Watchlist Investing Newsletter

Patiently finding and following great public companies to own at the right price.

Issue #7 | September 2021

"One person said to me, 'I have a list of 300 potentially attractive stocks, and I constantly watch them, waiting for just one of them to become cheap enough to buy.' Well, that's a reasonable thing to do. But how many people have that kind of discipline? Not one in 100."
– Charlie Munger

In this issue:

Companies in this issue: Anheuser-Busch InBev (BUDFF); Molson Coors (TAP); Constellation Brands (STZ); Heineken (HEINY)

Deep Dive

Boston Beer, Co.

(Ticker: SAM; Disclosure: Long)

Shares of Boston Beer fell by almost 60% in the span of just four months and attracted my attention to the maker of the company's namesake Samuel Adams beer, Twisted Tea, Angry Orchard hard cider, Dogfish Head beer, and Truly hard seltzer.

From mid-April to mid-August the company's market cap fell from $16bn to $7bn, representing a share price decline from $1,300 to under $560. This dramatic drop happened outside of any general market weakness and was the result of less-than-stellar performance in hard seltzer. Results were good, just short of the perfection baked into the valuation. Wall Street promptly hurled the company's shares overboard faster than Boston Patriots dumped tea into Boston Harbor some 250 years ago.

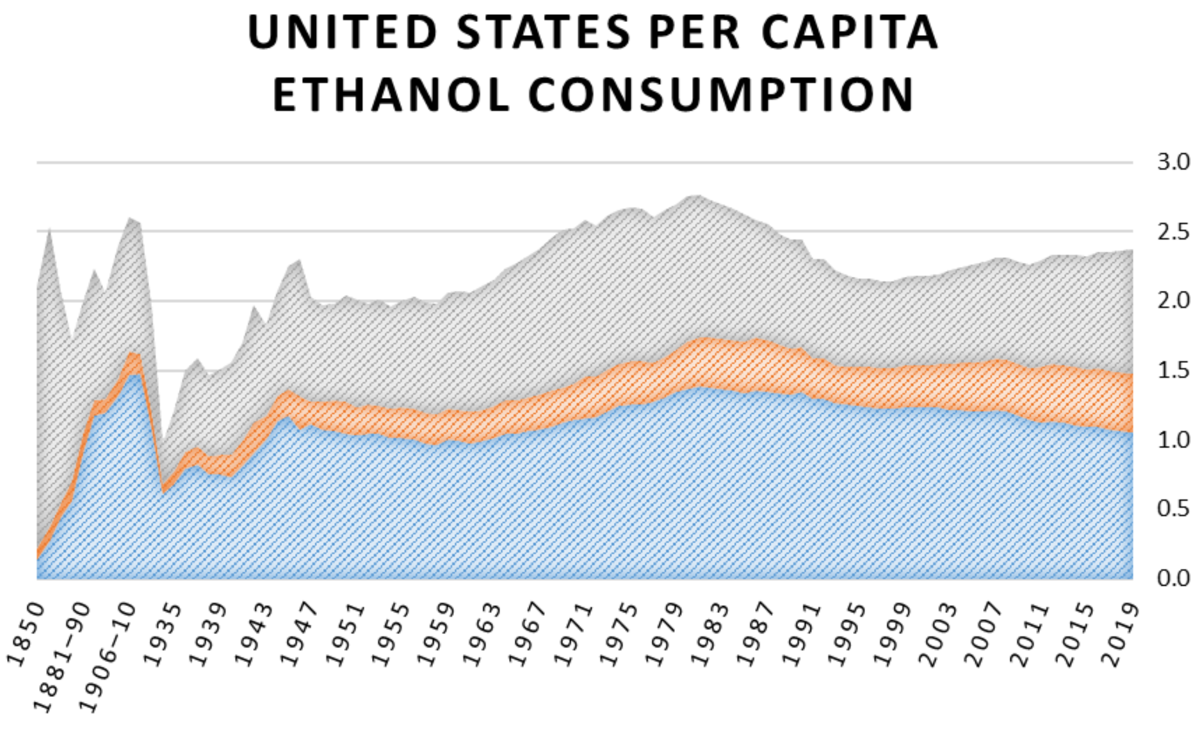
INDUSTRY OVERVIEW:

Humans have been consuming alcohol, including beer, for thousands of years. Today the worldwide market for beer amounts to 1.91 billion hectoliters[1] annually. Consumption per capita ranges from 188 liters in the Czech Republic (#1) and 108 liters in Austria (#2), to about 40 liters in South Korea and Japan. The US falls in the middle at about 73 liters per capita in 2019. Put into more familiar terms, Americans drink about 200 12-oz beers annually. That's a lot of six packs.

[1] A hectoliter is 100 liters. One HL is equal to about 0.84 barrels, 26.4 gallons, or 282 twelve-ounce servings.

