

April 27, 2018

National Beverage Corp.: (FIZZ)

Emilien MARY

Sector: Consumer Staples

Industry: Beverages

Current Price: \$89.78

Target Price: \$118.70

Company Description: National Beverage Corp. is a holding company for subsidiaries that market, distribute a full line of beverage products in the US Market. The portfolio of the brands is composed of Shasta, Faygo, Everfresh, LaCroix, Rip It, Asante, Mt. Shasta, ClearFruit, Mr. Pure, Ritz, Crystal Bay, Cascadia Sparkling Clear, Cascadia Only 2 Calories, Ohana, Big Shot and St. Nick's. The headquarter of the company is located in Fort Lauderdale, FL.

BUY

Current Price:	\$89.78
Target Price:	\$118.70
Expected Return:	32.21%
Market Cap:	4.185B
Beta:	0.75
T12M EPS	\$3.04
Est EPS	\$3.25
Rev. growth – 1yr:	18.8%
WACC:	8.6%
ROIC/WACC:	8.29
EVA:	119.18

Catalysts:

- Short Term (within the year): The shifting consumer preferences for healthier beverages combined with consumer spending growth.
- Mid Term (1-2 years): High competition of huge competitors.
- Long Term (3+): Improve financials and increase their business segment to better face important competitors.



Thesis: National Beverage Corp. is one of the top performer of the industry. Its small capitalization of \$4.185B makes the company an outside of the beverage market comparing to Coca-Cola or Pepsi. However, the implementation

of the company in fast growing water market without to be subject to unfashionable market such as beer and carbonated-beverage segment provide significant revenue and margin upside to the company.

Earnings Performance:

According to Bloomberg consensus overview, National Beverage Corp. has beat 6 of 6 of the past analyst estimates for its EPS, Adj. making the

company having a stronger growth than its competitors. Its Yoy EPS growth is 34.2%. The revenue has beat 5 of 6 of the analyst forecast with a yoy growth of 16.0%. The 2017 Eps is at \$2.26 and the next EPS is estimated to be \$3.25, an increase of 43.8%. 2019's EPS is forecasted to reach \$3.97, a 22% growth compare to 2018.

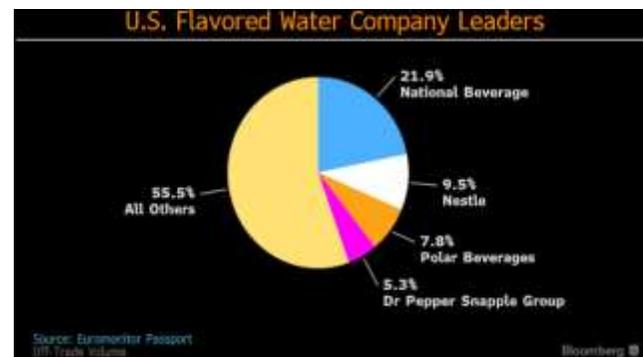
Product Portfolio:

Natioanl Beverage Corp. product portfolio and diversification is composed of Shasta, Faygo, Everfresh, LaCroix, Rip It, Asante, Mt. Shasta, ClearFruit, Mr. Pure, Ritz, Crystal Bay, Cascadia Sparkling Clear, Cascadia Only 2 Calories, Ohana, Big Shot and St. Nick's. The different market implementation are Sparkling Waters, Juices, Energy Drinks and Carbonated Soft Drinks.

The recent trend of people increasing awareness on healthy product and wellness is the key driver for the company's growth. As a result, company's strategy is set to meet the healthy hydration demands of consumer through its main brand LaCroix on the \$3 Billion flavored-seltzer market.

consumer ("Power+Brands") including sparkling waters, energy drinks, and juices. The second categories is based on Carbonated Soft Drinks in a variety of flavors including regular, sugar-free and reduced calorie options.

National Beverage Corp. is recognized the leader of natural sparkling water category. Its main brand LaCroix represent 21.9% of the market share of the U.S. Flavored water market.



The company's brands are divided into two categories. The first categories is based on beverages geared to the active and health-conscious

Revenue Upside:

The healthy trend has significantly increase the beverage demand with little to no calories and wholesome natural ingredients. As a result, healthier desired food attributes have significantly increased since 2015 with an all-natural food attributes increasing from 44% to 49%, limited sugar or no added sugar increasing from 41% to 47%.

