

October 15, 2018

Company Name:
Craft Brew Alliance (BREW)

Marko Stojanovic

Sector: Consumer Staples
Industry: Beverages - Brewers
Current Price: \$16.75
Target Price: \$18.90

Company Description: Craft Brew Alliance is publicly traded craft brewing company with the headquarters in Portland, OR. The BREW was formed with the merger of Widmer Brothers Brewing and Redhook Ale Brewery in 2008. The Alliance divides its business between beer, comprising brewing and selling craft beers, and pubs and other operations, including five pubs, four of which neighbor its breweries. Its beers are distributed through an agreement with Anheuser-Busch, which owns about 32% of the Alliance.

HOLD/SELL

Current Price: \$16.75
Target Price: \$18.90
Market Cap: 328M
ROE: 13.59
LTD/TE (FY2017) 24.08
LTD/TE(YTD) 7.35
EBITDA margin %: 10.4
WACC: 10.76%
ROIC/WACC: .31



Thesis:

BREW has shown growth in revenue, even though brewing industry was set to default. It also improved its gross profit margin in last 4 years. The good financial position allowed them to acquire three partner companies, which will give them new market share. BREW has new products on the line, with focus on non-alcoholic beverages such as sake, medical mushroom beer, nonalcoholic beer and few others. The partnership with Anheuser-Busch is accelerating topline growth and increasing shareholder value. International sales are growing, especially Kona is 45% up. This shows that there is potential for growth and BREW is making moves to create more values.

Catalysts:

- **Short Term**(within the year): Acquisition of three partners: Appalachian Mountain Brewery, Cisco Brewers, Wynwood Brewing Co.
- **Mid Term**(1-2 years): International Distribution agreement 20M in 2019, Develop new non-alcoholic products. Improve gross margin.
- **Long Term**(3+): US master brewing agreement +10 years, possible merger with Anheuser-Busch.

Earnings Performance:

BREW has shown ability to surprise the analysts by beating their estimates in last 5 earning calls. The last quarter the estimate of revenue was beat by \$0.09 which leads to Revenue of \$61.82M. Big surprise was in quarter 1 when they beat the revenue by \$3.63M with total of \$47.49M. They also beat the estimate for EBITDA in last 5 quarters by improving their EBITDA margin to 10.4% for 2017.

Their ROIC/WACC is .31 with a target of .51, which shows small possibility of value creation. However, competitors ROIC/WACC is targeted to be .47 which shows that BREW is in the range of the competitors.

ROIC /WACC		
	<i>History</i>	<i>LTM</i>
BREW	0.31	0.52
Competitors	0.60	0.47
Target	0.52	

Brew also increased their barrels sales compared to 2017 first 6 months, which lead into positive net income in 2018. They sold 391,600 barrels in first 6 months of 2018, which is approximately 23,000 barrels more compare to 2017. They also increased the shipment of barrels for first 6 month approximately 11,900 barrels. Total barrels that BREW have sold in 2017 was 855,000.

Following is a summary of our financial results:

Six Months Ended June 30,	Net sales	Net income (loss)	Number of barrels sold
2018	\$109.3 million	\$4.6 million	391,600
2017	\$104.9 million	\$(0.1) million	378,400

Industry Background:

Beer industry has been on pressure in past two years due to legalization of Marijuana in few states. Beer industry has value of \$111.4B with 1.4% drop in 2017. The sales of alcoholic beverages dropped overall due to legalization of Marijuana and this provided the problems for breweries. However, this legalization allowed the breweries to expand their portfolio of beers with new products that will contain the substances from Marijuana. On the Appalachian Mountain Brewery web page, they show the interest in exploring the CBD/THC market and producing products that will contain those substances. With this said, BREW has acquired the company that is looking to explore the market of beers that will contain the CBD/THC substances. Cannabis market is currently valued at \$9B and expected to grow to \$21B in 2021. This could be big sale driver in the future, and Appalachian Mountain could be the driver for BREW. Since there is no data available for marijuana beer, this is still big question and could go either way. If it is to believe, market is there for beer-cannabis we just need the time to see if it is going to react positively or not. The rumors are that BREW will announce their infusion-beer on October 31st which will open the new market and possibility for revenue improvements.

