

Fizz Inc.

NASDAQ:FIZZ

Analyst: Cindy Missaoui

Sector: Consumer Staples

BUY

Price Target: \$54.38

Key Statistics as of 11/10/2016

Market Price:	\$46.21
Industry:	Beverages
Market Cap:	\$2.1B
52-Week Range:	\$32.35-64.73
Beta:	0.60
NOPAT Margin:	10%.
ROIC:	28.7%
ROE:	24.6%

Catalysts:

- Short-Term: Earnings call on December, 8th 2017.
- Mid/Long-Term: Health and wellness awareness.
- Mid/Long-Term: President-elect healthcare program.

Company Description:

Headquartered in Fort Lauderdale, FL National Beverages Corp. is a holding company founded in 1985 that markets, manufactures, and distributes a diverse portfolio of flavored beverage products. Its portfolio includes multi-flavored and cola soft drinks, juice, flavored carbonated and spring water products. The company sells principally its products to supermarkets, restaurants, schools, hospitals, national chains and convenience stores. As of 2016, National Beverage Corp. was ranked as the fourth largest branded carbonated soft-drink in the United States.



Thesis

National Beverage Corp. represents the future of the soda industry. The world is changing and the demand for healthier products is increasing while the consumption of soda decreased considerably in the United States near its 30-year low. National Beverage business model based on innovation and creativity, and its growth strategy are supported by strong financial performance and FIZZ represents an opportunity for investors seeking for growth investment. Given the actual economic and political outlook, incentives to save and lower healthcare costs are omnipresent. As a matter of fact, the company recorded outstanding financial results in 2016 outperforming all expectations, and is expected to settle its success in the following years (Exhibit 1).

Exhibit 1:



That being said, National Beverage Corp. emphasizes organic growth through a diverse portfolio of products composed of juices, water, soft drinks, teas, lemonades, and sports drinks that satisfy and target the preference of crossover consumers.

In a changing society, National Beverage Corp. appears as a lifestyle brand that meets customers demand on a perfect timing.

I recommend that we buy National Beverage Corp. stock which is currently undervalued – I expect the price to rise around \$50-\$55 in the future.



Breakout Year

National Beverage Corp. beat and surpassed all expectations in FY2016. Through innovation and creativity, the company succeeded to reach strong financial performance and to expand its brand recognition in the United States; the company has been rewarded for leading innovations and was ranked 1st line of diet soft drinks, and 1st nationally distributed full flavor line. As of today, National Beverage owns the leadership role in the healthy sparkling water category, and its future growth is undeniable. First, the company's revenues and net income outperformed and surpassed expectations offering high revenues and growth margin, which will lead the price to rise (Exhibit 1). Second, because health and wellness awareness has increased significantly, the demand for healthy products increased while the soda consumption falls to 30-year low (Exhibit 2).

Exhibit 1:

(Dollars in millions except EPS)

For the Fiscal Year Ended April 30, 2016 –

	Revenues	Op. Income	Net Income	EPS	EBITDA*	Cash
FY 2016	\$704.8	\$ 93.1	\$61.2	\$1.31	\$104.9	\$105.6
Growth	9%	26%	24%	24%	21%	101%



Exhibit 2:



Source: NPD Group, 2015 estimate

National Beverage Corp. proves in 2016 that it differentiates itself from its peers and its strong performance in FY 2016 is a clear foretaste of what will happen in the future.

Unique in Beverages Industry

The soft drink industry has always been dominated by three main companies: Coca Cola, Pepsi, and Cadbury Schweppes. Even though their products are still famous and consumed by people all around the world, these companies probably reached their maturity stage. In fact, as explained before, there is an increasing trend towards healthier soft drinks, and National Beverage Corp. benefits and will benefit from this trend in the future. Besides, the company's marketing strategy is based on innovative packaging, ingenious product design with colors, attractive bottles (Exhibit 3), and imaginative flavors. Furthermore, its ability to adapt to trend changes and customers' needs in an environment where health becomes more and more important allows the company to become unique. In fact, the United States market is saturated with soft-drink such as Coca Cola, Pepsi, or Cadbury Schweppes and is seeking for a healthier experience offered by National Beverage Corp. Even if National Beverage Corp. is a small company within an industry dominated by three main companies, it succeeded to capture new trends, and satisfy customers' demand on a perfect timing. For these reasons, the company can be considered as unique in the beverages industry and has nothing to envy to its competitors.

