

April 15, 2019

## New Age Beverages Corp.: (NBEV)

Paul Commisso

Sector: Consumer Defensive

Industry: Beverages-soft drinks

Current Price: \$5.17

Target Price: \$6.76

**Company Description:** New Age Beverage Corporation is a healthy beverage provider focusing on the production marketing sales and distribution of its products in the United States as well as 60 countries abroad. Its products include ph-balanced water, energy drinks, kombucha, coffee, and tea. NBEV brands itself as a “healthy beverage” company and an alternative to traditional soft drinks like soda.

### BUY/HOLD/SELL

Current Price: \$5.20

Target Price: \$6.76

Market Cap: \$392M

Beta: 2.73



**Thesis:** NBEV’s products are only just starting to gain attention from the markets they are targeting. Their recent deal with Walmart will not only generate sales but also inform consumers of their products availability. The more experimental products they offer such as kombucha, mate, and CBD infused beverages are highly popular among young people and will serve a previously underserved segment.

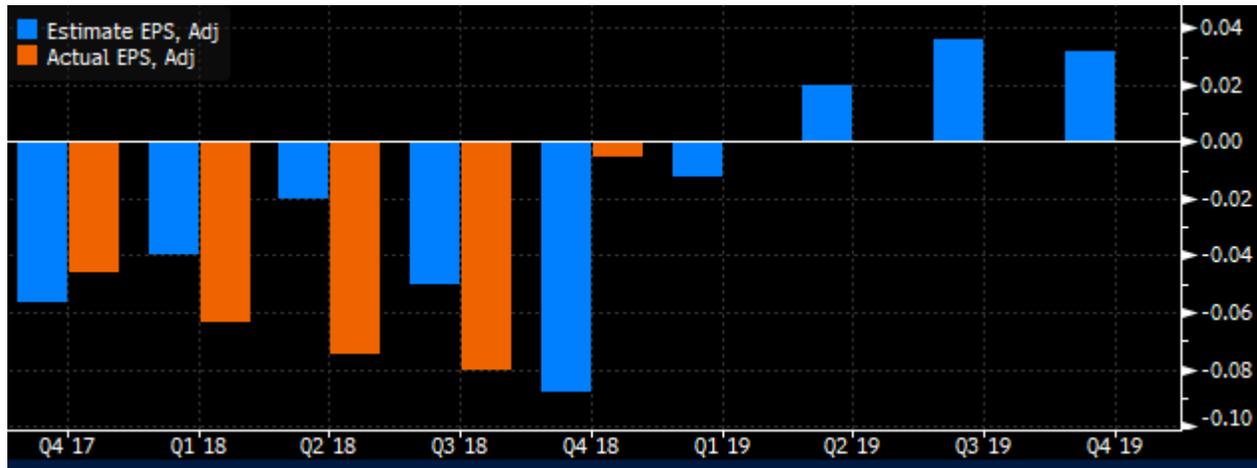
### Catalysts:

**Short Term (within the year):** Closing the deal with Walmart on its Marley Tea with the possibility to expand its product offerings within Walmart stores.

**Mid Term (1-2 years):** Role out of CBD beverages in complying states and countries to serve a market not previously catered too

**Long Term (3+ years):** Acquisition is a common strategy in this industry because of the presence of large players like Coke and Pepsi. Should NBEV demonstrate their products popularity these firms could take an interest in purchasing them

## Earnings Performance:



Despite having issues hitting estimates in the past NBEV appears to be turning around that trend as it shattered expectations for EPS last quarter despite still being negative. Looking forward NBEV should begin to report positive earnings especially with the recent closing of the Walmart deal, which will provide revenue at a margin that NBEV has not been able to achieve previously. Walmart's size allows NBEV to reach customers it never has before and they are able to demand a higher price than other soft drinks thanks to their trendy and healthy branding. This Walmart deal will drive profitability over the next few quarters and potentially open up opportunities to sell even more of its product lines.

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## Section 1: Consumer Defensive

Despite having an average beta over the last five years of roughly 2.70, NBEV is still considered to be in the consumer defensive industry. It is historically known for having near-zero betas meaning that recession and economic downturn do not affect that companies' ability to generate revenues. I believe that this discrepancy is soon going to change with New Age's recent deal with Walmart. NBEV is still a young and volatile company however; this deal with Walmart is going to provide the company with much greater financial stability in not only generating revenue but also controlling costs to actually report positive earnings. As this transformation begins to happen, NBEV should begin to see a reduction in its beta marking a decrease in the systematic risk it exposed to. At its current price, NBEV should provide this non-cyclical feature at a very low cost relative to a massive beverage company such as Coca Cola.