2017 Overall Rank	Desired Food Attributes	2017 %	2016 %	2015 %
1▲	Is all natural	49	50	44
2▲	Has limited sugar or no added sugar	47	47	41
3▲	Does not contain artificial sweeteners	47	48	35
4▲	Does not contain trans fat or hydrogenated oils	45	47	37

Source: Euromonitor Passport, Feb 2018

While carbonated beverage sales decreased by 0.4% during 2017, U.S sparkling water trends increased by 13.9% during the same period mainly due to an increased volumes.

U.S. Sparkling Water Trends - IRI			
	Jan. 28, 2018	Dec. 31, 2017	Dec. 02, 2017
Sales (In Mn)	\$2,533.4	\$2,511.8	\$2,488.1
Yoy % Change	13.9%	14.0%	13.9%
Volumes (192oz)	576.9	571.9	566.3
Yoy % Change	14.1%	14.2%	14.1%
Average Price per Volume	\$4.39	\$4.39	\$4.39
Yoy % Change	-0.2%	-0.2%	-0.2%

Source: Information Resources, Inc.
Note: 52 Weeks Ending

According to Beverage Marketing Corp., the sparkling water market is forecasted to reach \$13-\$15 billion by 2021.

Analysts estimate revenue of \$977M, for 2018, a growth of 18.1% compared to the previous growth of 17.3% in 2017 where revenues reach \$826.9M. The estimation for 2019 are bright with a revenue growth of 13.9%.

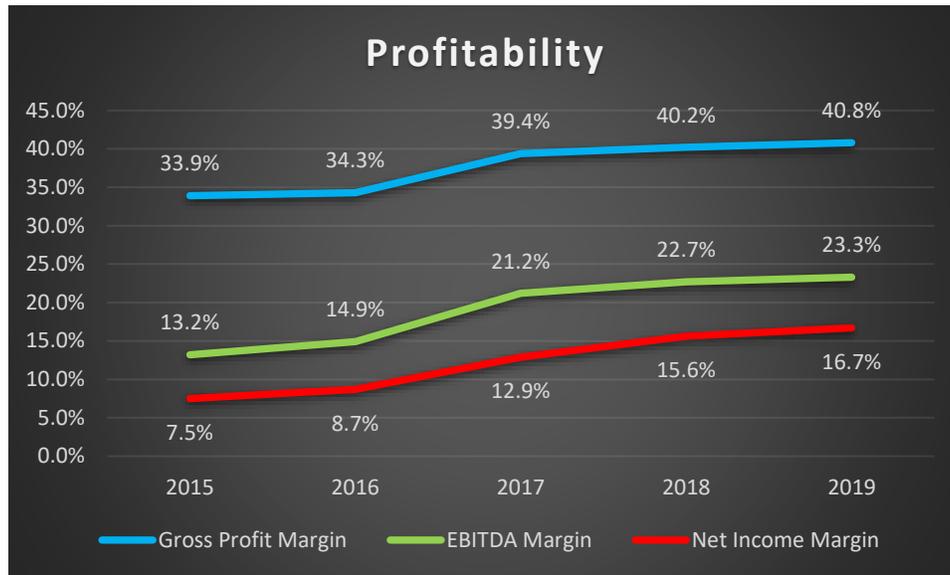


Margin Upside:

Because of its focused on healthier trend products, National Beverage Corp.'s strategy is to essentially focused its growth on sparkling water, putting at the same time in the background its carbonated soda drinks that provide lower growth and margin outcome.

As a result, Margin are forecasted to improve. The current gross profit, ebitda and net income margin are 39.4%, 21.2% and 12.9%.

Gross Profit is forecasted to increase by 80 bps between 2017 and 2018 and 60 bps the following year. EBITDA margin is planned to increase by 150 bps next year, and 60 bps by 2019. As a result, Net income margin is estimate to reach 15.6% in 2018 and 16.7% in 2019, an astonishing increase of 380 bps over the next two years.



Risk:

While most of the current indicators for the company are bright, I may see some potential threat for the continuing exponential growth of the company.

