



Monster Beverage Corp. (MNST)

SELL : USD\$62 (-9.07%)

Equity Research Department

12th June, 2020

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Basic Information

Last Closed Price	USD\$68.19
12M Target Price	USD\$62
+/- Potential	-9.07%
Bloomberg Ticker	MNST:US
GICS Sector	Consumer Staples
GICS Sub-Industry	Soft Drinks

12 Month Price Performance (Yahoo Finance)



Company Description

Monster Beverage Corporation, headquartered in Corona, CA, is a marketer and distributor of energy drinks and alternative beverages. Incorporated in 1990 in Delaware, Monster Beverage was previously known as Hansen Natural Corporation. In 1992, the company acquired the Hansen Beverage business.

Key Financials

Market Cap	38.034B
Basic Shares O/S	526.56M
52-Wk High	USD\$73.4
52-Wk Low	USD\$50.06
Fiscal Year End	31-Dec-2019

(\$USD M)	FY18A	FY19A	FY20E	FY21E
Gross Profit	2352	2583	2721	2929
Gr Rate (%)	2.2	2.8	3.6	3.6
EBITDA	1341	1468	1576	1685
Margin (%)	24.0	26.0	26.0	26.4
Net Income	993	1,108	1,294	1,484
EBIT	1,303	1,429	1,485	1,560
EV/EBITDA	19.10	22.30	17.70	15.20

Key Executives

Rodney Cyril Sacks	Chief Executive Officer
Hilton Hiller	Chief Financial Officer

We are initiating coverage of Monster Beverage Corp. with a **SELL** rating and a USD\$62 12M price target.

Q1 Earnings Highlights

- Monster Beverage's earnings of 52 cents per share rose 8.2% year over year
- Net sales of \$1,062.1 million improved 12.3% year over year. Moreover, gross sales (net of discounts and returns) rose 13.4% to \$1,236.1 million.
- Improvement in gross and net sales was mainly attributed to gains from the Monster Energy brand energy drinks internationally as well as Reign Total Body Fuel high-performance energy drinks.
- The gains were partly negated by unfavorable currency fluctuations, which hurt net and gross sales by \$10.4 million and \$11.2 million, respectively.

Summary

In typically laconic fashion, narrow-moat Monster was the only one of its peers flying under the radar, heading into its first-quarter earnings print having provided no commentary on coronavirus business pressure. With its exposure to on-the-go channels such as convenience stores well understood, we think the market was looking for insight into: channel offsets that could cushion the convenience exposure, and margin prospects, given its largely variable cost model. Investors received mixed signals, as though results were stellar, management alluded to material weakness in the second quarter despite some offsets in ecommerce. We estimate \$62 target price as the pandemic should beget structural change in the firm's trajectory. In addition, we believe that robust growth and margin profile is fully priced in and would point investors seeking beverage exposure toward wide-moat Coca-Cola.

Revenue came in at \$1.06 billion, an increase of 12% versus a year ago, driven by trademark Monster internationally and Reign in the U.S. For April, management indicated that net sales were down 20%, though it took heart in depletions that were more resilient and that sales through Amazon were up over 100%. Still, with the preponderance of sales coming from the convenience/gas channel, we expect the top line to be materially impacted if confinement remains the modus operandi.

With the top line still being led by international markets, gross margins remained under structural pressure. Operating margins, however, widened 150 basis points to 34.4%, because of solid expense control and a reprieve in sponsorship payments. Going forward, management has proved remarkably adept at running its production and distribution through an efficient web of outsourcing agreements, which we think will mitigate the margin impact of COVID-19.

As it relates to liquidity, the firm's balance sheet is pristine, with no debt to speak of and over \$900 million in cash and short-term investments. Indeed, management was able to buy back over \$500 million in shares during the quarter. While we're dubious of the prudence of these activities given where the valuation sits today, we still expect more than \$1 billion in share repurchases this year, a testament to the company's financial health.

On the competitive front, wide-moat PepsiCo recently upped the ante in its energy efforts. It not only consummated its acquisition of longtime distribution partner Rockstar Energy, but also inked a deal that granted it exclusive distribution rights to Bang Energy, a nascent but disruptive energy player. With Pepsi placing more intentionality behind its go-to-market in this space, and no longer bogged down by the restrictive distribution agreement with Rockstar, we expect Big Blue to assert its presence more aggressively in the energy category. Monster boasts a stalwart brand that has been compounding resonance with a variety of niche consumers for multiple years, which combined with the heft of the Coca-Cola distribution system, should serve as a bulwark against the innovation and marketing prowess of Pepsi. Still, this increased saturation could give rise to higher customer acquisition costs in the medium term.

Figure 1. Regional Breakdown

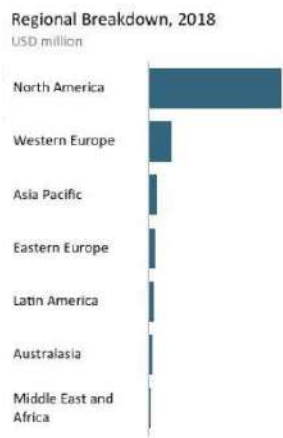
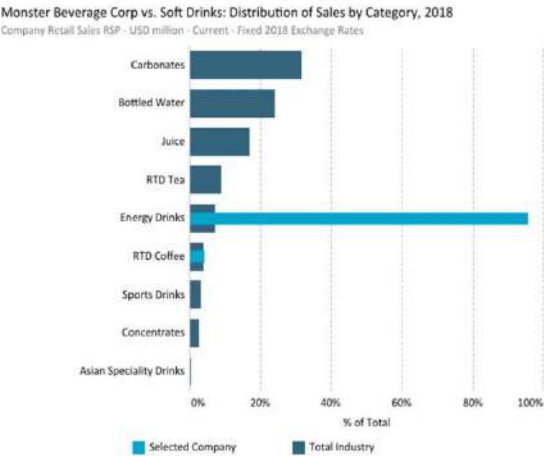


