

Boston Beer Company (SAM)

\$399.69 (As of 02/11/20)

Price Target (6-12 Months): **\$420.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/30/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: D

Growth: A

Momentum: C

Summary

Boston Beer has risen and outpaced the industry in a year's time courtesy of its robust surprise history. In third-quarter 2019, the company delivered positive earnings surprise for the fifth straight quarter, with the fourth sales beat in the last five quarters. Results were fueled by higher revenues, owing to solid shipment and depletions growth. Further, the company is poised to gain from increased investments in the Truly brand, which will bolster its position in the fast-growing hard seltzer category. Driven by the positive trends, management raised the lower end of earnings, shipments and depletions view for 2019. However, incremental costs for the use of third-party breweries and introduction of variety packs are likely to dent gross margins throughout 2019 and beyond. Additionally, higher operating expenses also remain a headwind.

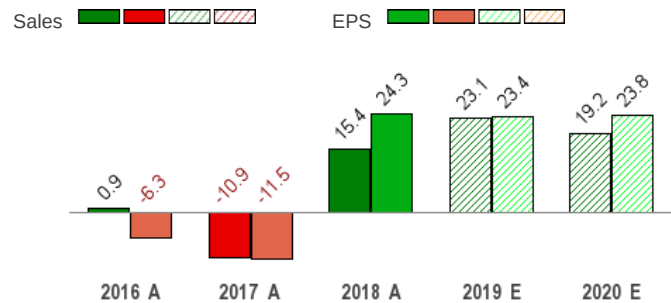
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$444.65 - \$258.34
20 Day Average Volume (sh)	125,230
Market Cap	\$4.8 B
YTD Price Change	5.8%
Beta	0.67
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Beverages - Alcohol
Zacks Industry Rank	Bottom 38% (157 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	28.3%
Last Sales Surprise	3.8%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/19/2020
Earnings ESP	0.0%
P/E TTM	41.5
P/E F1	35.0
PEG F1	3.5
P/S TTM	4.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	318 E	417 E	445 E	342 E	1,462 E
2019	252 A	318 A	378 A	277 E	1,226 E
2018	190 A	273 A	327 A	225 A	996 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$2.23 E	\$3.24 E	\$4.55 E	\$2.37 E	\$11.41 E
2019	\$1.87 A	\$2.34 A	\$3.58 A	\$1.42 E	\$9.22 E
2018	\$0.55 A	\$1.98 A	\$3.21 A	\$1.84 A	\$7.47 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/11/2020. The reports text is as of 02/12/2020.

Overview

Founded by Jim Koch, Harry M. Rubin, and Lorenzo Lamadrid in Boston, MA in 1984, Boston Beer Co. Inc. is one of the largest craft brewers in the United States. Boston Beer produces beer, malt beverages, and cider products at company-owned breweries and under contract. The company sells alcoholic beverages in the United States, Canada, Europe, Israel, Australia, New Zealand, the Caribbean, the Pacific Rim, Mexico, and Central and South America through a formidable network of wholesale distributors.

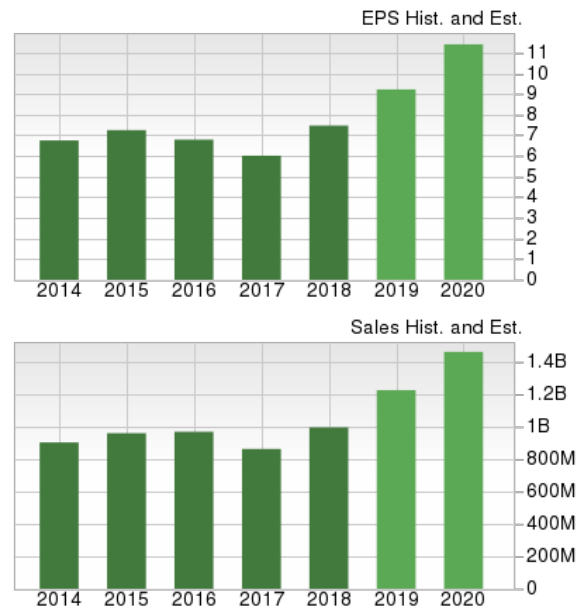
Boston Beer has four company-owned breweries, namely **Boston Brewery** located at Boston, MA; **Cincinnati Brewery** at Cincinnati, OH; **Pennsylvania Brewery** at Breinigsville, PA; and **Angel City Brewery** at Los Angeles, CA.