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## Section 2: Walmart Deal

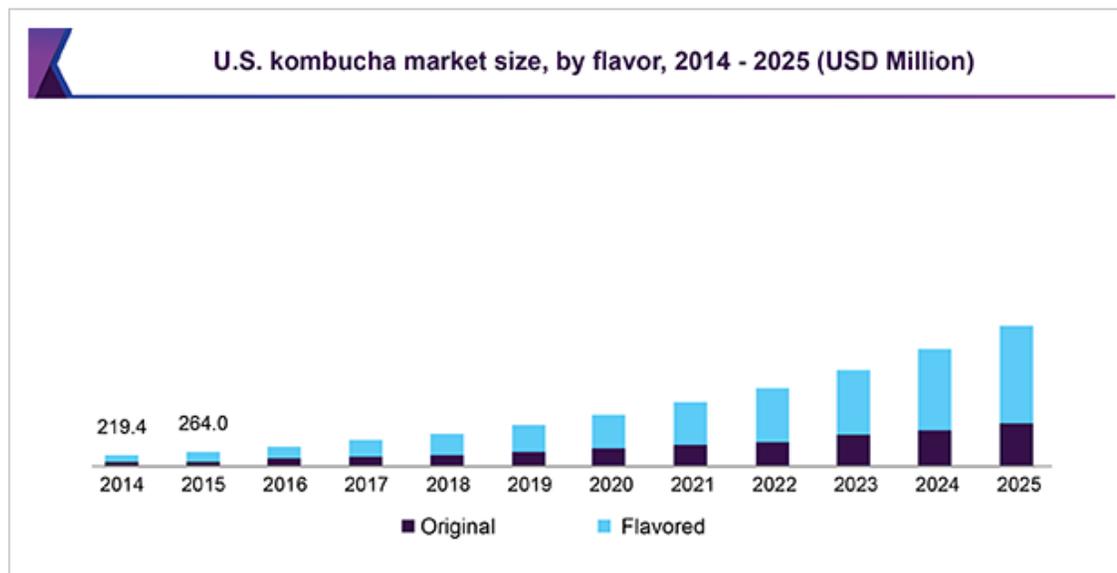
It was reported on April 7, 2019 that Walmart made a deal with New Age Beverages to offer NBEV's Marley Mate products. The market reacted positively as NBEV shares jumped 30%. Over the last week, that price has gradually declined to only 6% above the pre Walmart announcement price. I believe that this is a harsh undervaluation of the prospect of this deal. Distribution through Walmart will represent NBEV's first large scale exposure to consumers in many areas. The specifics of the deal are hard to come by but it was confirmed that Walmart will begin carrying three flavors of Marley Mate, which has been advertised a caffeine drink without the crash like coffee. This has led analysts to dramatically increase revenue expectations following the roll out of these products in Walmart's stores. Despite this optimism, the stock price has remained at a level very close to the pre-news price. I believe that this deal is being undervalued in the market especially considering that Walmart is the largest company in the world by revenue. This is especially true when the future implications of this deal are considered.

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### Section 3: Expansion of Walmart Deal

In all the hype around the current Walmart deal there seems to be a lack of thought into where this deal could potentially go. New Age has a large and diverse brand and product portfolio that could benefit from greater distribution. Should the Marley products succeed, which the market seems to be predicting, Walmart may offer greater shelf space for New Age products. Some of these could include their kombuchas, teas, and health focused energy drinks, all of which have been designed to fit the wants of the modern, health conscious

consumer. In the chart below the market for kombucha sales over the next several is projected. This represents a 25% increase CAGR over the projected period. To add NBEV has



