

National Beverage Corp.

NASDAQ: FIZZ

Analyst: Zach Collins

Sector: Consumer Disc.

BUY

Price Target: \$41.91

Key Statistics

Market Price:

\$38.44

Industry: Beverages

Market Cap: \$1.86B

52 Week Range:

\$19.98 - \$48.01

5-Year Beta: 0.72

Thesis Points:

- Product differentiation from peers in the industry will allow NBC to build upon their market niche
- Revenue surprise of 29% in the last quarter of 2015
- Strategic Alliance Partnerships improve marketing efficiency for allied brands which enhances future growth potential

Company Description:

National Beverage Corp. is a holding company for subsidiaries that develop, manufacture, and sell a diverse portfolio of flavored beverage products. The National Beverage Corp. primary market focus is the United States, but their products are also distributed in Canada, Mexico, the Caribbean, Latin America, the Pacific Rim, Asia, and Europe. Opposed to most competitors in the beverage industry, the brands of the National Beverage Corp. consist of products geared toward the active and health-conscious consumer. The National Beverage Corp. began trading publicly on the NASDAQ in 1991.



Thesis

The National Beverage Corp. is a leader in the development, manufacturing, marketing, and sale of a diverse portfolio of flavored beverage products. As the beverage industry continues to become increasingly more competitive, a company's competitive advantage within the industry plays a key role in the future growth of the company. As consumer preferences in the beverage industry continue to shift towards healthier products, the National Beverage Corp. will continue to capture market share from bigger competitors as they continue to build upon their Power+ nutritional brands. The National Beverage Corp produces soft drinks for certain allied brand retailers, a strategic alliance which results in improved marketing efforts for the National Beverage Corp. without the use of much additional capital. The National Beverage Corp. has also continued to expand and market their line of energy drinks, which is one of the highest growing sectors within the beverage industry.

Industry Outlook

It is important to understand in recent years, the movement towards a healthier lifestyle for consumers within the United States. The beverage industry is one of the primary industries affected by this movement. The industry has been experiencing a change in the trend of customer preference toward healthier products. This is a trend that is likely continue in the coming years, and creates a high potential to capture additional market share for a company that has a competitive advantage that places emphasis on a healthier product mix.

The Coca Cola Company and PepsiCo Inc., the giants of the beverage industry, have experienced consecutive losses in total sales revenue in the last 3 years as a result of the change in consumer preferences. Analysts are predicting this trend to continue into 2016, as both companies are forecasted for lower sales revenue in 2016, despite an estimated 3.8% global growth for the beverage industry as a whole. This creates enormous potential for smaller companies within the industry to capture additional market share if they are able to capitalize on the changing preferences of the customers within the industry.

The energy drink segment of the beverage industry has also experienced fairly stable growth in recent years. With

the majority of growth relative to more natural energy drinks, as opposed to traditional energy drinks with high sugar contents.

The movement of consumer preferences towards healthier products is impossible to ignore. This trend has been increasing in recent years and shows no signs of slowing down in the upcoming future. As the beverage industry continues to grow around this trend, The National Beverage Corp. has an opportunity for long term sustainable growth

Product Differentiation

Product differentiation is the catalyst behind the growth and competitive advantage of the National Beverage Corp. Over the years the National Beverage Corp. has developed their own market niche within the industry around a more health conscious group of consumers. While the majority of their competitors within the industry focus their business model around soft drinks and energy drinks with high sugar and calorie contents, which a more health sensible consumer will avoid. As the trend of healthier consumers within the beverage industry continues to expand, these larger companies will see a decline in sales if they cannot address the changing preferences of their customers.

The National Beverage Corp. focuses their business model around developing healthier and functional beverages in response to the global shift of consumer buying habits. In the last quarter of 2015, The National Beverage Corp. saw a revenue surprise of 29%. The majority of this growth can be attributed to a 25.3% growth of their Power+ Brands. The wide range of products and flavors for the different brands of the National Beverage Corp. provide the firm with a long lasting competitive advantage in a beverage industry controlled by cola giants focused on a product mix of unhealthy soft drinks.

