

February 17, 2018

Monster Beverage Corp: (MNST)

Jacob Perry

Sector: Consumer Staples

Industry: Beverages

Current Price: \$65.61

Target Price: \$67.06

Company Description:

Monster Beverage Corporation, based in Corona, California, is a US holding company that develops, markets, sells, and distributes energy drinks through its subsidiaries. Monster operates through three segments: Energy drinks, Strategic Brands, and other. They are currently stretching to new markets around the globe using different products to tailor their popularity to diverse cultures.

SELL

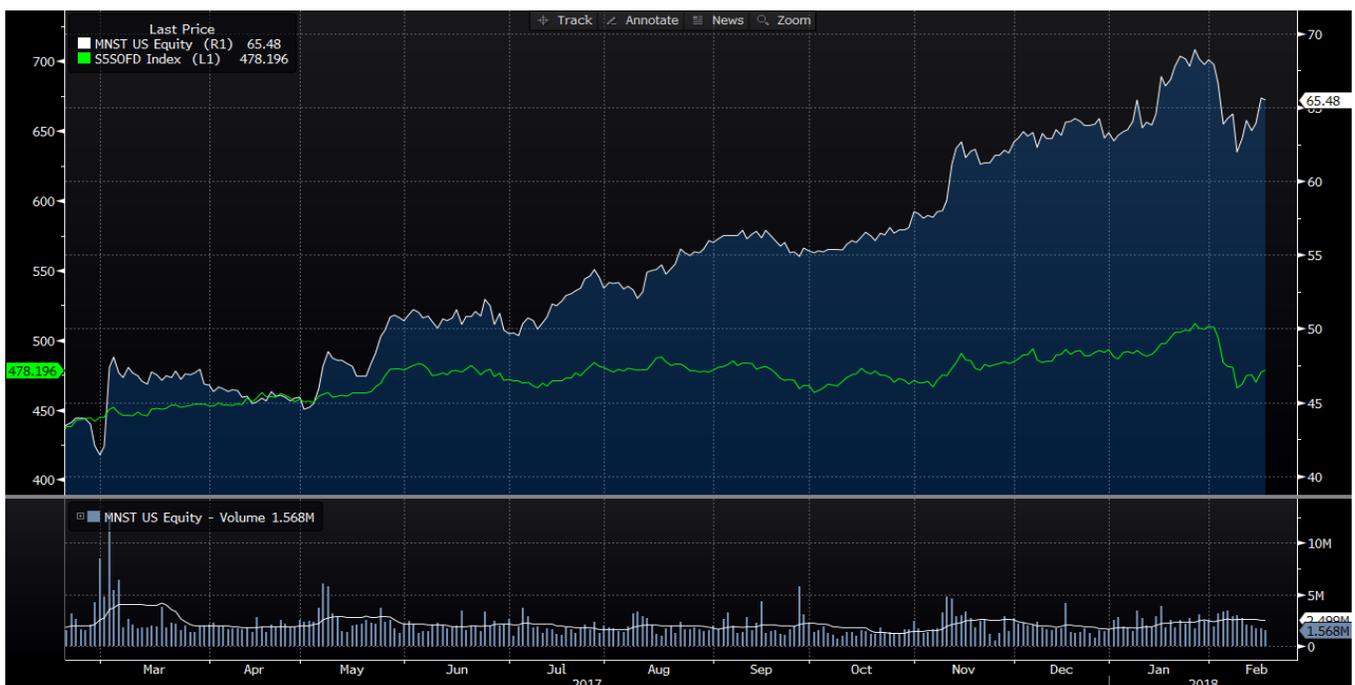
Current Price: \$65.61
 Target Price: \$67.06
 52 Week Range: \$41.02-\$70.215
 Old Target Price: \$65.11

Market Cap: 36,928.3M
 Volume: 1,567,948
 Beta: 1.01

Thesis: Monster seeks to become a conglomerate of energy drink sales across the globe. Following the acquisition of strategic energy drink Coca-Cola brands in 2015, Monster has had an international-facing focus towards sales. There could be problem regarding their growth prospects given that over 70% of their revenue is generated within the United States. Dwindling attention on US sales could cause a loss in potential revenue sparking a downward trend of earnings for the next few years.