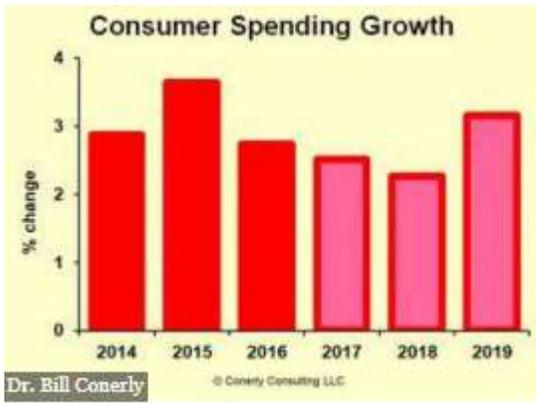
The principal factor could be the slowing trend in consumer spending. Real disposable income is slowing since the first quarter of 2015 and a record of 4.9%/yoy. The current growth rate of 2.0% is the highest since Q1 of 2016 and it is far from the 1.9%.



Total Non-farm payroll, which represent the job growth rate, is at a low 1.55 compared to a 2.27 in February 2015.



As a result, real personal consumption expenditures is at a low 2.6 growth rate for Q1 of 2018, below the average of 2.8% of 2017.



Dr. Bill Conerly's consumer spending forecast.

Moreover, according to Dr. Bill Conerly's consumer spending forecast, the growth rate of 2018 is going to decrease compare to 2017. However, it is planned to climb above 3% by 2019, a significant growth of 50-60 bps compare to 2018.

The second risk for the National Beverage Corporation is the arrival of new entrant, especially by large capitalization with significant source of income.

Coca Cola's is projected to reach 34% of operating margin, compared to a current 27%. To achieve its target, Coca-Cola is planning to invest higher margin market such as sparkling water market.

On the same way, Pepsi is planning to involve the U.S. flavored water market. They recently implement the bubbly brand to satisfy the growing demand on the market. The result will probably emerge during 2018 or 2019 affecting the market share of National Beverage corp. because of PepsiCo significant advantage of scale and distribution over FIZZ.

Ownership:

Top Ownership Type (%)			
5) Ownership Type	04/22/18	Curr	Change
1) Individual	75.61	75.43	-0.18
2) Investment Advisor	16.76	16.90	+0.14
3) Hedge Fund Manager	7.00	7.04	+0.04
4) Pension Fund	0.26	0.26	0.00
5) Brokerage	0.13	0.13	0.00
6) Insurance Company	0.08	0.08	0.00
7) Bank	0.07	0.07	0.00
8) Government	0.04	0.04	0.00
9) Sovereign Wealth Fund	0.04	0.04	0.00

Company's ownership is mainly through seven individuals at which 75.43% is own by the founder of National Beverage Corp., Caporella Nick.

The second category of ownership is investment advisor that account for 16.90%, a positive change of 0.14 compared to April 22, 2018. The main investment advisor are vanguard group with 3.22%, Blackrock with 1.73%, Dimensional Fund Advisors LP with 1.44%, and Wells Fargo & co. with 1.05%. Hedge fund accounts for 7.04%.



Short interest has reached a record 14.76 at the end of February and the 10.05 SI is still high. However, I believe the market has overshot the recent missed of estimate and the current price of the stock is a perfect time to enter. The high 124.05 reached September 29, 2017, represents a 38% of upside comparing to the current price of \$89.78. The strong growth of the company and its financials improvement should bring the short interest ratio to number that is more normal in the future