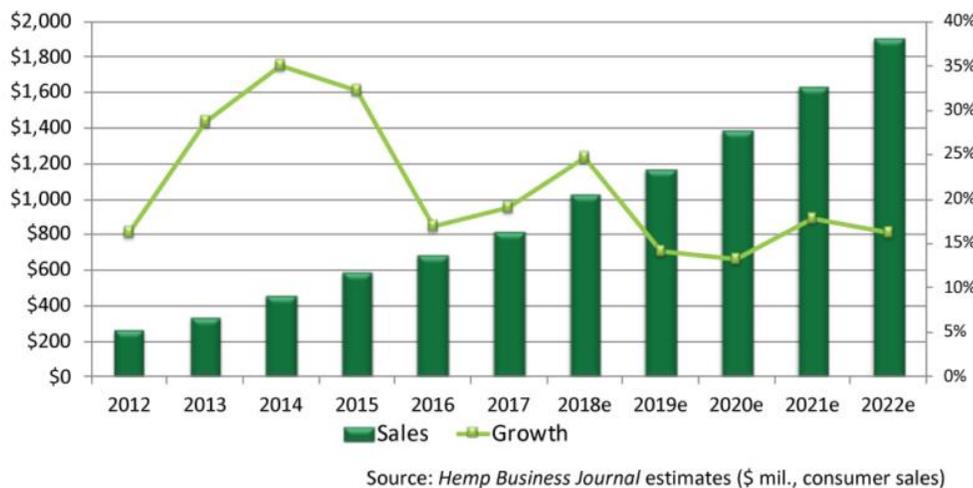
both flavored and original kombuchas. The demand coming for this product may leave Walmart looking for a provider of this product and with NBEV already on their shelves they would be the easy way to get into this market.

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## Section 4: CBD Beverage Market

One product in development that has investors and consumers interested alike is the new Marley Mate drink, which is infused with CBD, the no psychoactive molecule in marijuana. This substance has been researched heavily revealing its relaxation properties without the typical effects of marijuana. In fact, in practice, it is more cost effective to extract CBD from hemp as it offers much higher yields. There are concerns about FDA regulation over this product however, there are already several places in the U.S. and abroad that allow this type of product. This includes California, New York, Vermont, and all of Canada. These are all places with Walmart brick and mortar as well making the sale of this product very easy should Walmart choose to keep selling New Age products. This should be very attractive to Walmart due to the massive

**U.S. Hemp-Based Products Sales, 2012-2022e**



growth this market should see as projected in the graph to the left. As mentioned before investors are also interested in this product. When it is finally rolled out I believe investors looking to include marijuana and CBD products in their portfolio will look to invest in NBEV. This

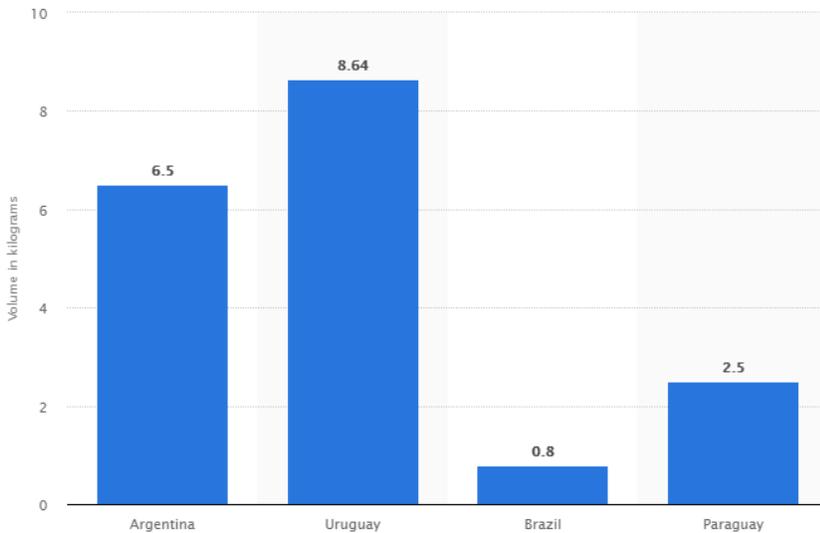
increase in interest and demand for shares will lead to a price increase.