The company produces and sells three types of alcoholic beverages:

Beer: The company's beer products are primarily positioned in the "Better Beer" category of the beer industry, which includes craft beers, domestic specialty beers and imported beers. The category is decided on the basis of premium price, quality, image and taste. The company is known for its Samuel Adams Boston Lager or Sam Adams Boston Lager beer brands under which it sells about 60 different types of beers. Alongside, the company sells 20 beers of various other brands.

Malt Beverages: Apart from producing beer, the company also produces a malt beverage known as Twisted Tea which contains Iced Tea and alcohol.

Cider: The company sells alcoholic ciders under the Angry Orchard brand.



Reasons To Buy:

▲ **Robust Surprise Trend & Outlook Drive Stock:** Shares of Boston Beer have surged 48.4% in a year's time, against the industry's decline of 5.2%. This outperformance can be attributed to the company's robust surprise trend, which continued in third-quarter 2019. The company's third-quarter 2019 earnings and sales not only outpaced estimates but also improved year over year. This marked the company's fifth straight earnings beat, with positive sales surprise in four of the last five quarters. Results were fueled by higher revenues, owing to solid shipment and depletions growth. Driven by the positive trends, management raised the lower end of earnings, shipments and depletions view for 2019. It envisions adjusted earnings per share of \$8.70-\$9.30, compared with \$8.30-\$9.00 mentioned earlier.

Investments in the Truly brand through the launch of new flavors, NHL partnership and new ad campaign, should bolster Boston Beer's position in hard seltzer category. This is likely to aid depletions.

▲ **Strong Shipments & Depletions Growth:** Boston Beer has been witnessing sturdy depletions growth for a while now, which is aiding the top-line performance. In third-quarter 2019, revenues improved 23.3% on 19.1% improvement in shipments and 30% increase in depletions. This marked the sixth consecutive quarter of double-digit depletion growth for the company. Excluding the addition of Dogfish Head brands, shipments increased 13.8% and depletions were up 24%. Robust shipment growth resulted from its efforts to ensure that distributors' inventory levels were appropriate to cater to increased customer demand. In fact, distributor inventory as of Sep 28, 2019, averaged roughly 3 weeks on hand. Depletions gained from major innovations, quality of products and strong brands alongside solid sales execution and support from distributors. Moreover, increases in Truly Hard Seltzer and Twisted Tea brands as well as the inclusion of Dogfish Head brands aided depletions growth. This was partly negated by fall in the Samuel Adams and Angry Orchard brands.

For 2019, Boston Beer now estimates shipment and depletion growth of 19-22% compared with 17-22% mentioned earlier. Excluding the Dogfish Head brands, shipment and depletion growth is expected to be 15-18%. Management projects wholesaler inventory levels between 2 and 4 weeks on hand through the rest of 2019. Further, management expects the strong depletions and shipments trend to continue in fiscal 2020, as evident from its projection of growth between high teens and low twenties.

▲ **Truly Brand Holds Potential:** Boston Beer has been lately witnessing robust trends for the Truly Hard Seltzer and Twisted Tea brands, which is driving depletions. Notably, the Truly brand delivered triple-digit volume growth in the third quarter, while Twisted Tea generated double-digit volume growth. The company is focused on promoting the Truly brand to take advantage of a shift in consumer preference to the fast-growing hard seltzer category. In the third quarter, the company launched Truly Draft nationally and continued to expand package distribution across all channels. It is also initiating a new high-profile advertisement campaign for Truly, featuring the famous comedian Keegan-Michael Key. Furthermore, the company's recent multiyear U.S. partnership with the National Hockey League (NHL), making its Truly Hard Seltzer the official drink of the League. This partnership not only benefits the Truly brand but also extends benefits to other brands, including Samuel Adams and Dogfish Head.