Exhibit 3:



Peers

National Beverage Corp. main competitors' status is increasingly being questioned. Due to an increase in health concerns, Coca Cola, Pepsi, and Dr Pepper Snapple Group are becoming less reliable. The world is changing, and compared to its peers National Beverage Corp. tries to understand the challenges and do something about them. In fact, in February 2016 the company announced the first ever 'Soft Drink Alternative', called Shasta Sparkling, a product that took four years to develop. This healthier soft drink offers no calories, no sodium, no sugar and 100% all-natural ingredients. On the other hand, its peers are facing hefty pressure from policymakers who want to impose taxes on sugary drinks

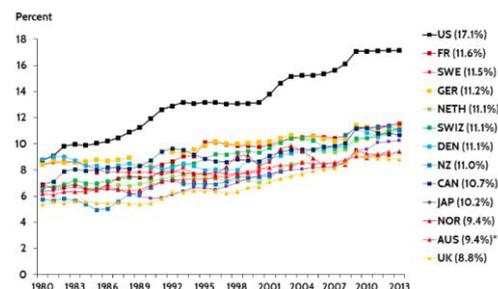
due to a high number of health issues. Besides, on November 8th, the World Health Organization urges countries to impose that tax in order to limit the growing obesity rate. It would imply for companies such as Coca Cola, Pepsi, and Dr Pepper Snapple to rise their price by 20%, and would create another incentive for customers to buy National Beverage products. The reality is that the tax implementation and the changing world represent a significant opportunity for growth for National Beverage Corp. Its stock price rise by 30.1% since April 2016 and incomparably outperformed Pepsi (+0.3%), and Coca Cola (-3.5%) stocks. Finally, in term of investments, National Beverage has a significant opportunity of growth compared to its peers, which reached maturity stage. With a significant timing advantage and competitive advantage, National Beverage Corp. represents the healthy trend and the future of the beverage industry.

Make America Healthier

Health has always been a major issue in the United States economy. As shown in Exhibit 4, health care spending as a percentage of GDP has been raising year over year since 1980.

Exhibit 4:

Exhibit 1. Health Care Spending as a Percentage of GDP, 1980–2013



* 2012
Notes: GDP refers to gross domestic product. Dutch and Swiss data are for current spending only, and exclude spending on capital formation of health care providers.
Source: OECD Health Data 2015.

According to the OECD, U.S health care costs are projected to rise from \$1.4 trillion in 2000 to more than \$4.4 trillion in 2020. In addition to that, the repeal of the Obama Care by the president-elect Donald Trump is an incentive to save and lower healthcare costs. On the other hand, the obesity rates have doubled among adult in America reaching more than 35% in some states such as Missouri, West Virginia, Alabama, and Louisiana (Exhibit 5). The increasing health and wellness awareness lead the United States to experience an evolution away from sugary beverages towards healthier option. Once again, National Beverage Corp. had the possibility to meet customers' and governments demand

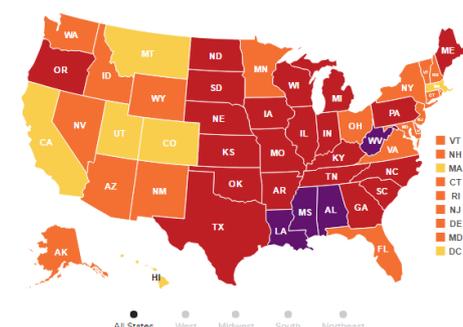
by inciting people to consume healthier drink. In fact, as reported by the Department of Agriculture, American adults are choosing healthier foods, and most of them consume healthier diets. By positively affecting the industry and the society, National Beverage is creating value for its shareholders and its growth is once again assured in the long term.

Adult Obesity Rate by State, 2015

Select years with the slider to see historical data. Hover over states for more information. Click a state to lock the selection. Click again to unlock.

Percent of obese adults (Body Mass Index of 30+)

0 - 9.9% 10 - 14.9% 15 - 19.9% 20 - 24.9% 25 - 29.9% 30 - 34.9% 35%+



Financials

National Beverage Corp. financial health strength can be seen in multiples areas. First, as explained before the company reported strong financial results in FY 2016 and outperformed estimations on revenues and net income. Revenues rose by 9% from \$646M to \$705M and Net Income rose by 21% from \$49M to \$61M (Exhibit 6).