Ownership:

BREW has avg. volume of 109.26K with 19.36M shares outstanding. The big portion of BREW is owned by Anheuser-Busch 32%. They got into agreement that Anheuser-Busch has right to buy all other outstanding stock shares for at least minimum price of \$24.5 beginning of August 2018. The agreement seems very attractive to the current shareholders that own the stock at the current price, however there is big possibility the deal will never go through since Anheuser-Busch already has significant control over BREW and is managing most of the BREW's productions and helping them with International exports.

We can also see the huge increase in hedge funds ownership since last year, which signals that there is potential value in BREW and the smartest people are taking long position on it. Also we can see increase in ownership of investment advisors as well.

Holder Name	Portfolio Name	Source	Opt	Position	% Out	Latest Chg	File Dt
1. Anheuser-Busch InBev...		Company	All				
2. Dimensional Fund Advi...	Dimensional Fund Adviso...	Proxy		6,069,047	31.34	0	03/26/18
3. BlackRock Inc		13F		1,309,199	6.76	21,704	06/30/18
		ULT-AGG		655,989	3.39	84,282	06/30/18

Compare Current Stats Against **10/08/17**

Institutional - Based on Current Filings				Top Fund Objective Ownership (%)			
[51] Institutional	10/08/17	Curr	Change	52) Fund Objective	10/08/17	Curr	Change
1) % of Shares Held	33.10	39.46	+6.36	2) Blend	54.39	50.07	-4.32
12) % of Float Held	66.44	67.88	+1.44	22) ETF	17.18	17.90	+0.72
13) # of Institutions	131	155	+18.32%	23) Value	10.50	15.98	+5.48
14) # of Buyers	36	48	+33.33%	24) Growth	9.44	8.32	-1.12
15) # of Sellers	37	29	-21.62%	25) Long Short	7.23	6.16	-1.07
16) # of New Buyers	22	21	-4.55%	26) Country Fund	0.32	0.60	+0.28
17) # of Selloffs	16	5	-68.75%	27) Unclassified	0.66	0.58	-0.08
18) % Chg in Inst Positions	+1.68	+5.78	+4.10	28) Asset Allocation	0.27	0.37	+0.10
				29) Market Neutral		0.01	

Top Geographic Ownership (%)				Top Ownership Type (%)			
53) Geographic	10/08/17	Curr	Change	54) Ownership Type	10/08/17	Curr	Change
31) UNITED STATES	39.14	47.03	+7.89	41) Corporation	37.77	38.54	+0.77
32) BELGIUM	37.77	38.54	+0.77	42) Investment Advisor	31.01	35.17	+4.16
33) Unknown	22.49	12.94	-9.55	43) Individual	22.49	12.94	-9.55
34) UNITED KINGDOM	0.42	0.45	+0.03	44) Hedge Fund Manager	6.93	12.22	+5.29
35) GERMANY	0.12	0.39	+0.27	45) Pension Fund	1.48	0.68	-0.80
36) HONG KONG		0.36		46) Insurance Company	0.11	0.21	+0.10
37) SINGAPORE		0.12		47) Brokerage	0.15	0.13	-0.02
38) SWITZERLAND	0.01	0.11	+0.10	48) Bank	0.03	0.11	+0.08
39) CANADA	0.05	0.05	0.00	49) Foundation	0.01	0.00	-0.01



Competitors:

The brewery industry has been growing lately and there has been many competitors that is going against BREW. Comparing their sizes and location of selling, biggest competitors that they recognize are Boston Beer Company, Molson Coors Brewing etc. If we compare the Gross margin, we can see that both of their two biggest competitors have higher gross margin. However, as we saw in investor presentation, BREW is working on improving the gross margin and creating value for company. And it already has improved their gross margin by approximately 4% since last 2 years and projections are that it will keep improving in the future. It also shows that their EBITDA margin is lower than their main competitors and this margin has improved over last 2 years from 7.3% to 10.4% and it is projected to keep growing in the future. Even though their competitors have both EBITDA and gross margin much higher, BREW has potentials to improve this margins and take over the market from competitors. BREW is stating that they will do capital investments to drive topline and lower the fixed overheads from 67% capacity utilization to 80%.

The partnership with Anheuser-Busch is also allowing them to spread in the International and Domestic market much easier and at lower cost. They entered in the Brewing Agreement with Anheuser-Busch in 2016 that will produce 300,000 barrels per year in Anheuser-Busch brewery and save approximately \$10 per barrel with this deal. The deal is valid for 10 years and could be renewed after that.