But the market for beer does not exist in isolation. Broadly speaking it competes with wine and spirits. Not only does the overall market ebb and flow with trends in alcohol consumption but changes in consumer preferences move in cyclical patterns too. One way to measure alcohol consumption is gallons of ethanol per person.

Data going back to the mid-1800s in the United States show a penchant toward spirits, which quickly became a roughly 50/50 split between spirits and beer by the turn of the century. Data from the prohibition era show a sharp decline in total consumption, although that might just be from consumption moving underground. Broadly speaking, the WWII period through the early 1980s reflects an increase in total consumption driven by all categories. The peak came in 1981 at 2.76 gallons per person. From about 1980 to 2000 consumption per capita fell to about 2.2 gallons but then resumed upward, ending 2019 at 2.38 gallons. The last twenty years has seen Americans rediscover their love of spirits and to a lesser extent wine, both at the expense of beer.

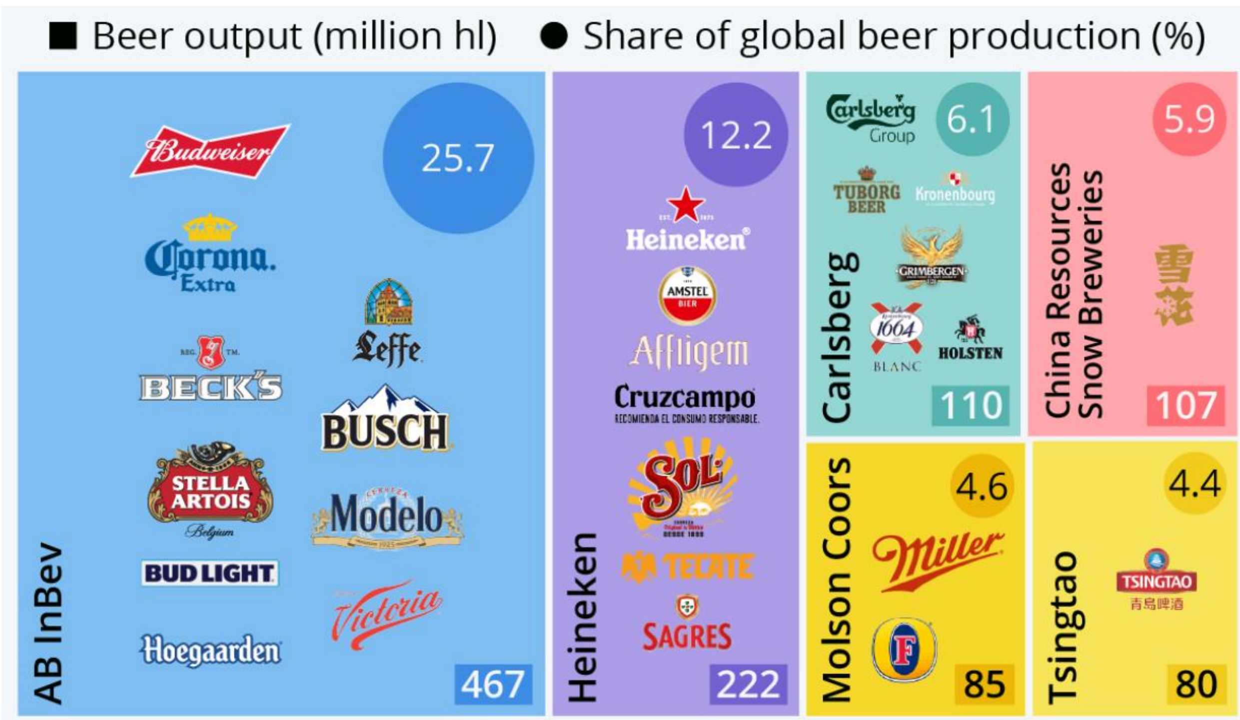


Source: https://pubs.niaaa.nih.gov/publications/surveillance117/tab1_19.htm

In the United States the market for beer is worth $94 billion (2020).[2] This comprises domestic brews and imports across both on-premise (think bars and restaurants) and off-premise (supermarkets). Beer is a category, at least for broad measurement purposes, which encompasses things like hard cider, flavored malt beverages (FMB), and hard seltzers—all of SAM's products.

[2] https://www.brewersassociation.org/statistics-and-data/national-beer-stats/

Prior to prohibition in 1920 America featured hundreds of small breweries producing a range of full-flavored beers. After prohibition ended in 1933 the US shifted to mass-produced light beers. These lighter beers allowed for massive economies of scale in production and distribution, which encouraged consolidation. This eventually led to just two companies producing 90% of the beer in the US. Today **Anheuser-Busch InBev (Ticker: BUDFF; Disclosure: None)** and **Molson Coors (Ticker: TAP; Disclosure: None)** dominate the market and have extensive international reach too. **Constellation Brands (Ticker: STZ; Disclosure: None)** is a major importer of primarily Mexican beers to the US market, and to a lesser extent **Heineken (Ticker: HEINY; Disclosure: None)**.