Additionally, the company is launching new formulations for all Truly flavors to make this brand the best-tasting hard seltzer around. In early 2020, it plans to launch the Truly Hard Seltzer Lemonade in both a variety 12-pack and single-serve sizes. It also expects to roll out another new flavor, Watermelon Kiwi, which will be available in Truly Tropical Variety Pack and 6-packs. With these new flavors, NHL partnership and new ad campaign, we believe the company well positioned to boost its position as a leader in the hard seltzer category while making Truly a core brand.

▲ **Strategic Initiatives:** Boston Beer remains committed to the three-point growth plan focused on the revival of its Samuel Adams and Angry Orchard brands, cost-saving initiatives and long-term innovation. Firstly, it plans to revive the Samuel Adams brand through packaging, innovation, promotion and brand communication initiatives. Further, it remains keen on retaining Angry Orchard and Twisted Tea's momentum while ensuring Truly Spiked & Sparkling's leadership position in the hard sparkling-water category. Secondly, the company is focused on accelerated cost savings and efficiency projects with savings directed for further brand development. As a result, the company continues to anticipate improving gross margin by one percentage point every year through 2019. Its third priority is long-term innovation and maximizing the shareholder value. Boston Beer remains optimistic about the future of craft beer and cider categories.

▲ **Healthy Balance Sheet & Strong Cash Flows:** Boston Beer's balance sheet is reasonably healthy, indicating that its cash position should be able to fund strategic investments. The company had cash balance of \$27.1 million as of Sep 28, 2019, with operating cash flow of \$142.7 million. Its existing cash balance clubbed with its future operating cash flows and \$150 million line of credit reflects immense potential to fund future cash requirements. The company currently has no amounts outstanding on its line of credit. Further, disciplined capital spending and ongoing cost-control programs indicate improving cash flows. The company expects to incur capital spending of \$100-\$110 million compared with \$120-\$140 million stated earlier. Boston Beer also focuses on enhancing shareholder value as clear from nearly \$90.3 million remaining under the \$931-million share buyback authorization as of Oct 26, 2019.

Reasons To Sell:

▼ **Soft Gross Margin:** Boston Beer has been witnessing incremental costs due to the use of third-party breweries and a higher proportion of variety packs in its overall product mix, which is hurting margins. The company's gross margin contracted 160 basis points (bps) in second-quarter 2019 due to elevated processing costs stemming from increased production at third-party breweries and higher temporary labor requirements at company-owned breweries. The decline was partly negated by price increases and cost savings at company-owned breweries. Moreover, the aforesaid factors are likely to continue hurting gross margin in 2019, which is still anticipated to be 50-51%. Moreover, gross margin is expected to be 49-51% in 2020.

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▼ **Higher Operating Costs May Hurt Profitability:** Higher advertising, promotional and selling expenses along with increased general and administrative costs remain a threat to the company's overall profitability. In third-quarter 2019, advertising, promotional and selling expenses rose nearly 10% due to higher spending on media and production, and local marketing as well as the inclusion of Dogfish Head brand-related expenses, beginning Jul 3, 2019. Moreover, general and administrative expenses grew 38.3%, driven by non-recurring Dogfish Head Transaction costs, and the addition of Dogfish Head's general and administrative expenses.

For 2019, investment in advertising, promotional and selling expenses is now envisioned to increase \$40-\$50 million, up from \$35-\$45 million stated earlier. The increase mainly stemmed from higher spending on Truly brand, excluding any change in freight expenses. Additionally, investments in advertising, promotional and selling costs are projected to increase \$65-\$75 million in 2020.