## Section 5: Yerba Mate Market Abroad

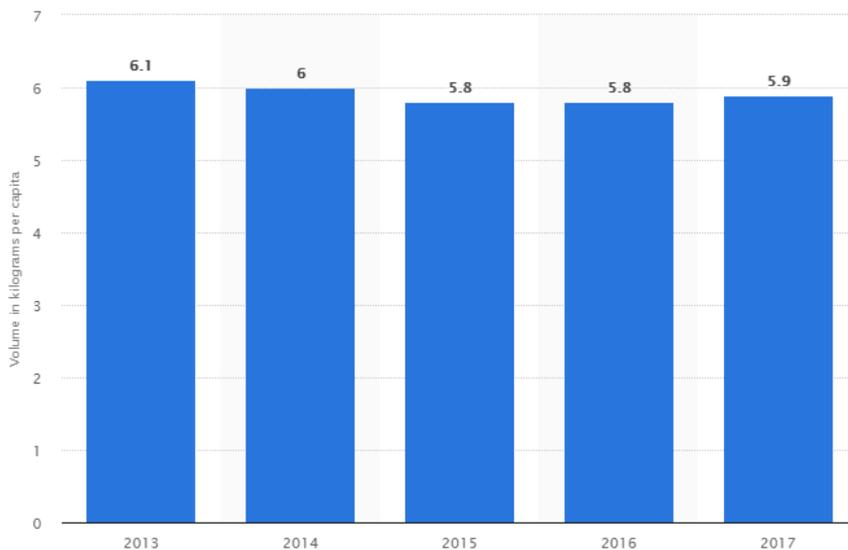
Yerba mate is perhaps New Ages product due to its potential for global sales. Mate is a tea-like product primarily enjoyed in Central and South America. It is highly popular in these markets and preferred to coffee by some measures of six cups of mate to one of coffee. I believe this makes a huge market for NBEV to bring a reimagining of the product to these countries. Typically, mate is consumed almost ritualistically, and is time consuming to prepare. However, I believe that as these economies begin to develop and continue to grow significant middle classes mate consumption will decrease. Unless a quicker easier mate enters the market. This is precisely why New age's mate will perform well in these countries, it gives the

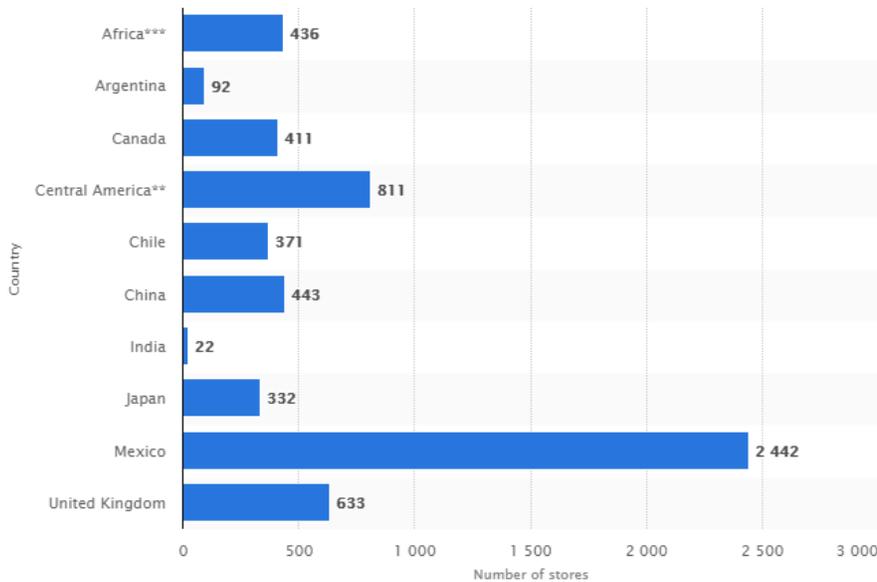
consumers the product they love so dearly and they make it easier to enjoy in prepackage bottles and cans.

This coupled with the presence of Walmart in Central America and South America makes again perfect sense for them to expand their offerings of New Age drinks. To illustrate the



demand for mate in these countries two graphs have been included. The first being per capita consumption in kilograms in selected countries in 2018, the second being the change of per capita consumption in Argentina from 2013-2017. These both illustrate the love of the product. In terms of Walmart's ability to reach this market third chart below shows the number of stores Walmart has in selected areas. This demonstrates that Walmart already has a presence in these areas.





## Section 6: Target for Acquisition

I believe that all the above prospects have demonstrated the potential New Age has to grow massively over the next few years and carve out more market share in the highly competitive industry. This makes NBEV's product portfolio highly valuable. This could mean that the big players in the industry, Coke and Pepsi, might look at New Age as a possible acquisition to add their healthy beverage products to their respective portfolios. Therefore, from a business standpoint the large players would see the potential for massive sales under their distribution channels for a product that is poised to grow massively in popularity. Looking at New Age's balance sheet this idea also makes good sense. NBEV has \$42.5 million in cash, which is over 10% of their market capitalization. They have additional \$11m in receivables, which are highly liquid assets. In addition, they hold very little debt, only \$15m in long-term debt. This also makes New Age Beverage a highly attractive target for acquisition once they show the market that their products are just what consumers are looking for.

