Boston Beer Company Analysis

Report by:

Mason Preston

Linh Nguyen

Michael Ostertag

Nicholas Paulson

Date: May 2nd, 2018

**Basic Information**

The Boston Beer Company, ticker symbol SAM, is a publicly traded company operating in the alcoholic beverage segment of the food and beverage industry. Their competitors include Anheuser-Busch, Miller-Coors, Constellation Brands, Craft Brew Alliance, Reeds Inc. and Mendocino Brewing Company. The market cap of The Boston Beer Company is $2.65 billion, and the float is 8.84 million shares. Its common stock is traded on the New York Stock Exchange, with a current share price of $227.35 (as of 5/2/2018). Our model suggests a fair stock price for Boston Beer to be $250.95. We recommend the Boston Beer Company to be a buy.

**Business Description**

Boston Beer Co. is one of the largest craft brewers in the United States. Its key brands include Samuel Adams, Angry Orchard, Twisted Tea (a spiked Tea), and Truly Spiked & Sparkling (an alcoholic seltzer). The company also sells a variety of beer brands, including Angel City Brewing and Traveler Beer, through its subsidiary, A&S Brewing. The better beer category, where Boston Beer competes, includes craft brewers, domestic specialty beers, and many imports and accounts for more than 20% of U.S. beer consumption by volume. Boston Beer's number one priority is returning both Samuel Adams and Angry Orchard to growth through various innovations such as packaging, promotion and brand communication initiatives. Another priority is to focus on cost savings and efficient projects to fund the investments needed to grow their brands. One exciting new development, beginning in the 2018 season, Boston Beer Company's Samuel Adams became the official beer of the Boston Red Sox. The eight-year deal will last through the 2025 season and includes signage and a Sam Adams rooftop deck.

**Management**

We believe Boston Beer has done well at managing the firm. In April 2018, Dave Burwick became the successor to CEO Martin Roper, who had led the company for more than 17 years. Burwick had previously been CEO of Peet’s Coffee since 2012. Burwick has extensive experience in the beverage industry and we believe he is well suited to lead the company after serving as a member of its board of directors for more than 10 years. Chairman C. James Koch founded the company in 1984 and was at its helm until 2001. We do not believe a change in leadership will significantly change the company’s long-run strategy, given Burwick's existing position on its board as well as Koch’s control of 100% of the company’s Class B (voting) shares and role on the CEO search committee. Holders of Class A shares have very minimal voting rights, such as the election of Class A (minority) directors, enabling Koch to maintain significant influence over operations. Although the lack of voting rights for Class A shares creates the possibility the company could act contrary to the interests of minority shareholders, we think strong returns on invested capital, averaging 30% over the past decade, indicate that the firm has historically acted in the best interests of shareholders.

**Valuation**

*Figure 1: Model assumptions*

|  |  |
| --- | --- |
| Earnings Per Share | 8.09 |
| Growth rate in years 1 -  3 | 30.61% |
| Growth rate in year 4 | 25% |
| Growth rate in year 5 | 20% |
| Growth rate in year 6 | 15% |
| Growth rate in year 7 | 10% |
| Growth rate in year 8 | 10% |
| Growth rate in year 9 – 10 | 5% |
| Terminal growth rate | 4% |
| Discount Rate | 12% |

Boston Beer has a current earnings per share of 8.09. We found a compounded annual growth rate for Boston Beer of 30.61%. We then assumed a slow decline in growth over the next 10 years, down to a terminal growth rate of four percent.

Using the data assumptions from Figure 1 above, we calculated the following earnings per share for the next 10 years then discounted them to find their present value (Figure 2).

*Figure 2: Calculations for the Growth Value*

|  |  |  |
| --- | --- | --- |
| **Year** | **EPS** | **Present Value** |
| 0 | 8.09 | 8.09 |
| 1 | 10.54 | 9.42 |
| 2 | 13.77 | 12.08 |
| 3 | 17.99 | 12.80 |
| 4 | 21.59 | 13.72 |
| 5 | 25.91 | 14.07 |
| 6 | 29.08 | 15.09 |
| 7 | 32.78 | 14.82 |
| 8 | 36.05 | 14.56 |
| 9 | 37.86 | 13.65 |
| 10 | 39.75 | 12.80 |

Using the data in Figure 2, we calculated a growth value for Boston Beer of $140.67. We then forecasted the earnings per share for years 11-20 using a terminal growth rate of 4% (Figure 3).

After discounting them back to find their present value, we calculated a terminal value for Boston Beer of $110.28.

*Figure 3: Calculations for the Terminal Value*

|  |  |  |
| --- | --- | --- |
| **Year** | **EPS** | **Present Value** |
| 11 | 52.35 | 15.049 |
| 12 | 54.44 | 13.97 |
| 13 | 56.62 | 12.97 |
| 14 | 58.88 | 12.05 |
| 15 | 61.24 | 11.18 |
| 16 | 63.69 | 10.38 |
| 17 | 66.24 | 9.64 |
| 18 | 68.89 | 8.95 |
| 19 | 71.65 | 8.31 |
| 20 | 74.51 | 13.65 |

Adding the growth value and terminal value together, we find a fair value for the Boston Beer Company to be $250.95.

**Recommendation and Conclusion**

We believe that Boston Beer Company is underpriced. The current share price is $227.35, and our fair valuation suggests a share price of $250.95. We believe the mispricing is due in part to the heath trend that is affecting consumers. Consumers have been starting to trend towards buying more healthy foods and beverages. As a response to this health trend, Boston Beer Company released various new products from their Twisted Tea’s to their Truly Spiked & Sparkling drinks. We believe these new product releases will be the catalyst to drive the share price back up, and even past, our target value of $250/share. Our recommendation for Boston Beer Company is to buy.

**References**

• https://www.bizjournals.com/boston/news/2017/07/28/boston-beer-shares-bubble-up-as-twisted-tea-spiked.html

• https://www.barrons.com/articles/boston-beer-more-like-tea-and-seltzer-1505495982

• https://www.bizjournals.com/boston/news/2017/07/28/boston-beer-shares-bubble-up-as-twisted-tea-spiked.html

• https://finance.yahoo.com/quote/SAM/key-statistics?p=SAM