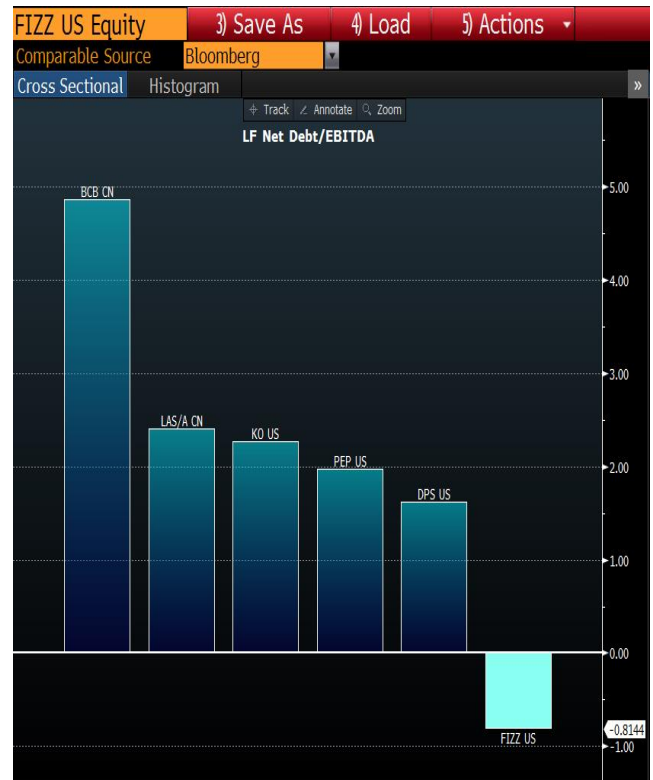
Strategic Alliances

Since the National Beverage Corp. does not have a level of capital to compare with the cola giants of the industry, they must market their products in a strategic manner. The National Beverage Corp. therefore produces soft drinks for certain retailers they consider allied brands. These retailers will endorse the strategic alliance concept of having their allied brands sold with

the brands of the National Beverage Corp. This strategic alliance is utilized to improve the marketing efforts of both brands, as well as the allied brands, in an effort to enhance the growth of revenues and brand awareness of both parties. The strategic alliances the National Beverage Corp. has established as well as their own internal sales force will concentrate on a particular segment within their market, focusing on geographic territories, distribution channels, or certain product lines. This creates a versatile level of marketing efficiency that can be adjusted quickly to adapt to the changes within the industry.

Financials

The analysis of the financials for the National Beverage Corp. show a ROIC/WACC ratio that is significantly higher than that of their competitors. The 5 year ROIC for the National Beverage Corp. at 24.16% is significantly higher than the industry average of 11.2%. The result is a much higher ROIC/WACC ratio than their peers, which shows an investor that the National Beverage Corp. is efficiently utilizing their invested capital in a way that generates value to the firm.



Conclusion

I recommend a buy on the National Beverage Corp. This is primarily based on the change in consumer preferences within the industry, along with the strong financial position of the firm. A high potential exists for the National Beverage Corp. in the beverage industry as their competitive advantage tailors to the changing preferences of consumers to a healthier line of products. The emphasis of value creation on little debt makes this company an attractive investment opportunity with a low level of associated risk.



The Net Debt/EBITDA ratio for the National Beverage Corp. shows how the company is creating long term value for the firm without absorbing the risk of taking on a significant amount of debt. The negative ratio tells us that the National Beverage Corp. has more cash than debt.