(In thousands, except per share and footnote amounts)	April 30, 2016	May 2, 2015
SUMMARY OF OPERATIONS:		
Net sales	\$704,785	\$645,825
Cost of sales	463,348	426,685
Gross profit	241,437	219,140
Selling, general and administrative expenses	148,384	145,157
Interest expense	203	371
Other expense (income)—net	145	(1,101)
Income before income taxes	92,705	74,713
Provision for income taxes	31,507	25,402
Net income	\$ 61,198	\$ 49,311

In term of revenue, the potential forecasted growth for 2017 and 2018, based on the assumption that the demand for healthier drink would rise due to a health awareness and to the actual societal and political environment, would be respectively \$797M and \$878M. As a matter of fact, the EBITDA margin growth would be \$133M and \$149M for 2017 and 2018 leading the Net Income to be \$80M for 2017 and \$90M for 2018. As can be seen with the numbers, the company will continue to create value year over year. Besides, National Beverage Corp. ROIC and WACC ratios highlight the company strong ability to generate return on invested

capital and so to create value. The ROIC without Goodwill ratio (Exhibit 8) which allows to have a better measure of the company's performance in comparison to its peers, highlights also the company's capacity to create value compared with that of its peers.

Exhibit8:

	ROIC			ROIC W/O GW	
	History	LFY		History	LFY
FIZZ	35.0%	32.3%	FIZZ	38.6%	34.5%
Competitors	13.8%	14.9%	Competitors	19.9%	22%

When analyzing the key drivers of value which are revenue growth and ROIC, it seems obvious that the company's trend in the long run performance would be positive and will generate positive free cash flow. Furthermore, National Beverage Corp. is debt free and used to use cash on hand to fund capital expenditure. In FY 2016, cash on hand grew by 101%, and the conservative effective management of the company allows National Beverage Corp. to have more financial flexibility as they do not depend on debt to grow their business. The company's culture adds even more value to the company and enforces company's success and profitable growth on the long run.

	Capitalization (Debt/Equity)	
	History	LFY
FIZZ	0.01	-
Competitors	0.21	0.22

Given the company's competitive advantage, strong financial performance, financial health and the increasing demand towards healthier drinks, the company stock price will continue to rise making National Beverage Corp. a growth opportunity company which is currently undervalued in its industry.

Five Procter Forces

Bargaining Power of Suppliers: High – 56

Because National Beverage belongs to the food and beverages industry, it highly depends on suppliers. The company does not have as much as bargaining power when it comes to suppliers.

Bargaining Power of Customers: Low – 36

When it comes to price, customers does not have a lot of bargaining power. However, because National Beverage Corp. offers healthy products that correspond to an increasing demand, customers pay less attention to prices.

Exhibit9:



Intensity of Existing Rivalry: Low - 17

National Beverage Corp. main competitors are Coca Cola Company, Pepsi, and Dr Pepper Snapple. National Beverage succeeds to differentiate itself from its peers through products mix, marketing strategy, and by creating a lifestyle brand. Even if the company is considerably small compared to its peers which almost have the monopoly on the food and beverages industry, it can be seen as a reliable company with a strong competitive advantage and a high growth opportunity.

Threat of Substitutes: Medium – 33

Customers have access to a diversified choice of substitutes. One of the major issue associated with goods substitutions is the fact that customers can choose to purchase the substitutes instead of the industry’s product, which can drive the price and so profitability down. However, National Beverage’s timing advantage and ability to adapt to the current market demand decrease the threat of substitutes. As can be seen earlier with numbers, National Beverage Corp. outperformed its peers in terms of profitability.

Threat of New Competition: Medium - 33

National Beverage faces many competitors on the market for goods and services. However, its business model and strategy helped the company to become unavoidable in the soft drinks market.

Important dates and Catalysts

The company announced Q3 2017 Earnings call on December 8th 2016. As can be seen on Exhibit 9, the stock price used to rise considerably on the day of the earnings call as National Beverage Corp. uses to beat analysts’ estimates on revenue and net income. Moreover, the current environment is in favor of National Beverage, several states should passed a sugary beverage tax leading beverage industry giants such as Pepsi or Coca Cola Company to invest billions of dollars in marketing and advertising to counter the measures. Consequently, shares of Coca Cola and Pepsi have decreased by 2% this week and Dr Pepper Snapple Group shares have decreased by 4%. Here is a clear open door that will reinforce National Beverage Corp success.

