Boston Beer Company SAM | Disclosure: Long	PRICE 12/21/23	$345.55	SHARES OUT	12.3m	MARKET CAP	$4.2bn

DESCRIPTION: Boston, Mass. – based brewer of flagship Sam Adams beer, Twisted Tea, Truly, Dogfish Head, Angry Orchard.

PREVIOUS ANALYSIS:
Deep Dive: September 2021
LINK TO BACK ISSUES

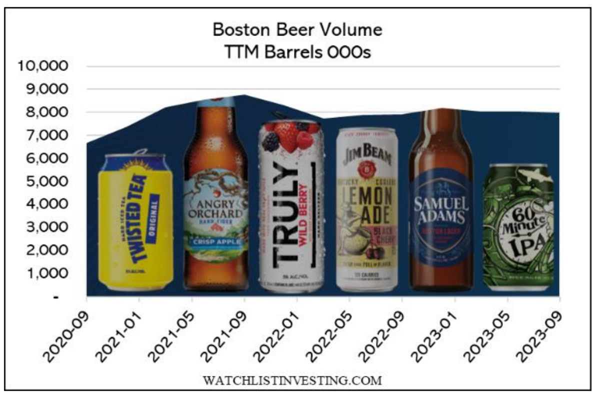
Figures in millions	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2022Q3	2023Q3
Barrels sold (000s)	3,416	4,103	4,256	4,019	3,768	4,286	5,307	7,368	8,504	8,183	6,472	6,175
Equivalent hectoliters 0.838641 bbl (US)	4,073	4,892	5,075	4,792	4,493	5,111	6,328	8,786	10,140	9,757	7,717	7,363
Revenue / barrel	$216	$220	$226	$226	$229	$232	$236	$236	$242	$255	$254	$262
Revenue / hectoliter	$181	$185	$189	$189	$192	$195	$198	$198	$203	$214	$213	$219
Net revenue	$739	$903	$960	$906	$863	$996	$1,250	$1,736	$2,058	$2,090	$1,643	$1,615
Gross margin	52%	51%	52%	51%	52%	51%	49%	47%	39%	41%	42%	44%
EBIT margin	15.3%	16.2%	16.3%	15.2%	13.4%	11.6%	11.6%	14.1%	0.4%	4.3%	6.5%	7.8%
Operating margin ex. impairments	15.3%	16.2%	16.3%	15.2%	13.4%	11.6%	11.6%	14.1%	2.8%	6.0%	8.6%	9.1%
Average tangible capital employed	$209	$316	$386	$390	$373	$360	$452	$581	$691	$763	$709	$709
Revenues / avg. capital	$3.54	$2.86	$2.48	$2.32	$2.31	$2.76	$2.77	$2.99	$2.98	$2.74	$3.09	$3.04
EBIT margin	15.3%	16.2%	16.3%	15.2%	13.4%	11.6%	11.6%	14.1%	0.4%	4.3%	6.5%	7.8%
Pre-tax ROCE	54%	46%	40%	35%	31%	32%	32%	42%	1%	12%	27%	32%
Net debt (cash)	($50)	($76)	($94)	($91)	($66)	($108)	$17	($104)	($12)	($135)	($175)	($272)
Net working capital	$60	$97	$112	$100	$67	$111	$38	$154	$90	$219	$215	$315
Tangible equity	$298	$432	$458	$443	$420	$457	$519	$741	$767	$880	$885	$949
Shares outstanding (diluted, avg.)	13,504	13,484	13,520	12,796	12,180	11,734	11,908	12,283	12,436	12,345	12,342	12,280
Growth capex	($75)	($117)	($31)	($0)	$18	($3)	($37)	($74)	($75)	($7)	($9)	$20
Acquisitions	($3)	($0)	$0	$0	$0	$0	($310)	$0	$0	$0	$0	$0
Share issuance (repurchase)	($30)	($8)	($136)	($165)	($145)	($88)	$145	$0	$0	$0	$0	($62)

THIRD QUARTER UPDATE

Boston Beer's third quarter and YTD results show meaningful progress returning the company to normalcy after its hard seltzer hangover.

Revenue per barrel increased 3% over the prior 9M period but volume fell 4.6% to 6.2mm barrels (7.4mm hectoliters).

Truly, Angry Orchard, Sam Adams and Dogfish Head declined while Twisted Tea and the new Hard Mountain Dew brands increased. Twisted Tea continues to be a strong area for SAM, one the company is nurturing with increased social media spend and variations on flavors and package sizing. Truly maintains its #2 spot in hard seltzer while the category shrinks and consolidates. Both Twisted Tea and Hard Seltzer compete in the flavored malt beverage segment and their results couldn't be more different. Twisted Tea increased dollar sales 34% and added 3.2 share points while Truly declined 26% and lost 3 share points.



Gross margin improved from 42% to 44% in part due to bringing more production in-house (now 69% of volume) in addition to pricing.

Impairment and other charges of $20mm YTD reflect two main factors: fees related to unused contracted manufacturing capacity (taken on when the hard seltzer category went to the moon) and goodwill writedowns as tacit admission of overpayment for Dogfish Head in 2019.

SAM's balance sheet remains pristine, ending the quarter with $311mm cash and no debt save for $9mm operating lease liabilities.

YTD the company repurchased 189,957 shares for $62.9mm, an average price of $331/share. Sing 1998 the company has repurchased 14 million shares at a cost of $904mm. Absent meaningful volume growth I don't expect net growth capex for a while. It'll take some time to work off excess capacity and increase in-house production from 69% to the company's target of around 90% to 100%.

Notably, pre-tax return on capital employe is back to 32% YTD, and that's *including* all impairment and other charges. There's continued upside potential in gross margin as input cost inflation subsides and production efficiencies return.

One thing I really like about SAM is its entrepreneurial culture. It took it a bit on the chin after overshooting production with Truly. But management, led by founder, Jim Koch, recognized it as a once-in-a-generation opportunity and probably secured a long-lasting #2 spot in the category. Hard Mountain Dew and a partnership with Jim Beam continue the experimentation culture that is core to the company's success.

How to place a value on SAM? Shares currently imply a market cap of $4.2 billion. Take out net cash and you're down to $3.9 billion. Assuming normalized volume of about 8.5mm barrels at current rate of $262/bbl results in revenue of $2.3 billion. A normalized EBIT margin of 12% should easily be attainable, which would result in EBIT of $275mm. That's a 7% pre-tax return on today's enterprise value not considering any growth. With pre-tax ROCE north of 30% and probably closer to 40% longer-term, growth can be achieved at great returns and without much capital. With share repurchases coiling the spring, I see more upside in SAM shares than downside. But that's just my opinion and this is of course not investment advice!

Raise a glass of Boston Lager (or Truly) to 2024!