BOSTON BEER HISTORY:

James “Jim” Koch (pronounced “cook”) founded Boston Beer Company in 1984. His first product was the company’s flagship lager, Samuel Adams, which was named after the Boston Patriot of the same name and came from his great-great grandfather’s recipe. The company went public in 1995 and has surfed a trend of craft brewing in the United States.

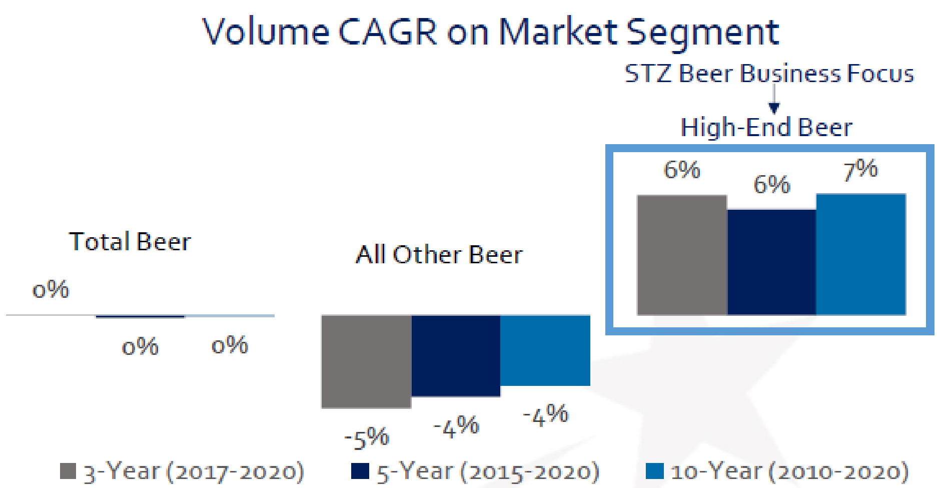
A short timeline of the company’s products illustrates its history of introducing or successfully following industry trends:

- 1984: Samuel Adams – full-bodied craft beer
- 2000: Twisted Tea – hard tea
- 2012: Angry Orchard – hard cider (following the 1997 introduction of Hardcore Cider)

- 2016: Truly – hard seltzer
- 2019: Dogfish Head – acquisition

SAM competes in the high-end category of the beer market which it estimates was about 36% of the US beer market overall. The company estimates its market share at 9% of the high-end category. Doing the math, that gives SAM a 3.25% market share.

The high-end beer segment has grown at mid-single-digit rates over the past decade at the expense of mass-produced beers (see graphic from a recent STZ presentation below).



This can also be seen in statistics from TAP:

North American Beer Market - Market Share

	2020	2019	2018	2017	2016
AB InBev	41%	41%	42%	42%	43%
Molson Coors	22%	23%	24%	25%	26%
Others	37%	36%	34%	33%	31%

Source: 2020 Molson Coors 10K

BUSINESS MODEL:

The business model of any brewer is simple and straightforward. Brewers combine inputs such as grain, hops, yeast, and water—a recipe that's literally thousands of years old. Depending on brewing technique, and sometimes with the addition of other ingredients or flavors, results in a variety of different end products.

With some exceptions, distribution of alcohol in the United States is legally mandated through a three-tier system. The manufacturer (brewer) must sell to a distributor (wholesaler) who then sells to on- or off-premise retailers.

As noted in the industry section above, the mass-market brewers benefit from the ability to brew huge quantities of product and distribute it far and wide. Their volume gives them purchasing power and an outsize share of distributors' business. A largely uniform product also means less labor or capital investment in producing variety packs, a feature of many craft brewers. In short, there's a dynamic of lower-price/lower production cost and higher-price/high production cost, a tension that finds a balance in brewer profitability.

KEY VARIABLES-METRICS:

Key metric #1: How much volume does the brewer produce annually? The larger the brewer, generally, the better its access to volume-driven inputs and distribution advantages. Related, advantages of scale in advertising/brand awareness are tied to volume.

Key metric #2: How much profit per hectoliter (HL) or barrel (BBL) in $ or %? This statistic reflects the company/brand's ability to price its product and is the result of any economies of scale in production or advertising.

Key metric #3: How much capital is required per hectoliter (HL) or barrel (BBL)?

All three metrics above are largely indifferent to product. Meaning, it's not so much about the specifics of the company's brands but rather the volume of total product going out the door and its category-specific pricing limitations. To be sure, product-specific dynamics are important (one can only drink so much hard cider) but those largely reflect management's ability to stay on top of shifts in consumer preferences, no different than any other competitive industry.