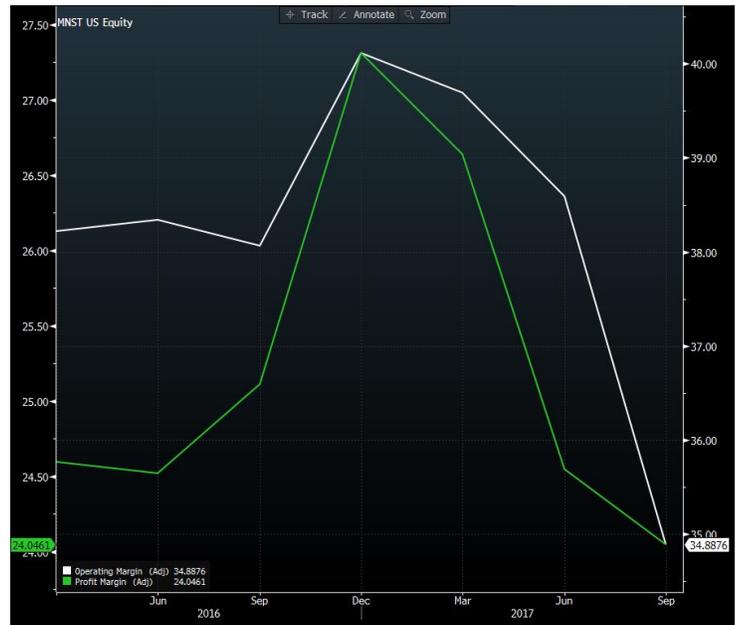
Catalysts:

- Short Term(within the year): Product development and improvement
- Mid Term(1-2 years): Product placement in emerging Monster markets
- Long Term(3+): Monster brand recognition in untouched markets across Asia and Australia



Earnings Performance:

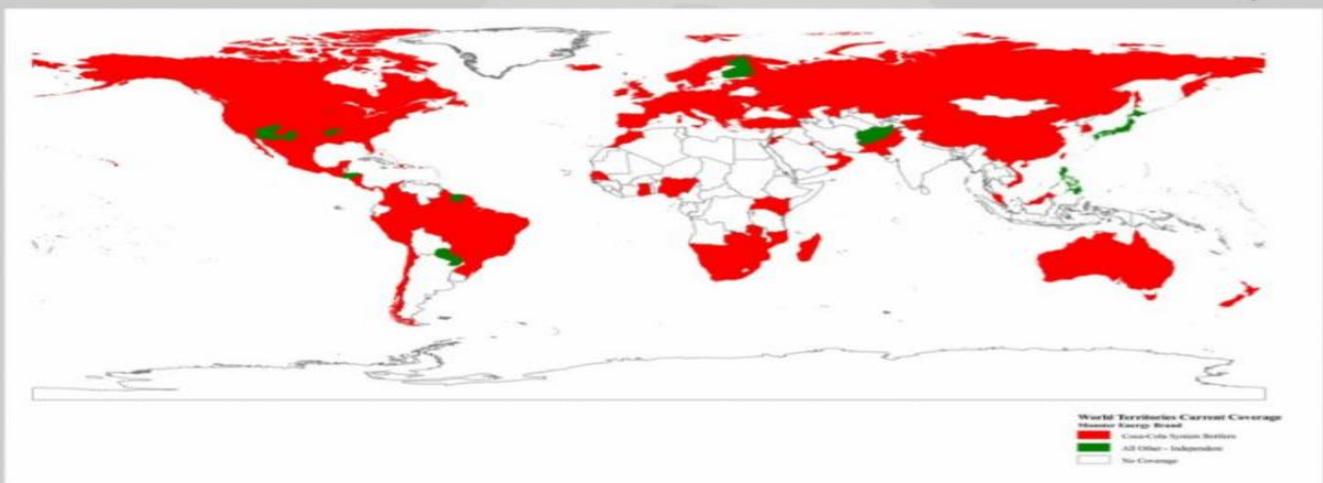
Monster Beverage Corporation has been in a steady decline since quarter four of 2016. Operating margin for 2017 decreased from over 40 percent to just above 34 percent. The six percent loss in operating margin was coupled with a six percent loss in profit margin as well, although the loss in profit margin was far greater than operating margin in the second quarter of 2017. Monster does has prospects in new international markets that could potentially boost Monster's profitability and earnings to new heights. Being realistic, those prospects will have to wait some time due to miscalculated ventures made by Monster in their attempt to break into new market segments around the globe. Monster has shown that they are having trouble managing their new plethora of strategic brands in regards to profitability. One of Monster's European energy drinks, Relentless, has seen a 47.7 percent decrease in market share in the last 13 weeks of 2017. In Great Britain, the entire energy drink category value growth declined 3.5 percent in the last 13 weeks of 2017 as well. Mexican markets have not been kind to Monster's Southern American energy drink, Burn, its growth has declined over 40 percent in the last 13 weeks of 2017. Burn also posted a loss in the value growth at that same time in Poland. Strategic brands have grown in market share slightly but they have not provided any earnings for that growth in market share and it might be a while until they do.