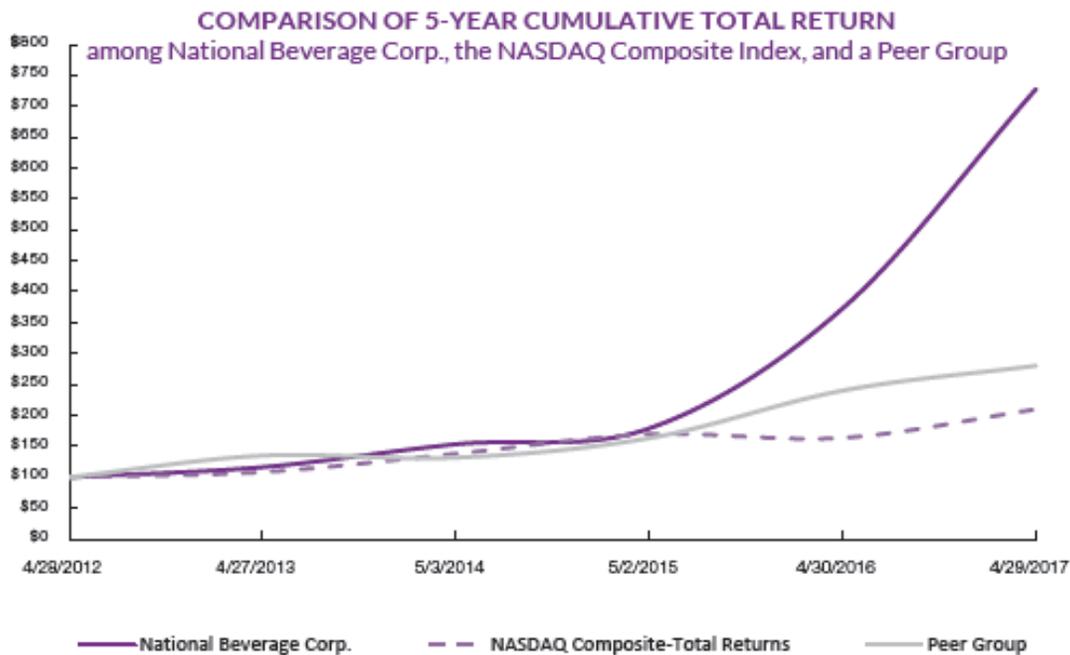
Competitors:

Name (BI Peers)	Mkt Cap (USD)	Last Px	Rev - 1 Yr Gr:Y	EPS - 1 Yr Gr:Y	P/E	Rtn on CE Adj:Y	Grs Mrgn Adj:Y	OPM:Y	EBITDA Mrgn Adj:Y	NI Mrgn Adj:Y
Median	18.62B	81.04	2.95%	2.63%	29.17	22.81%	51.41%	18.32%	22.04%	11.98%
NATIONAL BEVERAGE CORP	4.18B	89.78	17.33%	74.71%	29.51	47.41%	39.43%	19.66%	21.21%	12.94%
COCA-COLA CO/THE	184.70B	43.31	-15.38%	0.11%	21.19	41.06%	62.65%	27.27%	30.83%	23.27%
PEPSICO INC	144.21B	101.71	1.16%	7.94%	19.31	68.67%	54.67%	16.98%	20.71%	11.84%
CONSTELLATION BRANDS...	44.71B	234.22	3.46%	59.74%	29.17	24.21%	50.70%	33.75%	38.85%	23.84%
MONSTER BEVERAGE CORP	31.61B	56.19	10.48%	3.27%	41.86	21.41%	63.43%	36.58%	38.03%	22.95%
BROWN FORMAN CORP-C...	26.49B	56.04	-3.08%	-1.16%	35.25	45.63%	67.50%	33.03%	34.97%	22.34%
DR PEPPER SNAPPLE GR...	21.62B	119.96	3.88%	2.63%	26.43	35.37%	59.72%	20.91%	24.33%	12.12%
MOLSON COORS BREWING...	15.61B	72.30	125.24%	168.87%	15.27	7.83%	42.47%	15.48%	22.86%	8.76%
BOSTON BEER COMPANY ...	2.70B	229.30	-4.79%	-3.14%	33.12	18.43%	52.13%	13.78%	19.72%	9.29%

The comparison with its peers emphasize the potential upside. The company is a fast growing company because its main market are focusing on healthy sparking water. On the other hand, Coca-Cola, Pepsi and co. have their principal revenue from soda and they are currently facing the shifting trend in the consumer staple sector where customer are focusing their choice on healthier product. As a result, National Beverage Corp. is well place to catch the new emerging trends based on water related product and the astonishing double-digit growth in revenue at 17.33% perfectly show the capacity of the company to catch it while most of the other peers struggle to be above the 4% growth. Combined to an efficient management of the cost, the company EPS increased by 74.71%, the second

of the peer group, behind Molson Coors Brewing and its 168.87% EPS growth. Despite the worst Gross margin of 39.43%, the company's Operating margin of 19.66% and Net Income margin of 12.94% are above the median industry of 18.32% and 11.98%, respectively. This emphasize the margin upside of the company in the industry.