We can see these dynamics playout across SAM, TAP, and BUDFF:

SAM produces far lower volumes of product compared to its larger cousins…

Annual Volume (000's HL)	2020	2019	2018	2017	2016
Boston Beer (SAM)	8,786	6,328	5,111	4,493	4,792
Molson Coors (TAP)	82,033	88,946	92,141	93,959	65,537
AB InBev (BUDFF)	530,644	561,427	567,066	612,572	500,242

But competing in the high-end beer segment gives SAM the ability to price its products higher, leading to revenues per hectoliter more than double that of BUDFF and well ahead of TAP.

Revenues/HL	2020	2019	2018	2017	2016
Boston Beer (SAM)	$198	$198	$195	$192	$189
Molson Coors (TAP)	$118	$119	$117	$117	$75
AB InBev (BUDFF)	$88	$93	$96	$92	$91

But SAM also has higher input costs stemming from better/premium ingredients, lower relative purchasing power, and lower efficiencies/economies of scale. This leads SAM's margins to be half of those at BUDFF…

Operating Margin	2020	2019	2018	2017	2016
Boston Beer (SAM)	14.1%	11.6%	11.6%	13.4%	15.2%
Molson Coors (TAP)	13.8%	13.9%	12.8%	15.9%	5.8%
AB InBev (BUDFF)	25.8%	30.9%	31.9%	31.2%	28.9%

SAM's lower volumes also manifest itself in lower capital efficiency compared to its larger, mass-producing peers…

Tangible capital / HL	2020	2019	2018	2017	2016
Boston Beer (SAM)	$70	$86	$70	$80	$81
Molson Coors (TAP)	$51	$51	$49	$50	$66
AB InBev (BUDFF)	$41	$38	$36	$33	$40

All of which combine to result in lower (but by no means unsatisfactory) pre-tax returns on tangible capital…

Pre-tax ROIC (avg)	2020	2019	2018	2017	2016
Boston Beer (SAM)	42%	32%	32%	31%	
Molson Coors (TAP)	30%	32%	30%	39%	
AB InBev (BUDFF)	56%	78%	87%	87%	

SAM FINANCIAL ANALYSIS:

SAM is a wonderful business by just about every measure. The company's balance sheet is pristine with surplus cash and a long history of operating without debt. Until its 2019 acquisition of Dogfish Head SAM had basically no goodwill or intangibles to speak of. The company's history of very strong pre-tax returns on capital (upwards of well over 50% to lows in the low 30%-range) means SAM has been able to fund impressive growth with internal funds *and* allocate over 50% of earnings to share repurchases.

From 2011 to 2020, SAM grew unit volume from 2.48 million barrels[3] to 7.37 million barrels, which included two smaller acquisitions and the larger Dogfish Head acquisition in 2020 (more on that below). In looking more closely at the capital requirements of the business we see essentially no working capital requirement. What has been required is continued investment in physical plant. At an average of about $0.35 per dollar of revenues this relationship appears linear. It also suggests SAM, at least during this measurement period, hasn't achieved meaningful increases in economies of scale in its business.

Core Capital Requirements:	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Avg. Core working capital / revenue	$ (0.00)	$ 0.00	$ 0.00	$ 0.01	$ 0.01	$ 0.02	$ 0.02	$ 0.01	$ 0.01	$ 0.00
Avg. PP&E / revenue	$ 0.34	$ 0.37	$ 0.39	$ 0.46	$ 0.45	$ 0.41	$ 0.36	$ 0.31	$ 0.29	$ 0.28

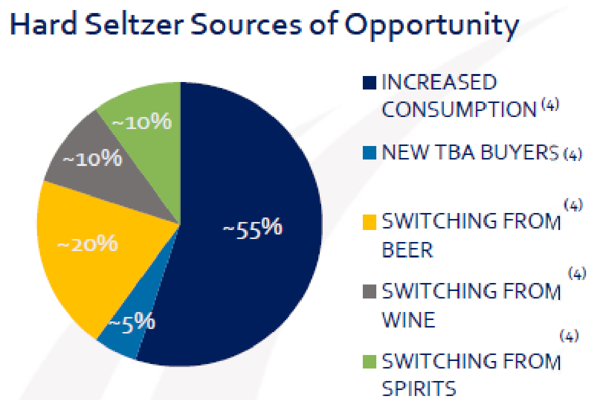
Accompanying the increase in unit volume has been an increase in revenues from $513m in 2011 to $1.7bn in 2020. EBIT during that period increased from $83m to $244m. A $1.2bn increase in revenues and $161m increase in EBIT required an investment of $697m (including $215m goodwill/intangibles), which equates to a 23% return on investment.

A big driver of revenues over the last few years is the explosion of hard seltzer. SAM was one of the first to enter the market with its Truly brand and now has about a one-third market share compared to #1 player Mark Anthony and its White Claw brand. That would make Truly almost a $1.5bn brand in the $4.5bn market for hard seltzer.

Source: CNBC via YouTube

[3] The company uses barrels, which I've converted for comparability to hectoliters elsewhere.