▼ **Softness in Samuel Adams Brand:** Volume growth for Boston Beer's Samuel Adams (craft beer) brand has been a key headwind, which is weighing on the overall volumes, depletions growth as well as the top line. The brand is struggling due to the industry-wide softening of the craft beer growth rates and increased choices for drinkers on retail shelves. Notably, volume for the Samuel Adams brand continued to decline in third-quarter 2019, which partly hurt depletions. The company is working hard on the brand messaging, with focus on the quality and brewing of the Samuel Adams Boston Lager, as well as the new Sam Adams packaging design and improved taste. However, we believe there is a lot of work to be done before seeing a turnaround in the trends for this troubled brand.

▼ **Competitive Pressure:** Boston Beer faces intense competition from well-established players in the industry such as Molson Coors Brewing Co. and Anheuser-Busch InBev SA/NV on taste, product quality, brand image, price and consumer preference fronts. The company has been a major player in the industry with its Samuel Adams brand over the past few years. Looking ahead, the company expects competition to intensify due to the increasing popularity of craft beer and the entry of new players. This may dent Boston Beer's top and bottom lines.

Last Earnings Report

Boston Beer Beats on Q3 Earnings & Sales, Revises View

Boston Beer reported impressive third-quarter 2019 results, wherein earnings and revenues not only outpaced the Zacks Consensus Estimate but also improved year over year. With this, the company delivered the fifth straight positive earnings surprise.

Quarterly results were fueled by higher revenues, owing to solid shipment and depletions. Notably, robust shipment growth due to the company's efforts to ensure that distributors' inventory levels were appropriate to cater to increased customer demand aided results. Further, strong depletions were supported by continued strength in Truly Hard Seltzer and Twisted Tea brands. Driven by the positive trends, management raised the lower end of earnings, shipments and depletions view for 2019.

Boston Beer's third-quarter adjusted earnings of \$3.58 per share surpassed the Zacks Consensus Estimate of \$2.79. Further, the bottom line rose 11.5% from \$3.21 earned in the year-ago period, backed by robust revenue growth. The upside was partly negated by lower gross margin coupled with higher advertising, promotional and selling costs. On a GAAP basis, earnings were \$3.65 per share in the reported quarter.

Net revenues advanced 23.3% year over year to \$378.5 million and outpaced the Zacks Consensus Estimate of \$365 million. Including excise taxes, the top line rose 23.2% year over year to \$402.7 million. Robust top-line performance can primarily be attributed to a 19.1% improvement in shipments to nearly 1.6 million barrels. In fact, distributor inventory as of Sep 28, 2019, averaged roughly 3 weeks on hand. Management projects wholesaler inventory levels between 2 and 4 weeks on hand through the rest of 2019.

In the quarter under review, depletions grew 30%, marking the sixth straight quarter of double-digit growth. Depletion growth can be attributed to major innovations, quality of products and strong brands alongside solid sales execution and support from distributors. Further, increases in Truly Hard Seltzer and Twisted Tea brands as well as the inclusion of Dogfish Head brands aided growth. Depletion growth was partly offset by the fall in Samuel Adams and Angry Orchard brands.

Depletions for the year-to-date period through the 42 weeks ended Oct 19, 2019, are anticipated to have grown nearly 21% from the year-ago period. Excluding Dogfish Head Brewery, depletions grew 19%.

Gross profit improved about 19.5% year over year to \$187.8 million. However, gross margin contracted 160 basis points to 49.6% due to elevated processing costs, stemming from higher production at third-party breweries and increased temporary labor requirements at company-owned breweries. These factors were partly negated by higher prices and cost savings at company-owned breweries.