National Beverage Corp.
(FIZZ)

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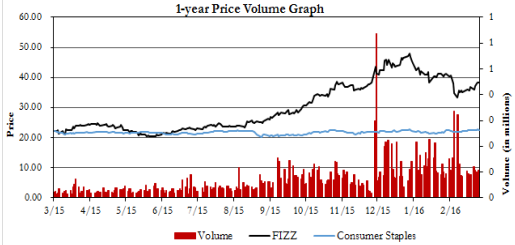
NEUTRAL

Analysis by Zach Collins
3/5/2016

Current Price: **\$38.44**
Divident Yield: **0.0%**

Intrinsic Value: **\$38.12**
Target Price: **\$41.26**

Target 1 year Return: 7.34%
Probability of Price Increase: 71.2%



Description	
National Beverage Corp., through its subsidiaries, develops, manufactures, markets, and sells a portfolio of flavored beverage products primarily in the United States.	
General Information	
Sector	Consumer Staples
Industry	Beverages
Last Guidance	November 3, 2015
Next earnings date	March 13, 2016
Estimated Country Risk Premium	6.00%
Effective Tax rate	40%
Effective Operating Tax rate	40%

Market Data	
Market Capitalization	\$1,829.93
Daily volume (mil)	0.04
Shares outstanding (mil)	46.43
Diluted shares outstanding (mil)	46.60
% shares held by institutions	64%
% shares held by investments Managers	14%
% shares held by hedge funds	2%
% shares held by insiders	75.25%
Short interest	1.30%
Days to cover short interest	4.75
52 week high	\$48.01
52-week low	\$19.98
Levered Beta	0.66
Volatility	29.31%

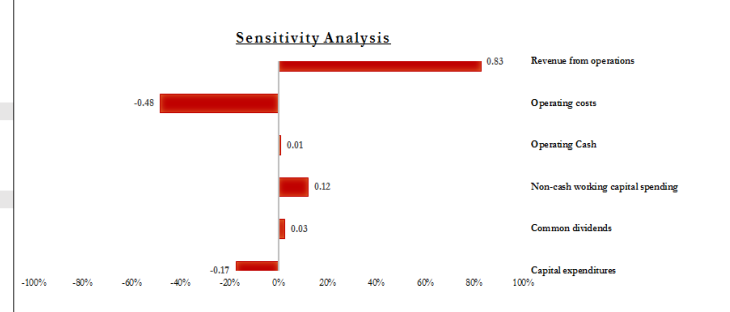
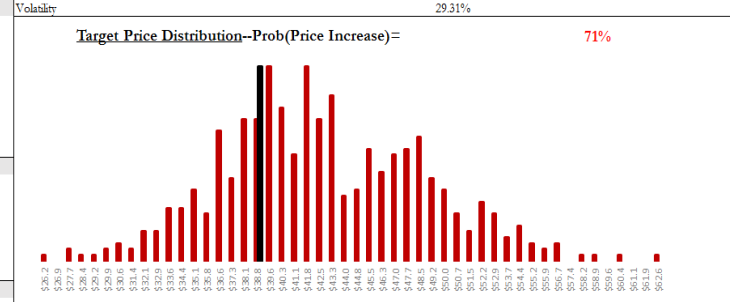
Past Earning Surprises		Peers	
Quarter ending	Revenue	EBITDA	Farmer Brothers Co.
11/1/2014	11.63%	N/A	Coca-Cola Bottling Co. Consolidated
1/31/2015	-11.93%	N/A	Monster Beverage Corporation
5/2/2015	-4.50%	N/A	Purina Water Corporation
8/1/2015	10.02%	N/A	Coca-Cola Enterprises, Inc.
10/31/2015	29.02%	N/A	Crystal Rock Holdings, Inc.
Mean	6.85%	#DIV/0!	REEDS, Inc.
Standard error	7.1%	#DIV/0!	Coffee Holding Company, Inc.