In a market of declining per capita consumption of beer, hard seltzer has been a bright spot for SAM and other leading brands. Evidence suggests some cannibalization of traditional products but growth has come from increased consumption of the category and by taking share from spirits/wine. Such strong growth in hard seltzer also presents risks in the form of a reversal in fortunes should the trend prove fleeting.



Source: STZ Presentation

There are a couple of factors which bear additional comment as it relates to margins. Gross margins declined from the mid-50% range in 2011 to 47% in 2020. Some of the recent margin pressure comes from pandemic-related causes, but the main culprit is outsourced production. SAM's ability to keep up with demand for its product has outstripped capacity to the point where 23% of production was outsourced to contract brewers in 2020 (down from 33% in 2019). The use of contract brewers lowers gross margins and often comes with minimum volume requirements and even capital investment requirements.

One of the draws of a craft brewer such as SAM is the variety of different beers it produces. This includes varieties of seasonal or flavored brews. While this increases brand participation it comes with drawbacks. A major drawback is smaller batches compared to mass-produced beers. Another challenge is the packaging of variety packs. Historically this has required additional labor, although opportunities exist for capital investment in automation. Constellation Brands' portfolio of high-end beers have similar characteristics, and it is leading the way in automation in variety packaging.

Capital Allocation:

As noted above, SAM has grown impressively all the while returning capital to shareholders via buybacks. Roughly speaking about half of earnings have been used for buybacks (net of issuance), with the other 50% split between acquisitions and organic growth. In 2020 SAM purchased Dogfish Head for about $310m in a roughly 50/50 cash/stock transaction.

SAM Capital Allocation 2011-20		
Sources		
Net income	966	*77%*
Issuance of shares	145	*12%*
Change in def. taxes	76	*6%*
Change in other LT liab.	66	*5%*
Total sources	**1,252**	*100%*
Uses		
Growth capex	(366)	*27%*
Acquisitions	(315)	*24%*
Share repurchases	(652)	*49%*
Core working capital	(0)	*0%*
Dividends	0	*0%*
Total uses	**(1,333)**	*100%*
Change in cash	114	
Unaccounted	(195)	

The acquisition allowed Dogfish Head to access SAM's distribution network and bolstered SAM's lineup of high-end craft beers. With 300,000 barrels of annual production, SAM paid about $1,000 per barrel for a comparable revenue/barrel product (about $233 compared to SAM's $236). A breakdown of Dogfish Head's purchase allocation reveals tangible capital employed of nearly $400/barrel. This sheds light on the relative economies of scale SAM enjoys over its much smaller craft brewer rivals.

Management at SAM appear very well attuned to their capital allocation choices. Historically they've repurchased shares at lower price levels, and they focus on improving capital efficiency not just sales or unit growth. An excerpt from the July 22 conference call highlights management's focus on capital intensity and efficiency (note that Frank Smalla is CFO).

Excerpt from July 22 conference call:

Jim Koch:

…

So one part of the margin improvement that will be starting in the second half of this year is those markets we currently supply largely from Memphis and from Pennsylvania, a little bit from a smaller facility in Arizona. So all of those freight costs will be reduced as we begin to supply the Western half of the United States from Western breweries.

And then we put capacity in place for the back half of this year and then especially going into 2022 for very significant growth in Seltzer, and that is primarily contract capacity. So that was -- all that contract capacity coming on stream, which is very favorably located and actually well designed to make a variety of packs at Rauch, doesn't involve a great deal of capital compared to building it internally. So one of the things we have reduced is high capital cost capacity, which is the internal capacity because we believe we have really good contract partners with favorable terms and locations and very efficient production.

Frank Smalla

Yes. And Eric, to your question, like we started that in the last earnings call, where we had to reduce that when we were in this really extreme growth period. When you plan your capital, you look at different options of putting the capital in. And that basically 2 big buckets of capital that we're looking at: one is increasing capacity and the other one is investments to bring down the cost. That's the automation of the variety pack. That's the main component, which will drive the cost down.

So when you put that in at the beginning, we weren't -- the plans weren't all specified. As we move through the year, we found better solutions, as Jim said, that allowed to get to the same result with less capital. So if you look at the capital reduction in the guidance, there's -- the way I would think about it is 3/4 is really because we found better ways in implementing our plans, and about 1/4 is a delay and that depends really on the capacity that we really need. We have sufficient capacity for next year.

But everything will go forward that will decrease our variety packing cost, and that's the major cost block. And that's also the major difference that you see in the current P&L between external manufacturing and internal manufacturing. But those are the plans that we have, and that's going to be a key driver for the margin improvement.

MANAGEMENT / OWNERSHIP:

Senior management of SAM includes Jim Koch (71) who, as founder and chairman, maintains close oversight and involvement in operations. He is also owner of 100% of the company's Class B shares, which entitle him to control the company. Koch served as the company's CEO until 2001 when he passed the reins to Martin Roper. Roper retired in 2018.