Furthermore, advertising, promotional and selling expenses rose nearly 10% to \$96.6 million. Higher spending on media and production, and local marketing as well as the inclusion of Dogfish Head brand-related expenses, beginning Jul 3, led to the increase. General and administrative expenses totaled \$31.4 million, up 38.3% from the year-ago quarter. This increase was mainly driven by non-recurring Dogfish Head Transaction costs, and the addition of Dogfish Head's general and administrative expenses.

Financials

As of Sep 28, 2019, Boston Beer had cash and cash equivalents of \$27.1 million, and total stockholders' equity of nearly \$719 million. Moreover, it had no amounts outstanding on its line of credit. During the first nine months, and the period between Sep 29, 2019 and Oct 26, 2019, Boston Beer did not repurchase shares. As a result, the company had nearly \$90.3 million remaining under the \$931-million share buyback authorization.

Outlook

Management updated guidance for 2019. Boston Beer now estimates shipment and depletion growth of 19-22% compared with 17-22% mentioned earlier. Excluding Dogfish Head Brewery, shipment and depletion growth is expected to be 15-18%. National price increases are still estimated between 1% and 3%.

Moreover, the company has been witnessing higher costs due to the use of third-party breweries and a higher proportion of various packs in its entire product mix. These are likely to hurt gross margin, which is still anticipated to be 50-51%. Investment in advertising, promotional and selling expenses is now envisioned to increase \$40-\$50 million, up from \$35-\$45 million stated earlier. The increase mainly stemmed from higher spending on Truly brand, excluding any change in freight expenses.

For 2019, the adjusted effective tax rate is estimated to be roughly 27%. The company now envisions adjusted earnings per share of \$8.70-\$9.30 compared with \$8.30-\$9.30 mentioned earlier. The Zacks Consensus Estimate for 2019 is currently pegged at \$9.13. Furthermore, it now expects capital spending of \$100-\$110 million compared with \$120-\$140 million stated earlier.

For 2020, management projects depletion and shipment growth between high teens and low twenties along with national price increases of 1-3%. Moreover, gross margin is expected to be 49-51%. Investments in advertising, promotional and selling costs are projected to increase \$65-\$75 million. Further, the adjusted effective tax rate is expected to be roughly 27%. Capital spending is estimated to be \$95-\$115 million for 2020.

Quarter Ending **09/2019**

Report Date	Oct 29, 2019
Sales Surprise	3.79%
EPS Surprise	28.32%
Quarterly EPS	3.58
Annual EPS (TTM)	9.63

Valuation

Boston Beer shares are up 5.8% in the year-to-date period and 48.4% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector is down 12% and 0.5%, respectively in the year-to-date period. Over the past year, the Zacks sub-industry is down 5.2% while the sector is up 9.2%.

The S&P 500 index is up 4% in the year-to-date period and 20.9% in the past year.

The stock is currently trading at 34.78X forward 12-month earnings, which compares to 21.45X for the Zacks sub-industry, 19.55X for the Zacks sector and 19.27X for the S&P 500 index.

Over the past five years, the stock has traded as high as 45.54X and as low as 19.85X, with a 5-year median of 28.86X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$420 price target reflects 36.55X forward 12-month earnings.

The table below shows summary valuation data for SAM

Valuation Multiples - SAM					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	34.78	21.45	19.55	19.27
	5-Year High	45.54	27.52	22.38	19.34
	5-Year Low	19.85	18.91	16.66	15.18
	5-Year Median	28.86	23.2	19.71	17.47
P/S F12M	Current	3.26	17.17	9.98	3.55
	5-Year High	4.11	20.67	11.13	3.55
	5-Year Low	1.82	14.42	8.09	2.54
	5-Year Median	2.63	17.56	9.88	3
EV/EBITDA TTM	Current	20.91	43.06	40.06	11.36
	5-Year High	27.56	53.07	44.94	12.85
	5-Year Low	8.19	33.68	31.54	8.47
	5-Year Median	13.95	43.03	38.39	10.7

As of 02/11/2020

Industry Analysis Zacks Industry Rank: Bottom 38% (157 out of 254)