Management		Total compensations growth		Total return to shareholders	
Caporella, Nick	Chairman, Chief Executive Of	1.42% per annum over 6y	6.75% per annum over 6y	6.75% per annum over 6y	6.75% per annum over 6y
Caporella, Joseph	President and Director	8.05% per annum over 6y	6.75% per annum over 6y	6.75% per annum over 6y	6.75% per annum over 6y
Bracken, George	Principal Financial Officer	8.97% per annum over 6y	6.75% per annum over 6y	6.75% per annum over 6y	6.75% per annum over 6y
Cook, Gregory	Chief Accounting Officer, V	N/A	67.89% per annum over 1y	67.89% per annum over 1y	67.89% per annum over 1y
Thompson, Dennis	Executive Vice President of	N/A	N/A	N/A	N/A
	0	N/A	N/A	N/A	N/A

Profitability		FIZZ (LTM)		FIZZ (5 years historical average)		Industry (LTM)	
ROIC	12.6%	24.16%	11.27%	11.27%	11.27%	11.27%	11.27%
NOPAT Margin	8%	12.33%	13.8%	13.8%	13.8%	13.8%	13.8%
Revenue/Invested Capital	1.64	1.96	0.81	0.81	0.81	0.81	0.81
ROE	13.6%	27.53%	13.02%	13.02%	13.02%	13.02%	13.02%
Adjusted net margin	8%	12.24%	11.5%	11.5%	11.5%	11.5%	11.5%
Revenue/Adjusted Book Value	1.79	2.25	1.13	1.13	1.13	1.13	1.13

Invested Funds		FIZZ (LTM)		FIZZ (5 years historical average)		Industry (LTM)	
Total Cash/Total Capital	16.1%	10.1%	19%	19%	19%	19%	19%
Estimated Operating Cash/Total Capital	7.1%	6.9%	N/A	N/A	N/A	N/A	N/A
Non-cash working Capital/Total Capital	10.1%	10.9%	7%	7%	7%	7%	7%
Invested Capital/Total Capital	86.9%	92.2%	75%	75%	75%	75%	75%

Capital Structure		FIZZ (LTM)		FIZZ (5 years historical average)		Industry (LTM)	
Total Debt/ Common Equity (LTM)	0.05	0.13	0.19	0.19	0.19	0.19	0.19
Cost of Existing Debt	1.33%	1.32%	3.31%	3.31%	3.31%	3.31%	3.31%
Estimated Cost of new Borrowing	1.16%	1.16%	3.24%	3.24%	3.24%	3.24%	3.24%
CGFS Risk Rating	AAA	AAA	B	B	B	B	B
Unlevered Beta (LTM)	0.63	0.72	0.61	0.61	0.61	0.61	0.61
WACC	6.52%	6.62%	6.47%	6.47%	6.47%	6.47%	6.47%



Valuation		Revenue growth		ROIC/WACC		Invested Capital		Net Claims		Price per share	
Period	Base Year	Revenue growth	ROIC/WACC	Invested Capital	Net Claims	Price per share					
10/31/2016	10/31/2016	4.9%	2.04	\$263.56	\$36.46	\$37.63					
10/31/2017	10/31/2017	4.7%	2.21	\$341.97	-\$41.13	\$40.86					
10/31/2018	10/31/2018	4.5%	2.33	\$369.96	-\$109.83	\$43.97					
10/31/2019	10/31/2019	4.3%	2.43	\$405.87	-\$182.67	\$47.18					
10/31/2020	10/31/2020	4.1%	2.49	\$408.44	-\$259.68	\$50.47					
10/31/2021	10/31/2021	3.9%	2.51	\$408.64	-\$339.80	\$53.83					
10/31/2022	10/31/2022	3.7%	2.54	\$418.17	-\$422.41	\$57.25					
10/31/2023	10/31/2023	3.6%	2.56	\$433.57	-\$507.48	\$60.72					
10/31/2024	10/31/2024	3.4%	2.58	\$450.79	-\$595.00	\$64.24					
10/31/2025	10/31/2025	3.2%	2.58	\$469.80	-\$684.92	\$67.81					
Continuing Period		3.0%	2.58	\$489.49	-\$777.21	\$71.44					