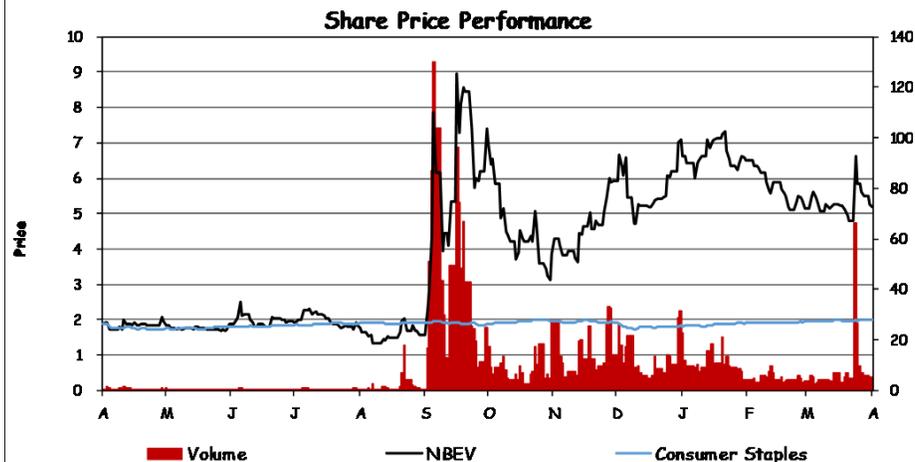
## Conclusion:

New Age Beverage offers products that young and old health conscious consumers are looking for. Their issue in the past was getting these products out into the market for people to find and consume. This recent deal with Walmart opens the door for them to get space all over the country and world. This roll out of just three flavors under one brand should show the quality of NBEV's products and lead to a partnership where all of NBEV's drinks get shelf space. The alternative to this is a larger company sees the success of NBEV and decides to acquire them. Either way the benefit of the Walmart deal has been significantly undervalued especially considering the projections analysts made taking into account this deal. NBEV trading so low right now allows investors to achieve large returns when their products take off.



## CENTER FOR GLOBAL FINANCIAL STUDIES

New Age Beverages Corporation	Symbol: NBEV
Analyst	Paul Comisso
Buy below	\$5.41
Sell above	\$7.37
Probability of Price Increase	52%
Last Price	\$5.20
Intrinsic Value	\$5.89
Target Dividends	\$0.00
Target Price	\$6.76



### Description

New Age Beverages Corporation, a healthy functional beverage company, engages in the development, marketing, sales, and distribution of beverages.

Sector	Consumer Staples
Industry	Beverages
Last Guidance	December 11, 2018
Next earnings date	May 10, 2019

### People

Willis, Brent, CEO & Director  
 Gould, Gregory, Chief Financial Officer  
 Rife, Richard, Chief Legal & Administrative Officer and Corpor  
 Cunningham, Michael, Senior Vice President of Sales  
 Barrow, Jay, Head of Brand  
 Olsen, Kelly, Chief Commercial Officer

### Top Competitors

Reed's, Inc.	Shenzhen Cereals Holdings Co., Ltd.
The Coca-Cola Company	PT Akasha Wira International Tbk
Celsius Holdings, Inc.	Pinar Su Sanayi ve Ticaret A.S.
Starbucks Corporation	PT Sariguna Primatirta Tbk
The Alkaline Water Company Inc.	Unilever N.V.

### Market Statistics

Market Capitalization (mil)	\$391.86
Last Price per share	\$5.20
52 week high	\$9.99
52-week low	\$1.30
Volatility	0.00%
Daily volume (mil)	4.46
Short interest	26.53%
Days to cover short interest	2.37
<b>Beta</b>	<b>0.39</b>