Figure 2. Distribution of Sales by Category, 2018



Source: Euromonitor

Figure 3. Energy Drink Market Outlook

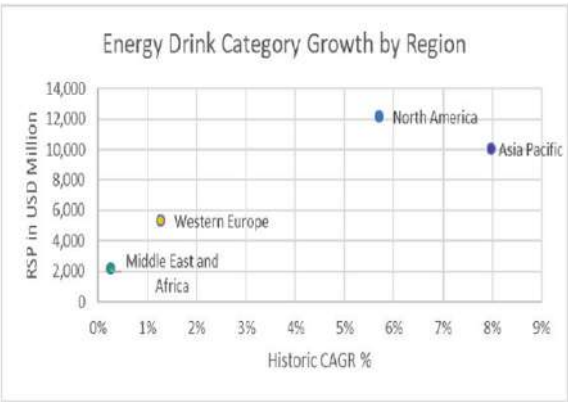
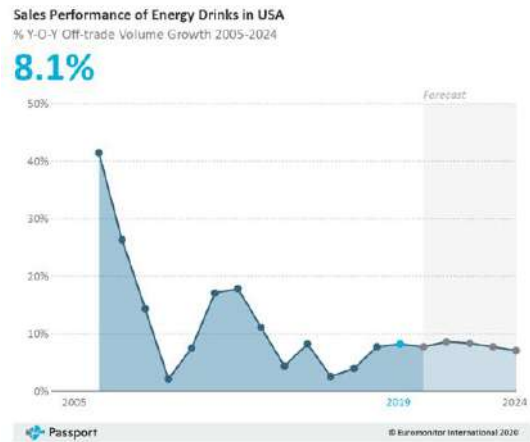


Figure 4. Sales Performance of Energy Drinks



Company Overview

Monster Beverage Corporation, headquartered in Corona, CA, is a marketer and distributor of energy drinks and alternative beverages. Incorporated in 1990 in Delaware, Monster Beverage was previously known as Hansen Natural Corporation. In 1992, the company acquired the Hansen Beverage business. On Jun 12, 2015, Monster Beverage closed a deal with The Coca-Cola Company (TCCC). Per this long-term strategic deal, Coca-Cola acquired an approximate 16.7% equity stake in Monster Beverage. Coca Cola also transferred ownership of global energy drinks business, which includes brands like NOS, Full Throttle, to Monster Beverage. In exchange, Monster Beverage transferred non-energy business to TCCC. Monster Beverage reports results under three operating segments: Monster Energy Drinks (92.9% of net sales in FY19): Monster Energy Drinks Segment includes the former Direct Store Delivery segments, excluding Peach Tea brand. This segment comprises mostly Monster Energy brand products. Strategic Brands (6.5%): The Strategic Brands segment includes brands acquired from the "TCCC Transaction". Monster Beverage observes the same business model with acquired brands as their previous owner. Other (0.5%): The Other segment includes the former warehouse segment and the Peach Tea brand. The segment also includes products acquired from the AFF Transaction that are sold to independent third - parties. On Apr 1, 2016, the company acquired the concentrate and flavor business of American Fruits and Flavors (AFF)

Industry Outlook

The global energy drinks probiotics market is forecasted to reach USD 83.4 billion by 2024, registering a CAGR of 7.1% during the forecast period (2019-2024).

Key Highlights

- Energy drinks have transitioned from being a niche product to one of the fastest growing products in the global drinks market. This change has been brought by a growingly evident consumer focus on fitness and health.
- Energy drinks are marketed as an alternative to carbonated drinks therefore, there is a significant rise in the number of people switching from carbonated drinks to energy drinks over the last few years.
- Energy drinks face huge competition from packaged juice, aerated beverages and malted health drinks. These substitutes are low in cost as compared to some of the energy drinks.

Market Trends

High Demand for Fast Energy Products - Consumption of energy drinks has been increasing dramatically in the last two decades, particularly amongst adolescents and young adults. Energy drinks are aggressively marketed with the claim that these products give an energy boost to improve physical and cognitive performance. A large amount of caffeine in energy drinks provides the consumer with the desirable effects of improved memory, increased alertness and elevated mood. Therefore, abiding by beneficial facts of consuming energy drinks is surging the demand and a significant increase in consumption of these drinks has been observed.

Energy Drinks Market Size by Region - The major consumer of energy drinks in the world is between the age group of 18-35 years which is rising the demand from the millennial population. North America is the major consuming market for energy drinks due to health concerns and awareness. However, Asia-Pacific is a growing market due to the changing demographics and increasing disposable income. Europe is an emerging market poised to grow at a healthy rate due to growing consumer adoption rate because of increased marketing efforts by key players. Children and adolescents are the main target groups for manufacturers. Markets in other regions like South America and Middle East and Africa are comparatively smaller markets and are expected to take a rise in the coming years.

Figure 5. Company Share Performance

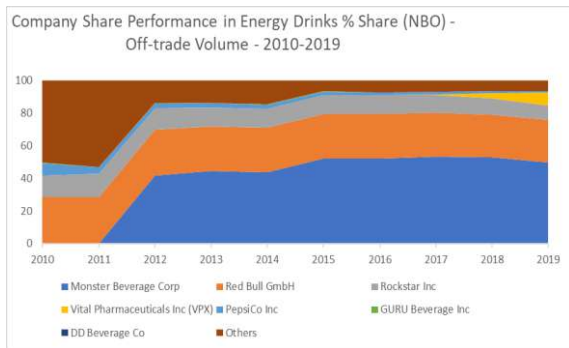


Figure 6. Sales of Energy Drinks in USA

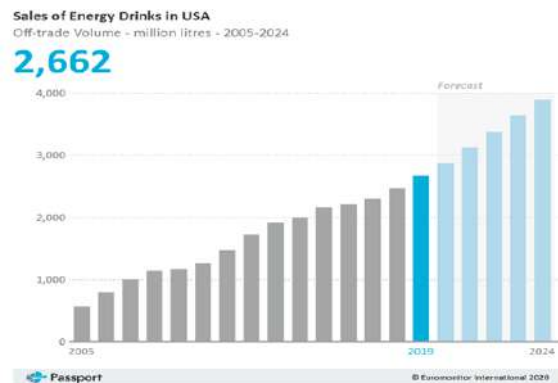


Figure 7. Industry Revenue Growth

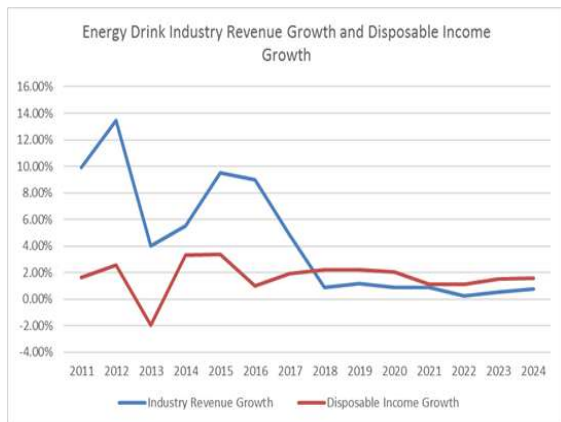
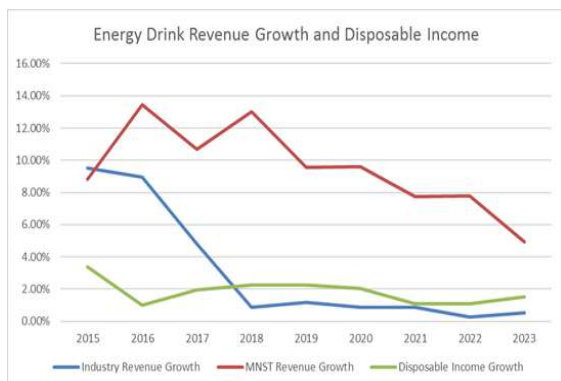


Figure 8. MNST Revenue Growth Vs Industry



The energy drink market is saturated. Monster Beverage Corporation, Red Bull, Coca-Cola, Rockstar, PepsiCo are few of the many companies whose market share is high in the energy drinks segment.