Regarding a 5 years comparison with NASDAQ composite index and Peer group, National Beverage Corp. has completely outperform both of them. Since April 29, 2013, the stock has increased by 560.72%.



	4/28/2012	4/27/2013	5/3/2014	5/2/2015	4/30/2016	4/29/2017
National Beverage Corp.	\$100.00	\$116.25	\$153.27	\$178.88	\$372.92	\$727.64
NASDAQ Composite	100.00	108.32	137.99	169.47	163.64	209.76
Peer Group	100.00	134.80	131.60	163.15	239.99	280.27

Attractive M&A Candidate:

FIZZ has operated for many year in the industry as an outsider. Today, FIZZ is the leader in the fast growing U.S. flavored seltzer market. Its brand LaCroix has 22% of the market share of the \$3billion flavored water market. In addition, its focusing on innovation may increase this percentage especially because people are looking for healthier beverage with low-no added sugar.

While beer and carbonate segments are underperforming the BI global beverage peer group because of the new consumer behavior looking for healthier products, price of National Beverage Cor. stock has climbed from a year-end of \$20.16 in 2013 to \$97.44 in 2017.

Balance Sheet Profile

Cash	\$ 136.40
Debt	\$ -
Net Debt	\$ (136.40)
Net Debt/Equity	\$ (55.52)
EBITDA	\$ 212.20
Net Debt/EBITDA	-0.64

The company has a strong balance sheet of with no debt. As a result, net debt is negative \$136.4M. The company is own at 75.43% by seven individual of whom 73.47% is own by Caporella Nick, the 81 year old chairman/CEO/Founder of the company. My current intrinsic value of \$109.93 is 22.44% above the current stock price, which make the stock cheap.

Capital Structure:

The attractiveness of the company is also in its capital structure. In fact, the company has not debt, which mean that the company can use its ability to take more debt to finance significant expansion, acquisition and new projects to develop and improve its financials. In addition, the management of the company is particularly

efficient at investing its cash. Its ROIC of 48.94% is 5.45 times higher than its peer and the economic value added stand at an astonishing 119.18. I believe the management team can increase its efficient by using more leverage and debts to finance its growth. It should provide additional earnings to the company and strengthen its market position in profitable fast growing environment.



Conclusion:

Over the last 4 years, the company has significantly increase its earnings with a 90.8% growth in its stock price last year. I believe that the current market condition and its strong financials make

National Beverage Corp. in perfect condition to sustain its growth for the following two years. In my opinion, the recent plunge in the stock price of the company due to an overshoot of the market reaction should create a better upside trend for the company short-term catalyst.

National Beverage Corp.
(fizz)

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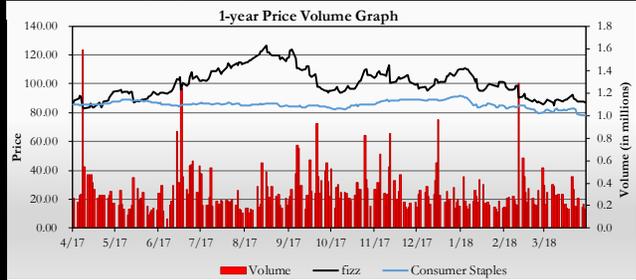
BULLISH

Analysis by **Emilien Mary**
4/28/2018

Current Price: \$89.78
Divident Yield: 0.0%

Intrinsic Value: \$109.81
Target Price: \$118.49

Target 1 year Return: 31.97%
Probability of Price Increase: 100%



Description	
National Beverage Corp., through its subsidiaries, develops, produces, markets, and sells a portfolio of flavored beverage products in North America and internationally.	
General Information	
Sector	Consumer Staples
Industry	Beverages
Last Guidance	February 12, 2018
Next earnings date	July 13, 2018
Market Assumptions	
Estimated Equity Risk Premium	5.00%
Effective Tax rate	21%