International Brand Recognition:

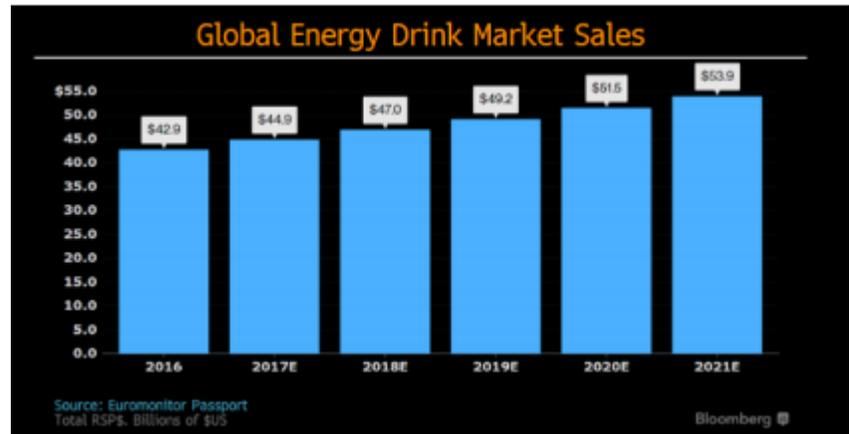
Monster Beverage Corporation has become synonymous with corporate sponsorship and advertisement. They have attempted to use this platform of media and recognition as a brand to establish a customer base to spread the Monster brand internationally. Monster is being sold around the world currently with other subsidiary brands sprinkled in different geographic areas. With well over half of the world covered by some Monster owned brand, they should have revenue streams coming in at paces far beyond the strategic brands' 8.9 percent.

Distribution of Monster Energy Drinks

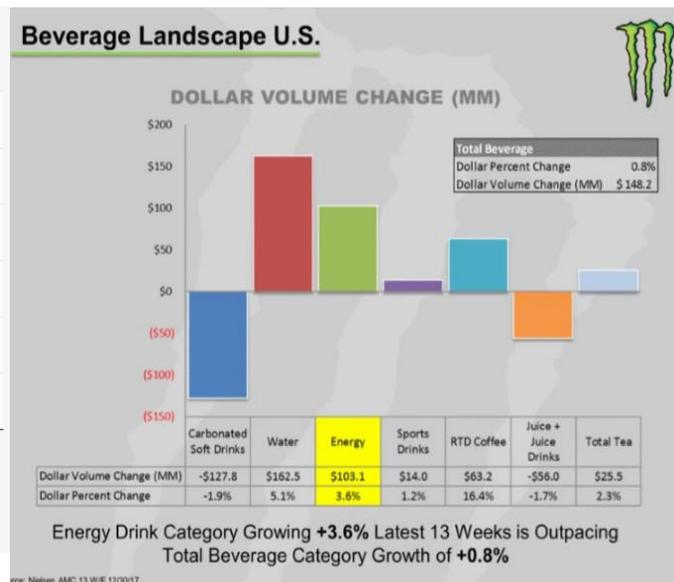
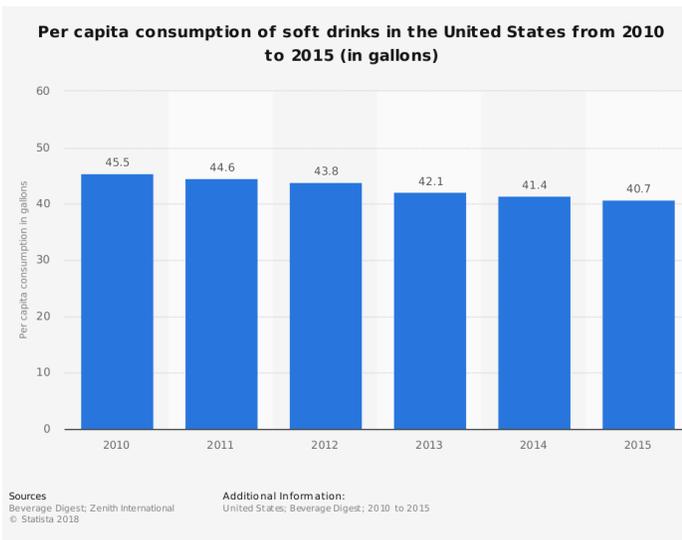