The company's CEO is David Burwick (59), who joined as a director in 2005 and was appointed President and CEO in 2018. He came with experience as head of Peet's Coffee, and also held leading roles at Pepsi.

Other notable executives are Sam Calagione, III (51), who is founder of Dogfish Head and joined the board of SAM as part of the acquisition in 2020. Notably, Calagione and his wife took their share of proceeds of the sale in SAM shares. Also notable is Cynthia Fisher (60), who is Jim Koch's wife.

Major shareholders include Jim Koch with 19.5% of total shares, Sam Calagione with 3.8%, and Cynthia Fisher with 1.7%.

VALUATION:

To value SAM I used Bruce Greenwald's approach he laid out in his excellent 2nd edition of *Value Investing: From Graham to Buffett and Beyond* (see here). Greenwald's method is a logical three-step process that breaks down the components of growth into a current return, organic return, and active investment return.[4]

Here's what you get at a current valuation of $6.8bn:

Assuming current TTM revenues of about $2.1bn, current EBIT margin of 15%, and a 25% tax rate, NOPAT is equal to $236m or about a 3.5% going-in return if SAM distributed all its earnings.

Share price	$555			
Shares out	12,283			
Market value	$6,817			% MV
Sustainable revenue	$2,100			
Margin	15%			
EBIT	$315			
Tax rate	25%			
NOPAT	$236			
Cash return (buyback)	$118	50%		
Cash return %				1.7%
$ available for investment	$118			
Organic growth	3.0%			3.0%
Revenues	$63			
Capital required	0.35			
Capital req'd for organic	$22			
$ available for active	$96			
Value creation factor	1.5			
Active value creation	$144			
Active value return				2.1%
Total return				**6.8%**

[4] Greenwald's method is similar to a DCF method without the worst of DCF's shortcomings, such as the significant variability in output accompanying just a 1ppt change in discount rate or terminal growth. But I digress.

Allowing for half of earnings to be used in buybacks, the remaining half can be invested at high incremental rates of return to generate, conservatively, another 3.3% of return, or just under 7% on a present value basis.

Why I think the indicated going-in return of 6.8% contains a margin of safety and further upside potential is several-fold:

- EBIT margins have several means of increasing from current levels including economies-of-scale-based advantages, investments in efficiency, and internal investment in production capacity vs. contract brewing.

- Capital efficiency could increase, lowering the $0.35 investment per $1.00 revenues.

- The value creation factor, which essentially takes the capital leftover from distributions and organic growth and scales it to a present value based on future investment, could be higher than 1.5x. For example, if SAM generated a 20% ROIC and invested at a discount rate of 10%, the incremental 10% PV growth would compound to a 2x over seven years, which seems very reasonable. That would add 70bps to annual returns.

RISKS:

- **Hard seltzer:** Growth in the category has proved a boon to SAM as it rides the wave of what appears to be a strong trend. But that also risks a strong reversal if the trend is fleeting or consumer tastes change. A growing market also invites competition, including a number of industry heavy hitters.
- **Overall beer market:** The trend over the last two decades is one of declining per capita consumption of beer. Is a reversal inevitable or could beer fall further out of favor? Could additional health consciousness permanently impair total alcohol consumption, not just beer? SAM’s outsize growth will eventually hit resistance.
- **Craft beer trend:** Craft brewers have exploded in popularity over the last decade. The trend has helped SAM, but each additional craft brewer represents competition. Evidence suggests SAM has benefitted from this trend more than it has hurt it, but the risk remains. Additionally, some of the larger players have acquired craft brands to add to their lineup, a fact not always known to the end consumer.
- **Paradoxical industry position:** Related to the popularity of craft beer, SAM occupies an almost paradoxical position. It’s technically an independent craft brewer (under 6m barrels/year) but has attributes of a larger outfit. The success of a craft beer could make it more mainstream, negating some of the feelings of drinking local or small.

SUMMARY/CONCLUSION:

The recent decline in the share price of SAM presents an opportunity to buy into a well-managed growth business at a fair price. The company takes calculated risks to establish itself in new categories of the broadly-defined beer space. SAM is well positioned to use its relative size advantage to compete with much smaller entrants while leaving itself various avenues to gain from future volume growth and efficiencies. SAM also maintains a pristine balance sheet which mitigates the risks it takes pursuing new categories of alcoholic beverages. SAM has been able to maintain its growth trajectory while buying back meaningful amounts of stock, a consequence of its very strong returns on capital.

How could I be wrong? Such an investment brings risks. SAM's future likely hinges on the following factors:

- Growth or decline in the overall beer category
- The future of hard seltzer and where it matures/stabilizes as a category
- The company's ability to benefit from scale and increase margins

Update: Just as this issue was about to go to the presses, SAM issued a press release withdrawing its 2021 guidance. Volumes in the hard seltzer market have continued to decline and SAM now expects inventory write-offs and shortfall fees, among other costs, to negatively impact FY '21 results.