Companies focused on personalization and convenience in the American market need to look at European consumer demand for healthy, zero-calorie, low sugar functional products to scale their energy drink production in the region. Product launches in energy drop address this concern, offering huge potential for growth in developing regions. Most of the manufacturers create product awareness through advertising and sports players and celebrity endorsement. Major sports events are sponsored by energy drink manufacturers.

Minerva's 12-month fundamental outlook for the soft drinks sub-industry is Positive, reflecting strong growth expectations for product categories such as ready-to-drink beverages, value-added water and bottled water in North America and resilient sales of carbonated soft drinks and other products in emerging markets.

Over the next 12 months, we expect earnings and cash flow to grow, driven by pricing gains, growth in emerging markets and new product introductions. We also expect companies to increase marketing spending for their core brands and focus on smaller package sizes. A generally positive domestic and global economic backdrop is a likely tailwind. For the sub-industry, we see revenue increases of 6.7% in 2019 and 4.3% in 2020, respectively, after a 1.8% decline in 2018.

We see improved demand for non-carbonated beverages as consumers continue to seek healthier products. We see challenging trends for carbonated and sugary beverages over the longer term, as consumer preferences (particularly those of millennials) increasingly shift towards healthier and lower-calorie beverages. According to the Beverage Marketing Corporation, U.S. liquid refreshment beverage volumes increased by 2.2% and revenues by 3.8% in 2018 (latest available data), with the breakdown of volume growth by product (and in order) being: value-added water (+15.5%), ready-to-drink coffee (+8.8%), energy drinks (+8.6%), bottled water (+4.9%), sports drinks (+2.8%), ready-to-drink tea (-0.3%), carbonated soft drinks (-0.4%) and fruit beverages (-3.0%). In the near term, we think manufacturers will look to address concerns surrounding artificial sweeteners in the U.S., which have led to declines in diet soda volumes over the past few years.

To support growth, we see manufacturers increasing offerings of smaller package sizes, which produce greater profitability per unit volume. Overall, we think domestic non-alcoholic unit sales volume growth will improve on increased advertising and promotional spending and new product launches. Longer term, we think volume trends will benefit from increased penetration into non-traditional markets and growing consumer demand for non-alcoholic products, which should continue to raise non-alcoholic beverage per-capita consumption levels. We are bullish on near-term prospects for U.S. beverage companies in foreign markets, where we see significant opportunities for consumption growth in developing and emerging regions. Certain soft drink companies are also diversifying their product mix by acquiring smaller and faster-growing beverage and snack foods brands. We think longer-term prospects are good, given our view of improving profit margins stemming from productivity enhancements, higher prices for products and favorable product mix trends. We expect dividend growth and ongoing share repurchases to lend support to share price levels in 2019 and 2020. Year-to-date as of September 20, 2019, the S&P Soft Drinks Index is up 17.8%, versus a 19.0% gain for the S&P 500 Index. The sub-industry declined 2.1% in 2018, versus a 6.8% decline for the S&P 500. The sub-industry's five-year CAGR is 7.1%, which compares to 8.6% growth for the S&P 500 Index.

Figure 9. A map of non-alcoholic drinks, classified by consumer objectives

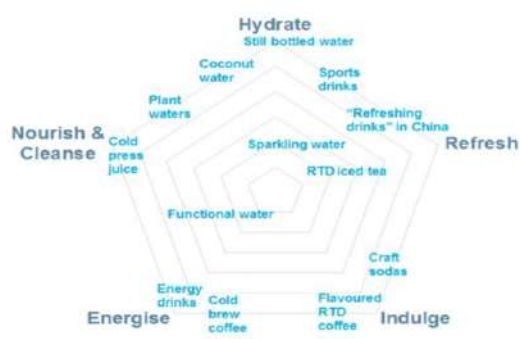


Figure 10. Major Market Segmentation

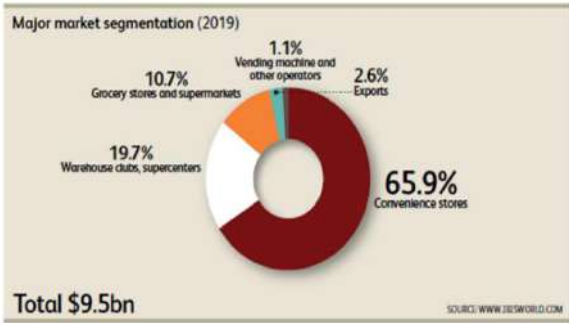
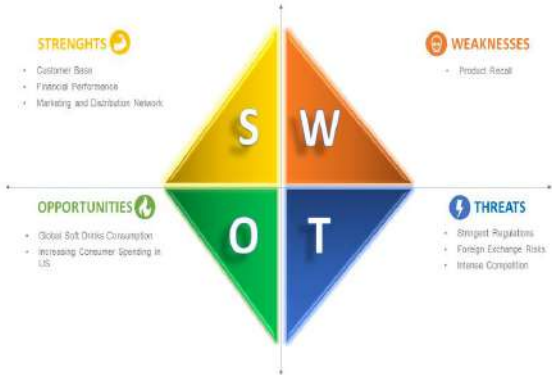
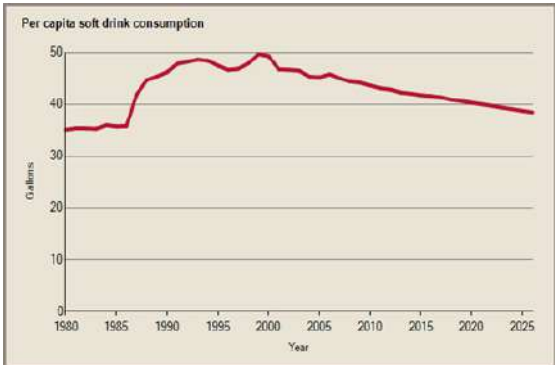


Figure 11. SWOT Analysis



Source: Minerva Investment Society Est.