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Financials		NBEV (LTM)	NBEV Historical	Peers' Median (LTM)
<b>Profitability</b>				
Return on Capital	-7.1%	-1.06%	6.42%	
Adjusted EBITDA Margin	-25.8%	-18.40%	9.35%	
Return on Equity	-15.1%		37.3%	
Adjusted Net margin	-31.9%		10.0%	
<b>Invested Funds</b>				
Cash/Capital	29.3%	0.7%	20.8%	
NWC/Capital	11.4%	12.6%	13.5%	
Operating Assets/Capital	39.2%	86.2%	50.5%	
Goodwill/Capital	20.1%	0.4%	0.0%	
<b>Capital Structure</b>				
Total Debt/Market Cap.	0.07	0.10	0.20	
Reported Cost of Borrowing	6.9%		9.9%	
Cash Interest/Total Debt			20.5%	
CGFS Credit Rating	F		CC	
Credit Model Rating	ccc+		bb to bb+	
Probability of Default	6.87%		0.02%	
<b>Cost of Capital</b>				
Implied Cost of Borrowing (NBEV)	13.9%	CGFS Credit Rating	Credit Model Rating	Probability of Default
Implied Cost of Borrowing (Peers)	6.7%		9.3%	13.9%
Cost of New Debt Estimate	6.9%		7.0%	9.0%
Market Risk Premium Estimate	9.6%			
Cost of Equity Estimate	16.5%			
WACC Estimate	14.7%			

Quarterly Earning Surprises (Actual Vs. Median Estimates)	
<b>Revenue</b>	
12/31/2017	-9.92%
3/31/2018	-6.14%
6/30/2018	-22.40%
9/30/2018	-5.38%
12/31/2018	-4.15%
Mean (Standard Error)	-9.6% (0.91%)
<b>EBITDA</b>	
12/31/2017	-30.50%
3/31/2018	35.13%
6/30/2018	-306.59%
9/30/2018	-529.25%
12/31/2018	-619.00%
Mean (Standard Error)	-9.6% (0.05%)

Valuation						
<b>DCF Valuation</b>						
	Revenues	EBITDA Margin	UFCF	WACC	ROIC	Price Per Share
Base Year (Actual)	\$52.16	-26%	-\$50.38	15.52%	-7.11%	\$5.99
year 1	\$308.00	3%	-\$43.38	14.67%	4.79%	\$6.85
year 2	\$335.00	8%	\$18.19	14.76%	9.56%	\$7.85
year 3	\$375.00	8%	\$21.80	14.82%	10.53%	\$8.94
year 4	\$411.00	10%	\$29.62	14.90%	11.74%	\$10.13
year 5	\$447.58	11%	\$34.27	14.98%	11.93%	\$11.41
year 6	\$484.28	12%	\$38.91	15.06%	12.02%	\$12.79
year 7	\$520.60	12%	\$43.56	15.13%	12.02%	\$14.28
year 8	\$556.00	13%	\$48.24	15.20%	11.95%	\$15.86
year 9	\$589.92	14%	\$52.89	15.27%	11.81%	\$17.55
year 10	\$621.77	15%	\$57.44	15.33%	11.58%	\$19.36
year 11	\$651.00	15%	\$61.85	15.38%	11.29%	\$21.28
year 12	\$677.04	16%	\$66.06	15.43%	10.95%	\$23.33
year 13	\$699.38	17%	\$70.12	15.48%	10.57%	\$25.51
year 14	\$717.56	18%	\$73.97	15.53%	10.17%	\$27.83
year 15	\$736.22	18%	\$75.06	15.58%	9.51%	\$32.43
Continuing Period	\$755.36	18%	\$112.50	15.61%	15.61%	
<b>Relative Valuation</b>				<b>Asset Based Valuation</b>		
Multiple	EV/Rev (FW)	EV/EBITDA (FW)	P/BV (TTM)	P/E (FW)	Recovery Rate	100%
Median (Peers)	3.2x	18.7x	5.2x	25.1x	Capital	\$434.85
Base	Revenue (NTM)	EBITDA (NTM)	Book Value (LTM)	Net Income (NTM)	Intangibles	\$99.34
NBEV	\$315.84	\$12.84	\$152.64	\$8.45	Claims	\$37.96
Implied EV	\$1,022.84	\$239.86				
Total Net Claims	\$40.03	\$40.03				
Implied EQ	\$982.81	\$199.83	\$789.77	\$211.85		\$297.54
<b>Valuation Summary</b>						
Model	Intrinsic Value	Target Price	Weight			
DCF Valuation	\$5.99	\$6.85	85.00%			
EV/Rev (FW)	\$21.15	\$24.26	0.00%			
EV/EBITDA (FW)	\$4.30	\$4.93	0.00%			
P/BV (TTM)	\$17.00	\$19.49	0.00%			
P/E (FW)	\$4.56	\$5.23	0.00%			
Asset Based Valuation	\$6.40	\$7.34	15.00%			
Price per Share	\$6.06	\$6.92	100%			