Industry Outlook:

The energy drink segment of the beverage industry is a growing market. Globally, the energy drink market is expected to rise upwards of three billion dollars in the next year. In addition, they are expected to rise close to ten billion dollars in the next four to five years. Energy drinks are also a part of the larger soft drink sector which



holds larger S&P 100 companies such as Coca-Cola and Pepsico. The market share of the soft drink industry owned by Monster is a dismal 8.5 percent compared to Pepsico's 27.2 percent and Coca-Cola's 13.7 percent. It is also important to remember that Gatorade, the world's leading sports drink is owned by Pepsico as well. Pepsico also owns Amp Energy, MTN Dew Kickstart, and Sobe, a tea-juice hybrid drink. This is all pertinent in regards to the declining rate of United States consumption of soft drinks. Within five years starting from



2010, consumption of gallons of soft drinks per capita has decreased by five gallons. Keeping steady at that rate would mean that the average American today would consume around 37 to 38 gallons of soft drinks in a year. Unlike the carbonated soft drinks sector, energy drinks in the United States have seen a slight boost in popularity. In the last 13 weeks of 2017, carbonated soft drinks had a volume change of 127.8 million dollars while energy drinks saw a 103 million dollar increase. The 3.6% increase in energy drink growth outpaced the total beverage category growth by 2.8 percent.

Product Placement:

In 2015, Monster Beverage Corporation acquired all of Coca-Cola's energy business worldwide. A laundry list of energy companies including but not limited to NOS, Full Throttle, Burn, Mother, BU, Gladiator, and Samurai were exchanged for a 16.7 percent equity of Monster Beverage Corporation. These new strategic

Energy Portfolio



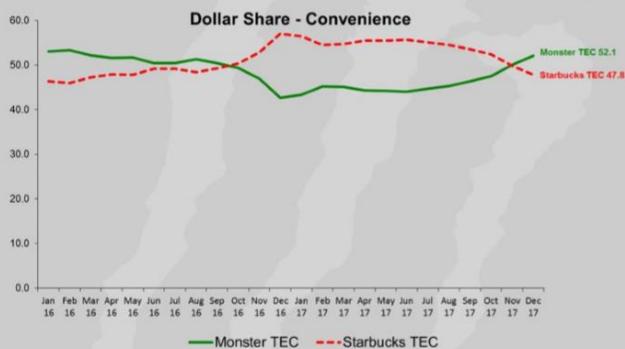
As of January 2018

brands became gateways to utilizing current Coca-Cola distribution systems. Since then, Monster has shown growth prospects in areas that are heavily competitive such as Western Europe. In areas with high growth potential such as Southeast Asia, Monster has only yielded low teens or even single-digit growth. In China, a key growth prospect for Monster, the last four weeks of 2017 have only seen 4.1 percent growth among monster and their portfolio which means any other brands owned by Monster in China made zero growth.

New Products:

Monster Beverage Corporation has engaged in new product development within the past year in order to break into potential underserved markets according to Rodney Sacks, Monster CEO, in the last investors meeting in January 18th, 2018. Monster is in the midst of developing a coffee based drink to combat Starbucks’ convenience coffee drinks. Currently, Monster sells their Monster Java drinks that combat Starbucks’ Frappuccinos most commonly found at convenience stores. Monster and Starbucks have traded places multiple times within the energy coffee category for dollar share convenience. As of December 2017, Monster holds a higher dollar share rating of over 0.50 dollars. Within the upcoming year, Monster will

Energy Coffee Category - Dollar Share - Convenience



*Source: Nielsen Total U.S. Convenience 24 ME 122917

announce a new line of coffee based drinks that will be direct competitors to Starbucks’ current line of convenience coffee drinks. Given their current position in the energy coffee market, this should prove to be a waste of capital due to their increased market share from the release of their Monster Java line. In addition to their upcoming coffee based drinks, Monster will also see in a new wave of energy drinks. They will be adding more flavors to their existing Monster energy line of carbonated energy drinks as well as adding new non-carbonated energy drinks in the form of the Monster Hydro line.