While concerning, and something I'm watching closely, such news is not unsurprising. A share price of $500 translates into a 7.3% return in the valuation table. Reducing sustainable revenues to $1.75bn brings the return back down to 6.6%.

In short, today's news does not alter the long-term outlook for SAM, in my view.

SUMMARY FINANCIALS:

Boston Beer Co. (SAM) Balance Sheet ($mil; FYE Last Sat. Dec.)	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Cash	163	37	108	66	91	94	76	50	74	49	49
Accounts receivable	78	54	34	34	37	39	37	42	31	23	20
Inventories	131	106	70	51	52	56	51	56	44	34	27
Prepaids & other	41	22	19	18	21	34	43	16	12	19	16
Total current assets	413	219	232	168	201	224	207	164	162	126	112
PP&E	623	541	390	384	408	410	382	267	190	144	143
Goodwill	113	113	4	4	4	4	4	4	3	1	1
Intangibles	104	104	0	0	0	0	0	0	0	0	0
Other LT assets	126	78	15	13	10	8	12	10	5	2	2
Total assets	1,379	1,054	640	570	623	645	605	444	359	272	259
Accounts payable	122	76	47	38	41	43	36	34	28	19	19
Accruals & other current liab.	138	104	73	64	61	68	75	70	61	48	53
Total current liabilities	259	181	121	102	102	111	110	104	89	67	72
Deferred taxes	93	75	49	35	65	56	51	32	20	17	17
Non-current operating lease liab.	59	54	0	0	0	0	0	0	0	0	0
Other LT liabilities	11	9	10	10	11	17	8	5	5	3	4
Total liabilities	422	318	180	146	177	184	169	142	114	88	93
Shareholders' equity	957	736	460	424	447	461	436	302	245	185	166
Total liab. + SH equity	1,379	1,054	640	570	623	645	605	444	359	272	259
Diluted shares out (avg in mil)	*12,283*	*11,908*	*11,734*	*12,180*	*12,796*	*13,520*	*13,484*	*13,504*	*13,435*	*13,741*	*14,228*

Boston Beer Co. (SAM) Income Statement ($mil; FYE Last Sat. Dec.)	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Net revenue	1,736	1,250	996	863	906	960	903	739	580	513
Cost of goods sold	922	636	483	413	447	458	438	354	265	228
Gross profit	814	614	512	450	460	502	465	385	315	285
GPM	*47%*	*49%*	*51%*	*52%*	*51%*	*52%*	*51%*	*52%*	*54%*	*55%*
Advertising, promotional and selling	448	356	305	259	244	274	251	208	169	157
SG&A	123	114	92	76	78	72	68	64	50	24
Operating profit	244	145	116	116	138	156	147	113	96	104
OPM	*14.1%*	*11.6%*	*11.6%*	*13.4%*	*15.2%*	*16.3%*	*16.2%*	*15.3%*	*16.5%*	*20.2%*
Net income	192	110	93	99	87	98	91	70	59	66
Diluted EPS	*$15.53*	*$9.16*	*$7.82*	*$8.09*	*$6.79*	*$7.25*	*$6.69*	*$5.18*	*$4.39*	*$4.81*

Boston Beer Co. (SAM) Capital Allocation	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**
Net income	192	110	93	99	87	98	91	70	59	66
Growth capex	(74)	(37)	(3)	18	(0)	(31)	(117)	(75)	(46)	(1)
Acquisitions		(310)					(0)	(3)	(2)	0
Divestitures										
Issuance of shares		145								
Share repurchases, net	0	0	(88)	(145)	(165)	(136)	(8)	(30)	(18)	(63)
Change in debt										
Change in core working capital	(11)	(1)	2	(8)	(10)	(3)	11	11	(10)	18
Acquisition notes		Dogfish Head for $310m ($336m after post-closing adjustments)						Coney Island for $2.9m.	Angel City Brewing for $1.9m.	

Unit Volume:	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Barrels sold (000s)	7,368	5,307	4,286	3,768	4,019	4,256	4,103	3,416	2,746	2,484
Revenue/barrel	$236	$236	$232	$229	$226	$226	$220	$216	$211	$207
Operating profit/barrel	$33	$27	$27	$31	$34	$37	$36	$33	$35	$42
Avg. tang. capital employed/barrel	$79	$85	$84	$99	$97	$91	$77	$61	$55	$51

Equivalent hectoliters 0.838641 bbl (US)	8,786	6,328	5,111	4,493	4,792	5,075	4,892	4,073	3,274	2,962
Revenue/HL	$198	$198	$195	$192	$189	$189	$185	$181	$177	$173
Operating profit/HL	$28	$23	$23	$26	$29	$31	$30	$28	$29	$35
Avg. tang. capital employed/HL	$66	$71	$70	$83	$81	$76	$65	$51	$46	$43