Market Data	
Market Capitalization	\$4,184.53
Daily volume (mil)	0.11
Shares outstanding (mil)	46.61
Diluted shares outstanding (mil)	46.89
% shares held by institutions	109%
% shares held by investments Managers	18%
% shares held by hedge funds	5%
% shares held by insiders	3.50%
Short interest	5.57%
Days to cover short interest	9.21
52 week high	\$129.82
52-week low	\$81.65
Volatility	32.70%

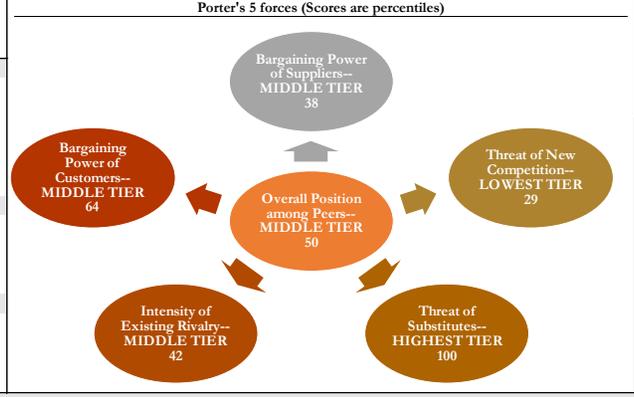
Past Earning Surprises	
Quarter ending	Revenue
1/28/2017	8.41%
4/29/2017	-0.67%
7/29/2017	4.46%
10/28/2017	2.14%
1/27/2018	-3.22%
Mean	2.47%
Standard error	1.0%
Management	Position
Caporella, Nick	Chairman of the Board & CEO
Caporella, Joseph	President & Director
Bracken, George	Executive Vice President of Finance
Cook, Gregory	VP, Controller & Chief Accounting Officer
Total Compensations Growth	
Chairman of the Board & CEO	5.63% per annum over 5y
President & Director	6.73% per annum over 5y
Executive Vice President of Finance	10.36% per annum over 5y
VP, Controller & Chief Accounting Officer	5.25% per annum over 2y

Market and Credit Scores	
Recommendation (STARS) Value--0	#VALUE!
Recommendation (STARS) Description--0	#VALUE!
Quality Ranking Value--B+	#VALUE!
Quality Ranking Description--Average	#VALUE!
Short Score--1	#VALUE!
Market Signal Probability of Default % (Non-Ratings)	#VALUE!
-0.044%	--
CreditModel Score (Non-Ratings)--bb	--
Stock Price Growth During Tenure	
5.72% per annum over 5y	98.78% per annum over 2y

Industry and Segment Information	
LTN Revenues by Geographic Segments	LTN Revenues by Business Segments
#VALUE!	Non-Alcoholic Beverages--100%
#VALUE!	--
Peers	
The Coca-Cola Company	Dr Pepper Snapple Group, Inc.
PepsiCo, Inc.	Molson Coors Brewing Company
Constellation Brands, Inc.	The Boston Beer Company, Inc.
Monster Beverage Corporation	Farmer Bros. Co.
Brown-Forman Corporation	Craft Brew Alliance, Inc.

Profitability	
fizz (LTM)	fizz Historical
Return on Capital (GAAP)	71.3%
Operating Margin	15%
Revenue/Capital (GAAP)	4.80
ROE (GAAP)	66.4%
Net margin	17.3%
Revenue/Book Value (GAAP)	3.83
Invested Funds	
fizz (LTM)	fizz Historical
Cash/Capital	49.8%
NWC/Capital	16.7%
Operating Assets/Capital	29.8%
Goodwill/Capital	3.7%
Capital Structure	
fizz (LTM)	fizz Historical
Total Debt/Market Capitalization	0.14
Cost of Debt	3.6%
CGFS Rating (F-score, Z-score, and default Probability)	AAA
WACC	8.0%

Peers' Median (LTM)	
11.63%	17.21%
0.68	28.0%
15.4%	15.4%
1.82	13.4%
9.0%	53.7%
23.9%	0.46
3.2%	7.4%



Forecast Assumptions	
Revenue Growth CAGR	9%
Average Operating Margin	19%
Average Net Margin	14%
Growth in Capital CAGR	17%
Growth in Claims CAGR	8%
Average Return on Capital	16%
Average Return on Equity	19%
Average Cost of Capital	8%
Average Cost of Equity	8%