Analysis by Cindy Missaoui
11/11/2016

Current Price: \$47.06
Dividend Yield: 2.2%

Intrinsic Value: \$50.88
Target Price: \$54.38

Target 1 year Return: 17.75%
Probability of Price Increase: 94.4%

Description:
National Beverage Corp., through its subsidiaries, develops, produces, markets, and sells a portfolio of flavored beverage products primarily in North America.

General Information:

Sector	Consumer Staples
Industry	Beverages
Last Guidance	November 3, 2015
Next earnings date	December 11, 2016
Estimated Country Risk Premium	6.25%
Effective Tax rate	40%
Effective Operating Tax rate	40%

Market Data:

Market Capitalization	\$2,191.05
Daily volume (mil)	0.43
Shares outstanding (mil)	46.56
Diluted shares outstanding (mil)	46.72
% shares held by institutions	17%
% shares held by investment Managers	13%
% shares held by hedge funds	3%
% shares held by insiders	3.51%
Short interest	5.47%
Days to cover short interest	5.88
52-week high	\$64.73
52-week low	\$32.35
Levered Beta	0.60

Management	Paritition	Total compensation grant	Total return to shareholders
Caparella, Nick	Chairman of the Board, Chief	2.71% per annum over 6y	4.27% per annum over 6y
Caparella, Joseph	President and Director	0.05% per annum over 6y	4.27% per annum over 6y
Bracken, George	Executive Vice President of	2.94% per annum over 6y	4.27% per annum over 6y
Coak, Gregory	Chief Accounting Officer, Vi	-1.27% per annum over 2y	59.95% per annum over 2y
Thampran, Donir	Executive Vice President of	N/M	N/M
	0.0	N/M	N/M

Profitability

	FIZZ (LTM)	FIZZ (5 years historical over Industry (LTM))
ROIC	28.7%	11.81%
NOPAT Margin	10%	15.1%
Revenue/Invested Capital	3.00	0.78
ROE	24.6%	14.05%
Adjusted net margin	9%	12.8%
Revenue/Adjusted Book Value	2.71	1.10

Invested Funds

	FIZZ (LTM)	FIZZ (5 years historical over Industry (LTM))
Total Cash/Total Capital	37.5%	23%
Estimated Operating Cash/Total Capital	15.3%	N/A
Non-cash working Capital/Total Capital	12.5%	9%
Invested Capital/Total Capital	72.4%	72%

Capital Structure

	FIZZ (LTM)	FIZZ (5 years historical over Industry (LTM))
Total Debt/Common Equity (LTM)	0.01	0.23
Cost of Existing Debt	15.21%	3.13%
Estimated Cost of new Borrowing	16.14%	3.13%
CGFS Risk Rating	F	CCC
Unlevered Beta (LTM)	0.59	0.64
WACC	7.83%	7.51%

Target Price Distribution--P(price↑)=94.4%

Sensitivity Attribution Analysis

Revenue	47.0%
Operating Expenses	33.0%
Dividends	0.2%
NWC	0.2%
CAPEX	0.2%
Operating Cash	0.2%

Porter's 5 forces (scores are out of 100)

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	12.2%	9.5%	3.66
7/30/2017	12.3%	10.1%	4.22
7/30/2018	9.8%	9.3%	2.71
7/30/2019	9.2%	9.9%	2.65
7/30/2020	8.6%	10.5%	2.75
7/30/2021	7.9%	11.1%	3.03
7/30/2022	7.3%	11.8%	3.35
7/30/2023	6.6%	12.4%	3.71
7/30/2024	6.0%	13.0%	4.10
7/30/2025	5.4%	13.6%	4.53
7/30/2026	4.7%	14.2%	5.02
Continuing Period	4.1%	14.8%	4.22

Period	Invested Capital	Net Claim	Price per share
Base Year	\$215.40	-\$47.79	\$50.70
7/30/2017	\$214.64	\$51.98	\$53.79
7/30/2018	\$232.53	\$80.55	\$57.17
7/30/2019	\$243.37	\$86.51	\$60.69
7/30/2020	\$245.16	\$49.28	\$64.33
7/30/2021	\$256.14	-\$1.75	\$68.00
7/30/2022	\$404.18	-\$65.77	\$71.68
7/30/2023	\$477.11	-\$143.58	\$75.33
7/30/2024	\$532.60	-\$235.74	\$78.93
7/30/2025	\$552.39	-\$342.59	\$82.44
7/30/2026	\$566.23	-\$464.18	\$85.83