Figure 12. Per capita soft drink Consumption



Source: IBIS World

SWOT Analysis

Strengths

Customer Base - The company has diversified customer base that enhances market presence. Monster Beverage develops and sells energy drinks, concentrate for energy drinks and super soda drinks. It markets its products to full-service beverage bottlers or distributors, drug and specialty chains, retail grocery, wholesalers, mass merchandisers, club stores, convenience chains, the military and food service customers. In FY2018, the company generated 61% of the revenue from the US full-service bottlers or distributors, international full-service bottlers or distributors (31%), club stores and mass merchandisers (6%), retail grocery, specialty chains and wholesalers (1%), and other (1%).

Financial Performance - Improvement in financial performance enables the company to provide higher returns to its shareholders, enabling it to attract further investments. Growth in revenue and profitability also enhance the company's ability to allocate adequate funds for growth and expansion.

Marketing and Distribution Network - The company has a strong marketing and distribution network that expands customer reach and brand awareness. Monster Beverage distributes its products in domestic and international markets through distribution agreements with bottlers or distributors. It had domestic and international distribution agreements with TCCC and Coca-Cola Refreshments to distribute and sell its Monster Energy brand drinks, while with TCCC and TCCC network bottlers to distribute and market its strategic brands energy drinks in the US and internationally.

Weakness

Product Recall - The company recalled several products in the past. Such product recalls have a negative impact on the company's brand image and may also result in decrease in customer's confidence in the company. In March 2019, the company's subsidiary, Monster Energy Canada Ltd recalled its Caffé Monster Salted Caramel Energy Drink from the market due to the possible presence of glass pieces. The recalled products are 405ml Caffé Monster Salted Caramel Energy Drink with UPC: 0 70847 03184 0; and codes: JA2120 BF A, JA2120 BF B, JA2220 BF A, and JA2220 BF B. The company requested the customers either to throw away the recalled products or contact its customer relations.

Opportunities

Global Soft Drink Consumption - The company is a provider of energy drinks stands to benefit from the growing global soft drinks consumption. According to in-house research, the global soft drink market is forecast to grow at a CAGR of 4.5% during 2017-2022 to reach US\$944,376.5 million by 2022 from US\$758,952.5 million in 2017. The market is forecast to reach 787,422.8 million liters by 2022, which reflects an increase of 11.9% over 703,980.6 million liters in 2017. Growing middle class population, increasing disposable income, rapid urbanization, improved buying power, introduction of new flavors, and changing customer needs are the major factors aiding the market growth.

Increase Consumer Spending in US - The company could benefit from the increase in spending by consumers in the US. Growing personal income, disposable personal income and personal consumption expenditure indicate improvement in consumer spending in the US, which could increase the purchase of the company's products and enhance its performance. According to the US Bureau of Economic Analysis (BEA), in May 2019, the personal income (PI) in the US increased 0.5% or US\$88.6 billion; disposable personal income (DPI) increased 0.5% or US\$72.6 billion and personal consumption expenditure increased 0.4% over that in the previous month to reach US\$59.7 billion

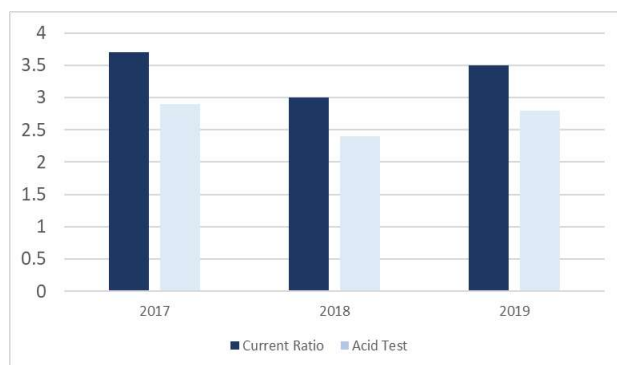
Threats

Stringent Regulations -The company's business operations are subject to the rules and regulations of the Food and Drug Administration (FDA) and other federal, state and local health agencies regarding production and marketing of beverages. The FDA also regulates the labeling of containers under The Nutrition Labeling and Education Act of 1990. Similarly, in California, Proposition 65 regulates the labeling of containers which specifies if the state has determined that a substance causes cancer or harms human reproduction, a warning must be provided for any product sold in the state that exposes consumer to that substance. If the company is required to add Proposition 65 warnings on the labels of its beverage products produced for sale in California, the resulting consumer reaction to the warnings and possible adverse publicity could negatively affect the company's sales both in California and other markets. Significant additional labeling or warning requirements or limitations on the marketing or sale of company's products could inhibit sales of the products.

Foreign Exchange Risks - The company operates in many parts of the world and is exposed to fluctuations in foreign exchange rates. The company reports financials in the US dollar and therefore its revenue is exposed to volatility of the US dollar against other functional currencies such as euro, Brazilian real, Australian dollar, South African rand, and Mexican peso. The major elements exposed to exchange rate risks include the company's investments in overseas subsidiaries and affiliates and monetary assets and liabilities arising from business transactions in foreign currencies. In FY2018, the company reported a loss of US\$17 million from foreign currency translation adjustments as compared to gain of US\$7.2 million in FY2017 and a loss of US\$1.2 million in FY2016. To minimize risks from currency fluctuations, the company could involve in foreign exchange hedging by entering foreign exchange forward contracts. However, there could be no assurance that such hedging would limit the impact of movements in exchange rates on the company's results of operations.

Intense Competition - The company operates in a highly competitive beverage industry. The factors that determine the level of competition within the industry include pricing, development of new products and flavors, packaging, product positioning, and promotional and marketing activities. Monster Beverage's major competitors include with Cott Corporation, Danone SA, Dr Pepper Snapple Group Inc, Jones Soda Co, National Beverage Corp, Nestle SA, Ocean Spray Cranberries Inc, PepsiCo Inc, Red Bull GmbH, Suntory Holdings Ltd, The Coca-Cola Co, The Kraft Heinz Co, Dunkin' Brands Group Inc, Starbucks, Kellogg Co, McDonald's Corporation, HiBall Inc, International Delights Llc, Rockstar Inc, Red Bull GmbH, Frucor Beverages Ltd, Bolthouse Farms, BA Sports Nutrition LLC, Abbott Laboratories, CytoSport Inc, and Talking Rain Beverage Company Inc. Some of these competitors have higher operating histories, technical, marketing, distribution and support resources; greater brand recognition and higher financial capability than the company, could restrict the creation of innovative products and business expansion.