Top Peers

Brown-Forman Corporation (BF.B)	Neutral
Craft Brew Alliance, Inc. (BREW)	Neutral
Anheuser-Busch InBev SA/NV (BUD)	Neutral
Diageo plc (DEO)	Neutral
Heineken NV (HEINY)	Neutral
Pernod Ricard SA (PDRDY)	Neutral
Constellation Brands Inc (STZ)	Neutral
Molson Coors Brewing Company (TAP)	Neutral

Industry Comparison Industry: Beverages - Alcohol				Industry Peers		
	SAM Neutral	X Industry	S&P 500	BUD Neutral	HEINY Neutral	TAP Neutral
VGM Score	B	-	-	C	A	B
Market Cap	4.81 B	9.62 B	24.31 B	120.90 B	61.66 B	12.56 B
# of Analysts	3	1.5	13	3	3	7
Dividend Yield	0.00%	0.00%	1.78%	1.77%	1.06%	3.93%
Value Score	D	-	-	C	C	A
Cash/Price	0.01	0.02	0.04	0.00	0.03	0.03
EV/EBITDA	28.43	9.94	13.97	5.51	NA	7.97
PEG Ratio	3.58	3.33	2.06	2.07	2.80	2.44
Price/Book (P/B)	6.69	2.52	3.24	1.55	3.37	0.94
Price/Cash Flow (P/CF)	32.70	15.80	13.65	11.34	12.68	6.40
P/E (F1)	35.76	22.98	19.12	17.36	20.45	14.64
Price/Sales (P/S)	4.10	2.33	2.67	2.24	NA	0.97
Earnings Yield	2.85%	4.34%	5.23%	5.75%	4.90%	6.84%
Debt/Equity	0.00	0.40	0.70	NA	0.87	0.60
Cash Flow (\$/share)	12.22	1.90	6.94	6.53	4.22	9.08
Growth Score	A	-	-	D	A	C
Hist. EPS Growth (3-5 yrs)	3.89%	7.35%	10.85%	-6.80%	NA	5.82%
Proj. EPS Growth (F1/F0)	23.68%	8.09%	7.30%	2.16%	8.43%	-7.44%
Curr. Cash Flow Growth	12.44%	4.60%	8.92%	-9.50%	12.24%	8.69%
Hist. Cash Flow Growth (3-5 yrs)	7.85%	4.63%	8.36%	0.24%	4.17%	12.93%
Current Ratio	1.26	1.41	1.22	0.54	0.71	0.59
Debt/Capital	0.00%	29.41%	42.90%	56.55%	46.43%	37.54%
Net Margin	10.06%	7.96%	11.81%	17.63%	NA	1.19%
Return on Equity	20.99%	8.39%	16.98%	23.92%	NA	6.86%
Sales/Assets	1.48	0.52	0.54	0.46	NA	0.44
Proj. Sales Growth (F1/F0)	19.27%	3.02%	3.90%	1.58%	5.00%	-0.69%
Momentum Score	C	-	-	A	B	D
Daily Price Chg	6.91%	0.00%	0.65%	-0.75%	0.38%	0.36%
1 Week Price Chg	2.00%	0.89%	2.47%	-0.66%	-1.82%	3.96%
4 Week Price Chg	10.50%	-1.51%	1.35%	-7.47%	-2.72%	3.75%
12 Week Price Chg	5.89%	0.05%	5.63%	-6.52%	3.02%	10.76%
52 Week Price Chg	48.90%	-1.93%	16.19%	-3.04%	15.92%	-1.93%
20 Day Average Volume	125,230	15,163	1,995,746	1,027,108	40,326	1,355,081
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.29%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	-0.54%	0.00%	-0.36%
(F1) EPS Est 12 week change	0.00%	-1.29%	-0.19%	-1.77%	-1.51%	-0.36%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	NA	NA	0.00%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	A
Momentum Score	C
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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