Core Capital Requirements:	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Avg. Core working capital / revenue	$ (0.00)	$ 0.00	$ 0.00	$ 0.01	$ 0.01	$ 0.02	$ 0.02	$ 0.01	$ 0.01	$ 0.00
Avg. PP&E / revenue	$ 0.34	$ 0.37	$ 0.39	$ 0.46	$ 0.45	$ 0.41	$ 0.36	$ 0.31	$ 0.29	$ 0.28

Analysis of core business:	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Tangible capital (excl'd cash)	618	544	360	360	386	394	379	252	165	136
Revenues / avg. capital	$2.99	$2.77	$2.76	$2.31	$2.32	$2.48	$2.86	$3.54	$3.85	$4.07
EBIT margin	14%	12%	12%	13%	15%	16%	16%	15%	16%	20%
Pre-tax ROIC	42%	32%	32%	31%	35%	40%	46%	54%	63%	82%

WHAT'S COMING NEXT ISSUE:

The study of the waste management industry from Issue #6 got me thinking about other industries with route density economics. The closest analog is the trucking industry, and perhaps as peripherals UPS and FedEx and logistics operations as logical extensions of that framework. I'm also considering going deeper on some of the other beer players, including Heineken and Carlsberg, which are public.

Watchlist

As of September 8, 2021

WATCHLIST			Count: 16		
Company Name	Industry	Ticker	Current Price	Market Cap	See Issue #
AAON, Inc.	Building Products	AAON	$64.91	$3,401,526,306	1
Berkshire Hathaway	Conglomerate	BRK.B	$279.34	$632,846,314,231	1
Hingham Institution for Savings	Banking	HIFS	$321.99	$689,831,033	1
Monarch Cement	Building Products	MCEM	$112.05	$294,060,700	2
International Flavors and Fragrances	Foods/Seasonings	IFF	$151.02	$37,613,752,058	3
McCormick	Foods/Seasonings	MKC	$88.35	$23,605,149,387	3
Bank7	Banking	BSVN	$21.40	$193,682,943	4
Plumas Bancorp	Banking	PLBC	$32.17	#N/A	4
Auburn Bancorp	Banking	AUBN	$35.62	$126,183,632	5
Waste Management	Waste Management	WM	$154.24	$64,950,296,649	6
Republic Services	Waste Management	RSG	$124.62	$39,674,622,250	6
Waste Connections	Waste Management	WCN	$130.97	$34,128,058,142	6
Boston Beer Company	Alcoholic beverages	SAM	$559.40	$6,870,433,625	7
Constellation Brands	Alcoholic beverages	STZ	$216.97	$41,681,369,236	7
Anheuser-Busch InBev	Alcoholic beverages	BUDFF	$58.45	$99,511,084,275	7
Heineken	Alcoholic beverages	HEINY	$53.55	$61,573,342,072	7

Note: Plumas market cap was approximately $187mm. Still not sure why it wouldn't pull the data.

To see the latest Watchlist and Suspect List on Google Sheets, head to www.watchlistinvesting.com or click here.

Watchlist Investing Newsletter

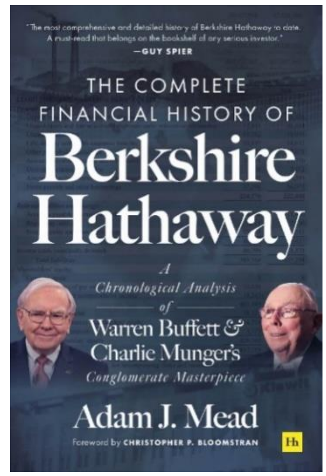
Patiently finding and following great public companies to own at the right price.

Issue #7 | September 2021

About

After nearly two decades as an individual investor, a decade in commercial credit at various banks, and a few years managing money for friends/family in the background, I decided to go full-time managing money for clients in 2020. Watchlist Investing is an extension—albeit separate and distinct—of what I do day-to-day as a practicing capital allocator. Inverting the margin of safety principle, I hope to add value to readers above and beyond the nominal cost of the newsletter.

My investing style is influenced by my background growing up in a family of business owners. I followed suit selling firewood through high school and founding a welding business in college. Looking at stocks as businesses is natural to me. My investing approach rests on fundamental value investing tenets, but it's adapted to suit my style. I'm 100% certain I'm not the best investor or analyst, but I hope to improve over time.



Between 2016 and 2021, I wrote a book on Berkshire Hathaway. *The Complete Financial History of Berkshire Hathaway* was and is my passion project. I hope it brings new shareholders up to speed on the company and provide a fresh look to longtime shareholders, in addition to serving as a resource/reference book. It can be purchased here. I also created www.theoraclesclassroom.com as an extension of the book, which includes an archive of a lot of BRK material.

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