Figure 13. Liquidity



2017 2018 2019

Current Ratio	3,7	3,0	3,5
Acid Test	2,9	2,4	2,8

Source: Minerva Investment Society Estimates

Figure 14. Solvency

	2017	2018	2019
Interest income (mln \$)	6,8	13,8	17,8

Debt-To-Equity Ratio	2017	2018	2019
Monster Beverages Corp. (MNST)	0	0	0
Pepsi (PEP)	3,57	2,2	2,11
Keurig Green Mountain (KDP)	1,83	0,69	0,62
National Beverage Corp. (FIZZ)	0	0	0,12
Coca Cola (KO)	2,33	2,06	1,82
Coca Cola European Partners (CCEP)	0,86	0,86	1,04
Primo Water Corp (PRMW)	2,58	1,15	1,31

Source: Minerva Investment Society Estimates

Figure 15. Cash Conversion Cycle

	2017	2018	2019
Inventory Days	75,81	67,05	78,27
Days Receivables	48,70	46,46	46,95
Days Payable	72,89	60,06	59,46
Cash Conversion Cycle	51,61	53,44	65,76
Net Working Capital	\$ 459,31	\$ 513,51	\$ 627,02

Source: Minerva Investment Society est.

Financial Analysis

Monster Beverage Corporation is characterized by strong funding structure and solid business model and profitability. The financial statement analysis has been conducted computing ratios and other measures to assess liquidity, cash conversion cycle, solvency and profitability. Some ratios have been computed also for a selected number of peers in order to better understand the values. These comparable companies, the same employed in the multiple valuation, are PepsiCo (PEP), National Beverage Corporation (FIZZ), Keurig Dr. Pepper (KDP), Primo Water Corporation (PRMW) and both Coca Cola American (KO) and European (CCEP) branches

Liquidity:

The current ratio has been computed as current assets on current liabilities. The ratio assumed extremely high for Monster Beverage in the last three years, with values above 3.0x. A ratio over 1x indicates that the company is liquid as short-term assets exceed short term liabilities, however values of 3-3.5x might indicate non-efficient funding or management of working capital. In Monster case the high values are mainly due to the absence of financial debt and, as a result, current liabilities do not include any amount of short-term debt. Given the zero-debt policy, the company has enough space to enhance its funding from suppliers, increasing the stock of accounts payables. The acid test has been computed as cash, marketable securities and account receivables on current liabilities. The ratio shows values between 2.0x and 3.0x in the past three years, again quite higher than the minimum threshold of 1. The company can easily meet all its short-term obligations and it has the possibility to optimize funding and working capital.

Solvency:

Monster Beverage funding structure consists only of Stockholders' equity and the Debt-To-Equity Ratio, calculated as total debt on equity, is 0,00%. Indeed, the only long-term liabilities are deferred revenues (over 12-months) and other liabilities, which accounts together for the 5% of total assets in 2019. It is clear that the company has no threats in satisfying its long-term obligations.

The zero-debt policy makes useless to assess the solvency with common ratios as EBITDA coverage or interest coverage. The income statement shows a positive financial income between EBIT and EBT, in which the two main components are interests' income and losses on foreign currency. In particular Monster reported an increasing positive interest income in the past three years, reaching nearly 18 million Dollars in 2019. The company, together with National Beverage Corp (FIZZ), represents a unique in terms of funding structure among the competitors. The American branch of Coca Cola (KO) showed values of the same ratio around 2.0 in 2017-2019 period. The same can be observed for Pepsi (PEP), which Debt-To-Equity ratio even reached 3.57 in 2017.

Monster has been running its business without financial debt for more than a decade which means that the company has huge possibility to raise debt in case of need. In the context of an economic recession due to Covid-19 Monster has the double advantages of high liquidity and strong solvency united to the capacity of getting financed with debt.

Cash Conversion Cycle:

The cash conversion cycle (CCC) confirms the high values for current ratio and acid test. Days receivables and inventory days widely exceed days payable, the result is a positive CCC which implies that it takes 65 days for Monster to convert investments in inventories and receivables into cash flows from sales.

While days receivables and inventory days have been stable in the past three years, days payable decreased making grow the CCC and meaning that the company is subject to more stringent payment terms from its supplier.

Figure 16. Profitability

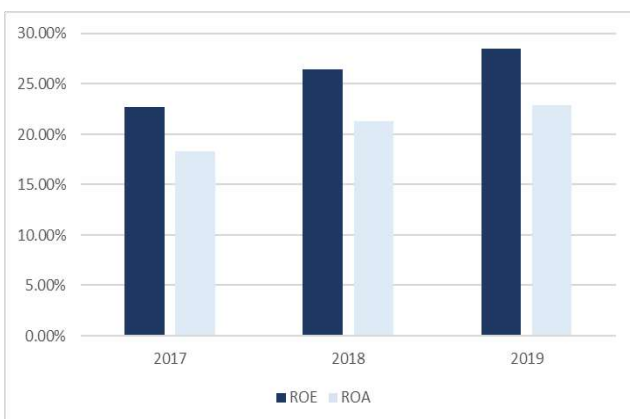


Figure 17. DuPont Analysis

DuPont Analysis	2017	2018	2019
Net Profit Margin	24,36%	26,08%	26,37%
Asset Turnover	0,75	0,82	0,87
Equity Multiplier	1,24	1,24	1,24
ROE	22,72%	26,46%	28,47%

	2017	2018	2019
Invested Capital	\$2.693,66	\$2.652,74	\$2.840,26
ROIC	30,33%	37,42%	40,71%
EBITDA Margin	37,03%	35,21%	34,94%

ROA	2017	2018	2019
Monster Beverage Corp. (MNST)	18,35%	21,31%	22,90%
Pepsi (PEP)	6,34%	16,56%	9,37%
Keurig Dr Pepper (KDP)	10,86%	2,00%	2,55%
National Beverage Corp. (FIZZ)	37,76%	31,71%	21,00%
Coca Cola (KO)	1,42%	7,52%	10,52%
Coca Cola European Partners (CCEP)	3,74%	4,99%	5,91%
Primo Water Corp (PRMW)	-0,03%	10,54%	0,09%

ROE	2017	2018	2019
Monster Beverage Corp. (MNST)	22,72%	26,46%	28,47%
Pepsi (PEP)	43,70%	98,16%	49,92%
Keurig Dr Pepper (KDP)	46,94%	4,72%	5,48%
National Beverage Corp. (FIZZ)	52,86%	50,47%	32,07%
Coca Cola (KO)	6,22%	37,80%	49,61%
Coca Cola European Partners (CCEP)	10,47%	13,72%	17,14%
Primo Water Corp (PRMW)	-0,16%	37,36%	0,25%

