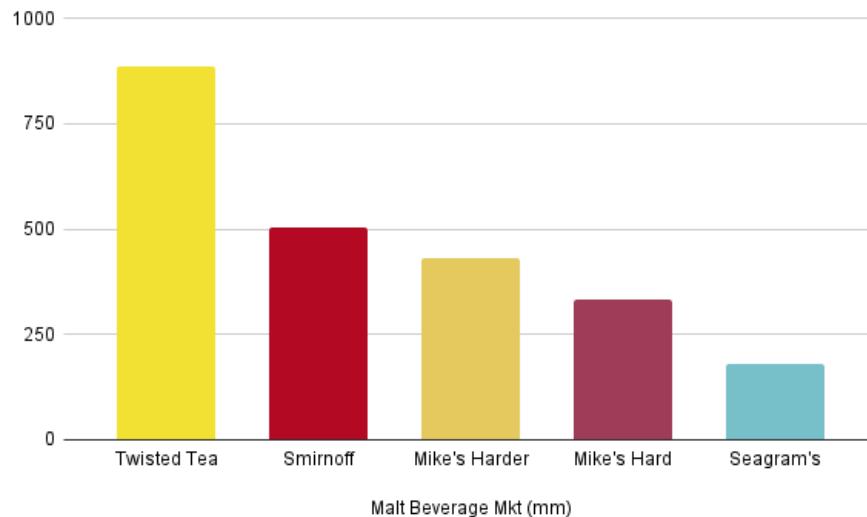
DCF Model

Figure 8:

	Period	0	1	2	3	4	5
Free Cash Flows							
mm	EBIT	145.30	174.36	209.23	251.08	301.29	361.55
mm	-Tax		(48.82)	(58.58)	(70.30)	(84.36)	(101.23)
mm	D&A	88.15	95.20	102.82	111.04	119.93	129.52
mm	-CapEx	(64.10)	(90.00)	(100.00)	(105.00)	(112.00)	(115.00)
mm	Non-cash Work. Capital (inc) / dec	(18.27)	20.00	15.00	(15.00)	25.00	(25.00)
mm	FCF		150.74	168.47	171.82	249.86	249.84
WACC							
mm	Cost of Equity	8.79%					
mm	D/D+E	0.037					
mm	E/D+E	0.963					
mm	WACC	8.57%					
Terminal Value							
mm	EBITDA						491.07
mm	Exit Multiple (EV/EBITDA)						6452.714541
mm	Perpetuity Growth						4620.389077
mm	Average						4620.389077
Discounting							
mm	Discount Factor	0.92	0.85	0.78	0.72	0.66	
mm	PV of FCF	138.8429908	142.9203878	134.2609898	179.8302245	165.6230623	
mm	PV of TV						3062.940134
mm	Enterprise Value	3824.41779					
Enterprise Value To Equity Value							
yahoo finance next 5	Cash	\$219.29	mm				
yahoo finance next 5	Marketable Securities	\$0					
yahoo finance next 5	Short term Debt	\$10.37	mm				
yahoo finance next 5	Long term Debt	\$0					
yahoo finance next 5	Equity Value	\$4,033.34					
yahoo finance next 5	Shares Outstanding	9.65					
yahoo finance next 5	Implied Share Price	\$417.96					
Assumptions pt1							
yahoo finance next 5	Growth rate	20%					
yahoo finance next 5	EV/EBITDA Multiple	13					
yahoo finance next 5	Cost of Debt	4.00%					
yahoo finance next 5	Tax Rate	28%					
yahoo finance next 5	10y Treasury	3.65%					
Assumptions pt2							
yahoo finance next 5	Beta	1.06					
yahoo finance next 5	Market Return	8.5%					
yahoo finance next 5	Equity Value	\$1,041	(mm)				
yahoo finance next 5	Debt Value	\$41	(mm)				

Figure 9:

Boston Beer's *Truly Hard Seltzer* raked in over \$700M in revenue for FY2023. Out of the top 3 hard seltzer producers, they hold the #2 rank by a large margin.

Figure 10:

Boston Beer's *Twisted Tea* raked in nearly \$900M in revenue for FY2022. *Twisted Tea* dominates the hard tea sector with holding nearly 90% of share and holds nearly 50% of the malt beverage market.