Monster Hydro will be made to have all of the components of a normal energy drink with the exception of added carbonation. Monster Hydro will be made to directly compete against competitors like Rockstar's Recovery series and AMP Zero. Lastly, Monster announced that they would be expanding into the protein shake market. Monster Muscle will come in a familiar protein-dairy based energy drink that will compete against giants Muscle Milk and Gatorade Recover. The expansion into new markets by Monster leaves themselves vulnerable to product failure risks that will not be recouped if they fail to gain traction in their respective markets. These expansions will be happening at the same time they will be pushing into new international markets.



Ownership & Management:

Top Ownership Type (%)					
54) Ownership Type	02/11/18	Curr	Change		
41) Investment Advisor	62.81	65.08	+2.27	↕	
42) Corporation	23.27	21.88	-1.39	↕	
43) Hedge Fund Manager	3.89	3.74	-0.15	↕	
44) Pension Fund	2.14	2.15	+0.01	↕	
45) Bank	2.57	1.94	-0.63	↕	
46) Individual	1.40	1.31	-0.09	↕	
47) Government	0.97	1.06	+0.09	↕	
48) Insurance Company	0.98	0.91	-0.07	↕	
49) Holding Company	0.80	0.76	-0.04	↕	

As stated earlier, a portion of Monster Beverage Corporation was acquired by Coca-Cola in exchange for strategic brands and distribution means owned by Coca-Cola. A majority of the corporate held equity of Monster is held by Coca-Cola at over 18 percent. Over

60 percent of Monster Beverage Corporation is owned by investment advisors such as mutual fund families like Vanguard and Fidelity. This shows a commitment by two very large investment firms that perceive Monster to have long-term growth potential. Only 3.9 percent of Monster's equity is owned by hedge funds meaning that there could be a relatively low perception of added growth potential in the short to mid-term

	Holder Name	Agg Position	MNST US↓	DPS US
	Public Portfolios			
1.	COCA-COLA CO/THE	104,603,767	102,121,602	--
2.	FMR LLC	41,908,033	41,419,058	--
3.	FIDELITY MANAGEMENT & RESEARCH	42,892,321	39,507,250	2,915,762
	Detailed Information			
4.	VANGUARD GROUP	48,274,041	29,820,593	18,453,448
5.	VANGUARD GROUP INC	50,229,349	29,820,593	18,453,448
6.	BRANDON LIMITED PARTNERSHIP NO 2	29,386,944	29,386,944	--
7.	LOOMIS SAYLES & COMPANY LP	22,996,279	22,996,125	--
8.	STATE STREET CORP	25,523,246	16,961,238	8,202,341
9.	JENNISON ASSOCIATES LLC	13,126,248	13,126,248	--
10.	WELLINGTON MANAGEMENT GROUP LLP	12,626,640	12,504,451	19,070
11.	BLACKROCK INSTITUTIONAL TRUST	17,272,122	10,821,466	5,949,026
12.	SANDS CAPITAL MANAGEMENT, LLC	10,131,493	10,131,493	--
13.	TIAA CREF INVESTMENT MANAGEMENT	8,845,468	8,070,092	687,213
14.	BANK OF AMERICA CORPORATION	8,885,316	7,625,355	1,201,161
15.	ALLIANCEBERNSTEIN LP	7,666,443	7,139,230	476,783
16.	COLUMBIA MANAGEMENT INVESTMENT	6,648,374	6,543,580	72,125

outlooks. Monster's current equity float is also currently around 412 million dollars. Monster Beverage Corporation is being headed by CEO Rodney Sacks and CFO/COO Hilton Schlosberg who have been working in tandem since 1990. Seeing how the growth of Monster in the last thirty years has been exponential, compensation to c-suite executives seem like they could be low. In addition, about a tenth or less of the total compensations to executives are actual salaries. The rest of compensation to executives come in the form of options and other benefits.

Monster Beverage Corp			FY 2016
Name	Title		Total Compensation
1) Rodney Sacks	Chairman/CEO		12,028,955 (USD)
2) Hilton Schlosberg	Vice Chairman/Pres/CFO/COO/Secy		11,995,786 (USD)
3) Mark Hall	Chief Marketing Officer		4,092,571 (USD)
4) Thomas Kelly	Senior VP:Finance		1,817,298 (USD)

Conclusion:

Monster Beverage Corporations has good growth prospects in the long run and plenty of potential recognition among many different beverage sectors and markets across the world. Although they seem to have growth potential, it is hard to rationale a company that is stretching itself so thin in such a short time horizon. From the push for greater exposure in new geographic markets to the push for development of new products for different market segments, Monster will become out of its core profit competencies in the United States(which accounts for over 70% of Monster's revenue) which will sacrifice key earnings for the company's growth. Monster Beverage is growing at a rate which cannot be rationalized as a reason to buy or hold its equity. The real way to become the global conglomerate of energy drink products is to be fully acquired by Coca-Cola as to which Monster will have unlimited potential for growth and profitability. As of now, Monster is not a buy strategy.