	2017	2018	2019
EPS	\$1,45	\$1,78	\$2,04
DPS	\$0,00	\$0,00	\$0,00

Source: Minerva Investment Society Estimates

The positive net working capital (computed as the sum of accounts receivables and inventories net of accounts payable) confirms that the company is financing its clients and investing in inventories more than it gets financed by its suppliers. The main driver a such positive value of CCC is represented by inventory days. One of the possible explanations lies in the fact that the major part of Monster's clients are large-scale retailer and to satisfy their demand it is certainly required an adequate level of investments in inventories. Given the zero-debt policy fixed, the company has enough space to optimize the Cycle to increase profitability without compromising its liquidity, as for example widening the payment terms with its supplier

Profitability:

Monster Beverage return on equity (ROE) showed an increasing trend in the last two year, reaching levels 28,47% in 2019 from the 22,72% of 2017. In the same period Return on Assets (ROA) increased from 18,35% to 22.90%.

ROE can be decomposed with the DuPont Analysis to understand the driver of the growth from 2017 to 2018. The equity multiplier allows to exclude that the increase is due to relevant operations on capital (e.g. on treasury stock), as the proportion between average total assets and average stockholders' equity remains constant at 1,24. Instead, the rise in profitability by a better margin on sales, expressed by the net profit margin (Net income/Net sales), and a more efficient use of assets in revenues generation, expressed by the net profit margin (Net sales/Avg. TA).

In the past three years Monster Beverage registered also an increasing trend also for return on invested capital which reached 40,71% (computed as NOPAT/IC and with IC given by the sum of total debt and total stockholders' equity net of cash, cash equivalents and short-term investments). The EBITDA margin showed a slight decrease, with a level of nearly 35% in both 2018 and 2019. Monster Beverage ROE turns out to be slightly lower than the average of the soft-beverage industry, which has been standing between 35% and 40% for the US market in past few years.

Among the considered competitors Monster Beverage values are particularly far from the two giants of the industry, Coca Cola American branch (KO) and Pepsi (PEP). However, it must be taken into consideration that Monster employees only stockholders' equity to finance its activity. Both Pepsi and Coca Cola (KO) widely recur to financial leverage, showing a Debt-To-Equity Ratio, calculated as total debt on equity, significantly higher than the 0 level of Monster. Indeed, the higher returns they offer to shareholders are certainly a product of the huge financial debt employed to finance their assets. Another evidence lies in Monster ROA values which stand relatively close to its ROE, 22,90% in 2019. The company was the best performing in 2019 and the second-best in both 2017 and 2018 among the considered peers. With reference to Coca Cola (KO) and Pepsi (PEP), the ROAs stand at extremely lower levels than their own ROEs and in 2019 they were around 10%, 11 percentage points under Monster Beverage.

Considering the above Monster Beverage Return to Equity, even if slightly lower than the industry, can be considered quite satisfying for the company, which specific risk is lower than the competitor due to absence of financial leverage. Return on Asset has been one of the best performing in the past few years and much higher than Pepsi and Coca Cola (both European and American branches).

To sum up Monster Beverage has solid financials, in particular a good profitability and a strong funding structure made only of stockholders' equity. However, it must be noticed that the zero-financial debt policy, along with a stable growth in terms of assets and revenues (7,63% Net Sales 2017-2019 CAGR) implies that the company has to self-financing its investment. Due to this reason, while the earnings per share (EPS) significantly increased, reaching \$2,04 in 2019, the dividends per share (DPS) have been null for a long time and there is no sign that this policy will be reviewed in the short-term.

Figure 18. Valuation price

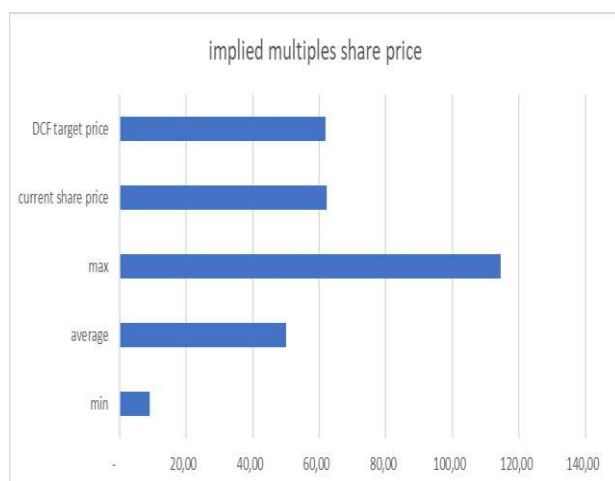


Figure 19. Computed Results

Cost of equity 2020	7,26%
cost of equity after 2020	6,76%
Tv growth rate	1,50%
data in \$ millions	
PV explicit forecast	6.222
TV	37.190
PV TV	26.818
Equity Value	33.040
Surplus Assets	(546)
Debt	0
Cash	(798)
EV core	31.696
N° of shares (in millions)	537
Share Price Target \$	62

Source: Minerva Investment Society Est.

Valuation

Valuation Price Target: USD\$62

Our analysis followed two main approaches:

- An intrinsic valuation regarding the DCF model (FCFE);
- A relative valuation with market multiple of comparable companies

Free Cash Flow to Equity Approach

In the set of the different indirect evaluation methods, we choose the DCF equity side model. Typically, the sector of beverage and soft drinks prefers the use of asset side DCF model because allows to estimate the value of the company considering the high capital expenditure in distribution area and production division which leads companies to highly exploit the use of external financing sources. In our case, instead, we decided to use the equity side approach because the Company presents some peculiar characteristics that makes FCFE model better in capturing the intrinsic value of Monster Beverage. In fact, it does not present any financing debt in its capital structure as it relies more on internal financing through capital increase.

Proceeding step by step, the first element we computed was the cost of equity, which is based on the following assumptions:

- RISK FREE RATE (0.77%): we used last available 10-year US Treasury Bond yield;
- EQUITY RISK PREMIUM (6.52%): it represents the premium an investor will require to invest in the stock instead of investing in the risk-free security.
- BETA LEVERED (1): it represents the risk specifically attached to the company, comparing the performance of the market with the performance of the company.

For what concerns the Country Risk Premium (CRP), this premium has been already incorporated in the high ERP of 6.52%.

Beta Computation: Beta is a coefficient that express how much the return of the security is captured by the return of the market portfolio; in brief, we consider the systematic risk of the security. To compute the Beta equity of the company, we used the market model introduced by W. Sharpe, which describes this coefficient as the ratio between the covariance of market index returns and stock returns, and the variance of the market index in a given period (estimation window).

We put in comparison the security's return with those of S&P 500 and NASDAQ separately, which were considered the Market Index. In doing so, we applied, as required by the model, an OLS regression between the streams of returns of the stock and market index. We Considered 3 different return's frequencies and estimation windows:

- 5 year-monthly
- 2 year-weekly
- 2 year-daily

To assess the most reliable and significant regression we considered the regression line with higher Adjusted R2. This factor measures how much of the security returns (dependent variable Y) is explained by movements of the independent variable X (the market index), in terms of variance.

In other words, higher values of Adjusted R2, the more the variance of stock returns is captured by the market variability of stocks' returns. As following, we report the plots showing the six regressions we performed, after which we moved to the model with highest Adjusted R2, which in our case is represented by the 2-years weekly regression with S&P 500.

Given the climate of uncertainty due to the outbreak of Covid-19, we considered two different levels of cost of equity when passing from explicit forecast time horizon to long-run. In fact, we attached a higher cost of equity during the first year due to riskier and uncertain forecasted behaviour of the company, given the hard situation in USA generated by Covid-19. Instead, from 2021 we expect an economic recovery for which we attached a lower cost of equity and hence ERP and Beta (lower risk). For the long-term, we suppose the Company will growth approximately with a growth rate which follows the economic growth rate (1.5%) (source: www.knoema.com) and a cost of equity which is lower and aligned with K_e used from 2021.

Market Multiples Approach

After the first approach, we checked and compared our forecasts obtained through the DCF analysis, we have performed a market multiple analysis. The purpose of the method is to double check the target price we identified with FCFE approach. Hence, we collected data for market multiples of a set of comparables.

We decided to get the equity and asset side multiples as the former are representative specifically for our company, while the latter considers what is typically practiced in the sector for relative valuation.

Once we obtained the multiples of the comparables' set, from the asset side multiples we yield EV and we have adjusted it to obtain the implied equity values of Monster Beverage. Finally, dividing the equity value by the number of diluted outstanding shares of Monster Beverage, which let us identify the set of prices implied by each multiple. In the following tables we report the results of our computations in order to set a range of implied share prices for each figure.

Due to the current period of emergency, we underline the presence of depressed multiples which reflect the current momentum driven by uncertainty on the market which suggests caution. In fact, the average price implied from the market are very far from the target price suggested by DCF, which appears a clear sign of weakness and difficulty for the stock that suggests selling the position. In fact, we believe the stock will suffer for a while the declining tendency of prices in the stock market and wait for a stabilization in the fundamental valuation of the company. By the way, given the uncertainty of valuations which are likely far from the fundamentals, the multiples may be biased and hence do not reflect totally the value generated by the companies.

Figure 20. Comparables average Multiples

Comparables average multiples	EV/EBITDA	EV/EBIT	EV/SALES	P/E
Keurig Dr Pepper Inc.	12,7	14,4	4,2	17,8
Constellation Brands	13,8	16,2	5,3	17,3
Coca-Cola	20,4	23,7	6,5	22,4
Coca-Cola European Partners	10,6	14,7	2,0	15,3
National Beverage Corp	13,2	13,6	2,3	21,0
PepsiCo	14,8	18,2	3,0	21,5

Source: Minerva Investment Society Estimates

Figure 21. Comparables Values

Source: Minerva Investment Society Estimates

Comparables	Implied Equity Value (\$ millions)	Implied Share Price
MIN	4,826	\$ 8,99
Q1	14,804	\$ 27,57
MEDIAN	23,736	\$ 44,21
Q3	29,338	\$ 54,64
MAX	61,489	\$ 114,53
Average	26,838	\$ 49,99

Investment Risks

Stringent Regulations -The company's business operations are subject to the rules and regulations of the Food and Drug Administration (FDA) and other federal, state and local health agencies regarding production and marketing of beverages. The FDA also regulates the labeling of containers under The Nutrition Labeling and Education Act of 1990. Similarly, in California, Proposition 65 regulates the labeling of containers which specifies if the state has determined that a substance causes cancer or harms human reproduction, a warning must be provided for any product sold in the state that exposes consumer to that substance. If the company is required to add Proposition 65 warnings on the labels of its beverage products produced for sale in California, the resulting consumer reaction to the warnings and possible adverse publicity could negatively affect the company's sales both in California and other markets. Significant additional labeling or warning requirements or limitations on the marketing or sale of company's products could inhibit sales of the products.

Foreign Exchange Risks - The company operates in many parts of the world and is exposed to fluctuations in foreign exchange rates. The company reports financials in the US dollar and therefore its revenue is exposed to volatility of the US dollar against other functional currencies such as euro, Brazilian real, Australian dollar, South African rand, and Mexican peso. The major elements exposed to exchange rate risks include the company's investments in overseas subsidiaries and affiliates and monetary assets and liabilities arising from business transactions in foreign currencies. In FY2018, the company reported a loss of US\$17 million from foreign currency translation adjustments as compared to gain of US\$7.2 million in FY2017 and a loss of US\$1.2 million in FY2016. To minimize risks from currency fluctuations, the company could involve in foreign exchange hedging by entering foreign exchange forward contracts. However, there could be no assurance that such hedging would limit the impact of movements in exchange rates on the company's results of operations.

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Appendix:

Income Statement

<i>Income statement (\$ millions)</i>	<i>FY2017</i>	<i>FY2018</i>	<i>FY2019</i>	<i>FY2020E</i>	<i>FY2021E</i>	<i>FY2022E</i>	<i>FY2023E</i>	<i>FY2024E</i>
Net Sales	3369,0	3807,2	4200,8	4535,5	4882,5	5245,7	5630,3	6049,2
Cost of Sales	(1182,5)	(1454,8)	(1617,4)	(1814,2)	(1953,0)	(2098,3)	(2252,1)	(2419,7)
Gross Profit	2186,6	2352,4	2583,4	2721,3	2929,5	3147,4	3378,2	3629,5
Operating Expense	(938,9)	(1011,8)	(1115,6)	(1145,7)	(1244,4)	(1345,1)	(1444,8)	(1539,3)
EBITDA	1247,7	1340,6	1467,8	1575,6	1685,1	1802,3	1933,4	2090,2
Depreciation & Amortization	(48,9)	(57,0)	(64,8)	(90,3)	(125,0)	(172,1)	(236,0)	(322,9)
EBIT	1204,5	1302,9	1429,0	1485,3	1560,1	1630,3	1697,4	1767,3
Interest income and foreign currency gain/losses	2,8	9,7	13,0	19,8	25,5	32,7	45,6	61,4
EBT	1201,6	1293,3	1416,0	1505,1	1585,5	1662,9	1743,0	1828,7
Provision for Income Taxes	(380,9)	(300,3)	(308,1)	(316,1)	(333,0)	(349,2)	(366,0)	(384,0)
Net Income	820,7	993,0	1107,8	1293,8	1483,6	1696,4	1936,7	2215,2