Monster Beverage Corporation
(MNST)

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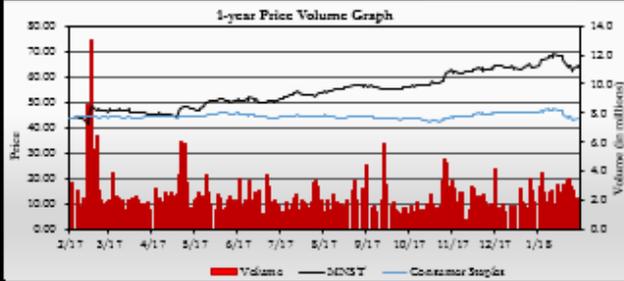
NEUTRAL

Analysis by **Al Capone**
2/16/2018

Current Price: \$63.71
Dividend Yield: 0.0%

Intrinsic Value: \$62.15
Target Price: \$67.06

Target 1 year Return: 5.27%
Probability of Price Increase: 5%



Description	
Monster Beverage Corporation, through its subsidiaries, develops, markets, sells, and distributes energy drink beverages, soda, and its concentrate in the United States and internationally.	
General Information	
Sector	Consumer Staples
Industry	Beverages
Last Guidance	February 12, 2018
Next earnings date	February 23, 2018
Market Assumptions	
Estimated Equity Risk Premium	5.24%
Effective Tax rate	22%

Market Data	
Market Capitalization	\$35,749.63
Daily volume (mil)	0.82
Shares outstanding (mil)	563.96
Diluted shares outstanding (mil)	578.58
% shares held by institutions	109%
% shares held by investment Managers	58%
% shares held by hedge funds	3%
% shares held by insiders	1.61%
Short interest	1.03%
Days to cover short interest	2.65
52-week high	\$70.22
52-week low	\$41.02
Volatility	30.02%

Quarter ending	Revenue	EBITDA
9/30/2016	-4.14%	-17.05%
12/31/2016	3.80%	13.97%
3/31/2017	0.21%	-1.15%
6/30/2017	1.01%	-2.05%
9/30/2017	1.05%	-7.57%
Mean	0.39%	-2.77%
Standard error	1.0%	4.9%

Market and Credit Scores	
Recommendation (STARS) Value	3
Recommendation (STARS) Description	Hold
Quality Ranking Value	B+
Quality Ranking Description	Average
Short Score	0
Market Signal Probability of Default % (Non-Rating)	0.006%
Credit Model Score (Non-Rating)	N/A

Industry and Segment Information	
LTM Revenue by Geographic Segment	LTM Revenue by Business Segment
United States--76%	Monster Energy Drink--91%
Outside the United States--24%	Strategic Brands--9%
--	Other--1%
--	--
--	--

	MNST (LTM)	MNST Historical	Peer's Median (LTM)
Profitability			
Return on Capital (GAAP)	24.3%	14.13%	15.28%
Operating Margin	25%	17.19%	13.91%
Revenue/Capital (GAAP)	0.96	0.82	1.10
ROE (GAAP)	22.9%	17.7%	26.8%
Net margin	25.6%	22.9%	9.3%
Revenue/Book Value (GAAP)	0.89	0.77	2.88
Invested Funds			
CapEx/Capital	28.5%	22.9%	14.6%
MWCA/Capital	3.6%	16.0%	3.4%
Operating Assets/Capital	35.5%	50.2%	57.3%
Goodwill/Capital	32.3%	11.0%	24.7%
Capital Structure			
Total Debt/Market Capitalization	0.01	0.01	0.56
Cost of Debt	3.7%	4.3%	3.8%
CGFS Rating (F-rates, Z-rates, and default Probability): AA			
WACC	8.2%	9.6%	7.8%



Forecast Assumptions	Explicit Period (6 years)	Continuing Period
Revenue Growth CAGR	12%	2%
Average Operating Margin	27%	26%
Average Net Margin	21%	20%
Growth in Capital CAGR	15%	2%
Growth in Claims CAGR	11%	2%
Average Return on Capital	14%	11%
Average Return on Equity	14%	11%
Average Cost of Capital	8%	8%
Average Cost of Equity	8%	8%