Balance Sheet

<i>Balance sheet (\$ millions)</i>	<i>FY2017</i>	<i>FY2018</i>	<i>FY2019</i>	<i>FY2020E</i>	<i>FY2021E</i>	<i>FY2022E</i>	<i>FY2023E</i>	<i>FY2024E</i>
ASSETS								
CURRENT ASSETS								
Cash and cash equivalents	528,6	637,5	798,0	1093,4	1324,3	1619,2	1785,3	2101,7
short term investments	672,9	320,7	533,1	753,1	969,3	1247,7	1746,8	2358,2
Net accounts receivable	449,5	484,6	540,3	588,6	633,6	680,7	730,7	785,0
Inventories	255,7	277,7	360,7	389,5	419,3	450,5	483,5	467,5
Prepaid expenses and other current assets	40,9	44,9	54,9	55,9	60,2	64,7	69,4	74,6
Prepaid income taxes	138,7	38,8	29,4	31,7	34,1	36,7	39,4	42,3
Total current assets	2086,4	1804,2	2316,3	2912,1	3440,9	4099,5	4855,0	5829,2
LONG-TERM ASSETS								
Investments	2,4	-	12,9	12,9	12,9	12,9	12,9	12,9
Net property and equipment	230,3	243,1	298,6	347,9	406,5	482,2	577,9	704,2
Deferred income taxes	92,3	85,7	84,8	106,0	114,1	122,6	131,6	122,1
Goodwill	1331,6	1331,6	1331,6	1331,6	1331,6	1331,6	1331,6	1331,6
Net other intangible assets	1034,1	1045,9	1052,1	1059,2	1074,8	1097,7	1133,6	1183,8
Other assets	13,9	16,5	54,0	60,3	68,8	80,4	96,2	117,6
Total Long-term assets	2704,6	2722,7	2834,0	2917,9	3008,7	3127,4	3283,8	3472,2
Total Assets	4791,0	4526,9	5150,4	5829,9	6449,6	7226,9	8138,8	9301,4
LIABILITIES AND STOCKHOLDERS' EQUITY								
CURRENT LIABILITIES								
Accounts payable	245,9	248,8	274,0	295,9	318,5	342,2	404,0	455,8
Accrued liabilities	87,5	112,5	114,1	123,2	132,6	142,4	152,9	164,3
Accrued promotional allowances	138,0	145,7	166,8	180,0	193,8	208,2	245,9	277,4
Deferred revenue	43,2	44,0	44,2	47,8	51,4	55,2	59,3	63,7
Accrued compensation	35,0	39,9	47,3	51,0	54,9	59,0	63,3	68,1
Income taxes payable	10,6	10,2	14,7	14,1	15,2	16,3	17,5	18,8
Accrued distributor terminations	0,1	-	-	-	-	-	-	-
Total Current Liabilities	560,3	601,1	661,1	712,0	766,5	823,5	943,0	1048,0
NON-CURRENT LIABILITIES								
Deferred revenue	334,4	312,2	287,5	304,7	276,0	246,5	217,1	188,5
Other Liabilities	1,1	2,6	30,5	28,3	25,8	24,0	21,7	18,2
Total Non-Current Liabilities	335,4	314,8	318,0	333,0	301,8	270,5	238,8	206,6
Total Liabilities	895,8	916,0	979,1	1045,0	1068,3	1094,0	1181,8	1254,6
STOCKHOLDERS' EQUITY:								
Common stock	3,1	3,2	3,2	3,2	3,2	3,2	3,2	3,2
Additional paid-in capital	4150,6	4238,2	4397,5	4607,4	4814,0	5021,2	5237,9	5465,1
Retained earnings	2928,2	3914,6	5022,5	6316,3	7799,9	9496,2	11433,0	13648,2
Accumulated other comprehensive loss	(16,7)	(32,9)	(32,4)	(32,4)	(32,4)	(32,4)	(32,4)	(32,4)
Common stock in treasury	(3170,1)	(4512,2)	(5219,5)	(6109,5)	(7203,3)	(8355,4)	(9684,7)	(11037,3)
Total Stockholders' equity	3895,2	3610,9	4171,3	4785,0	5381,3	6132,9	6957,0	8046,8
Total Liabilities and Stockholders' Equity	4791,0	4526,9	5150,4	5829,9	6449,6	7226,9	8138,8	9301,4

Valuation

<i>data in \$ millions</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>	<i>2022</i>	<i>2023</i>	<i>2024</i>	<i>TV</i>
<i>Net Income</i>	820,68	993,00	1.107,84	1.293,79	1.483,59	1.696,38	1.936,72	2.215,21	
<i>D&A</i>	48,89	56,98	64,81	90,33	124,98	172,06	236,00	322,87	
<i>Capex</i>	(532)	(273)	327	(150)	(204)	(277)	(376)	(511)	
<i>ΔWC</i>	(21)	(59)	(76)	(32)	(80)	(85)	(92)	(101)	
<i>New debt issued</i>									
<i>Debt paid</i>	(3)	(2)	(14)						
<i>Non cash items</i>	5	(11)	2						
<i>FCFE</i>	<i>319</i>	<i>706</i>	<i>1.411</i>	<i>1.202</i>	<i>1.325</i>	<i>1.506</i>	<i>1.705</i>	<i>1.926</i>	<i>37.190</i>
<i>discount factor</i>				0,93	0,88	0,82	0,77	0,72	
<i>PV FCFE</i>				<i>1.120</i>	<i>1.163</i>	<i>1.238</i>	<i>1.312</i>	<i>1.389</i>	<i>26.818</i>

<i>Cumulative PV FCFE</i>	6222	<i>Ke</i>	7,26%
<i>PV TV</i>	26818	<i>Ke after 2020</i>	6,76%
<i>estimated MV</i>	33040	<i>g long-run</i>	1,50%
<i>N.shares (in millions)</i>	537		
<i>Price target</i>	62		
<i>MV equity</i>	33040		
<i>Cash</i>	(798)		
<i>Investments (SA)</i>	(546)		
<i>EV</i>	31696		