Name (BI Peers)	Gross Margin TTM	EBITDA Margin TTM	Operating Margin	Profit Margin TTM
Median	51.26%	22.01%	18.95%	12.12%
100) CRAFT BREW ALLIANCE ...	33.72%	10.42%	2.76%	10.01%
101) BOSTON BEER COMPAN...	52.09%	17.45%	13.78%	8.49%
102) MOLSON COORS BREWI...	41.03%	21.89%	15.48%	9.05%
103) CONSTELLATION BRAND...	50.44%	35.91%	33.75%	22.47%
104) BROWN-FORMAN CORP-...	67.82%	34.21%	31.99%	23.04%
105) FARMER BROS CO	37.25%	6.90%	2.01%	-2.47%
106) COCA-COLA BOTTLING ...	34.23%	4.87%	2.41%	0.26%
107) NATIONAL BEVERAGE C...	39.89%	22.13%	20.94%	15.93%
108) MONSTER BEVERAGE C...	61.59%	35.89%	36.58%	23.59%
109) KEURIG DR PEPPER INC	58.88%	23.21%	20.91%	12.14%

(Accounting Adjustments Adjusted for Abnormal Items When Applicable)

BREW US Equity					96) Actions	97) Export	98) Settings	Financial Analysis		
ADJ Craft Brew Alliance Inc					Periodicity			Annuals	Cur	USD
1) Key Stats	2) I/S	3) B/S	4) C/F	5) Ratios	6) Segments	7) Addl	8) ESG	9) Custom		
11) Adj Highlights	12) GAAP Highlights	13) Earnings	14) Enterprise Value	15) Multiples	16) Per Share	17) Stock Value				
In Millions of USD	2014 Y	2015 Y	2016 Y	2017 Y	Current/LTM	2018 Y Est	2019 Y Est			
12 Months Ending	12/31/2014	12/31/2015	12/31/2016	12/31/2017	06/30/2018	12/31/2018	12/31/2019			
Market Capitalization	255.0	160.5	325.5	370.7	328.0					
- Cash & Equivalents	1.0	0.9	0.4	0.6	5.8					
+ Preferred & Other	0.0	0.0	0.0	0.0	0.0					
+ Total Debt	14.9	19.5	29.3	33.3	10.8					
Enterprise Value	268.9	179.1	354.3	403.5	333.0					
Revenue, Adj	200.0	204.2	202.5	207.5	211.9	214.3	223.7			
Growth %, YoY	11.6	2.1	-0.8	2.4	2.9	3.3	4.4			
Gross Profit, Adj	58.7	62.2	59.6	65.3	71.5	73.1	78.1			
Margin %	29.4	30.5	29.4	31.5	33.7	34.1	34.9			
EBITDA, Adj	14.6	14.3	11.3	16.2	22.1	22.5	25.2			
Margin %	7.3	7.0	5.6	7.8	10.4	10.5	11.2			
Net Income, Adj	3.2	2.4	-0.3	17.0	21.2	8.4	10.2			
Margin %	1.6	1.2	-0.1	8.2	10.0	3.9	4.5			
EPS, Adj	0.17	0.13	-0.02	0.88	1.09	0.43	0.52			
Growth %, YoY	35.2	-23.8	-	-	3,178.1	-51.1	20.3			
Cash from Operations	9.9	11.6	7.4	16.8	12.9					
Capital Expenditures	-15.8	-15.7	-15.7	-18.3	-17.7	-18.0	-12.0			
Free Cash Flow	-5.9	-4.1	-8.3	-1.6	-4.8	6.3	9.3			

Earning call:

In the last earning call for 2ndQ, BREW announced that beer gross margin is 640 basis points higher (39.4%) than compared to 2ndQ in 2017. They also stated that next mission is to strengthen their topline expansion. With this said, they also mention that they have Innovation Team that is launching the project group “pH” which shows that they are willing to learn what market wants at the time where beer industry is going down and it is on the way to drop even more. It also says that they use Adjusted EBITDA to evaluate operation performance and the results compare to last year are almost double. This signals that improving Adjusted EBITDA will lead to higher EBITDA margin which is forecasted to grow in the future. It also shows that their operating income is growing and it is projected to grow in the future. This is a good sign that could bring more value to the company .

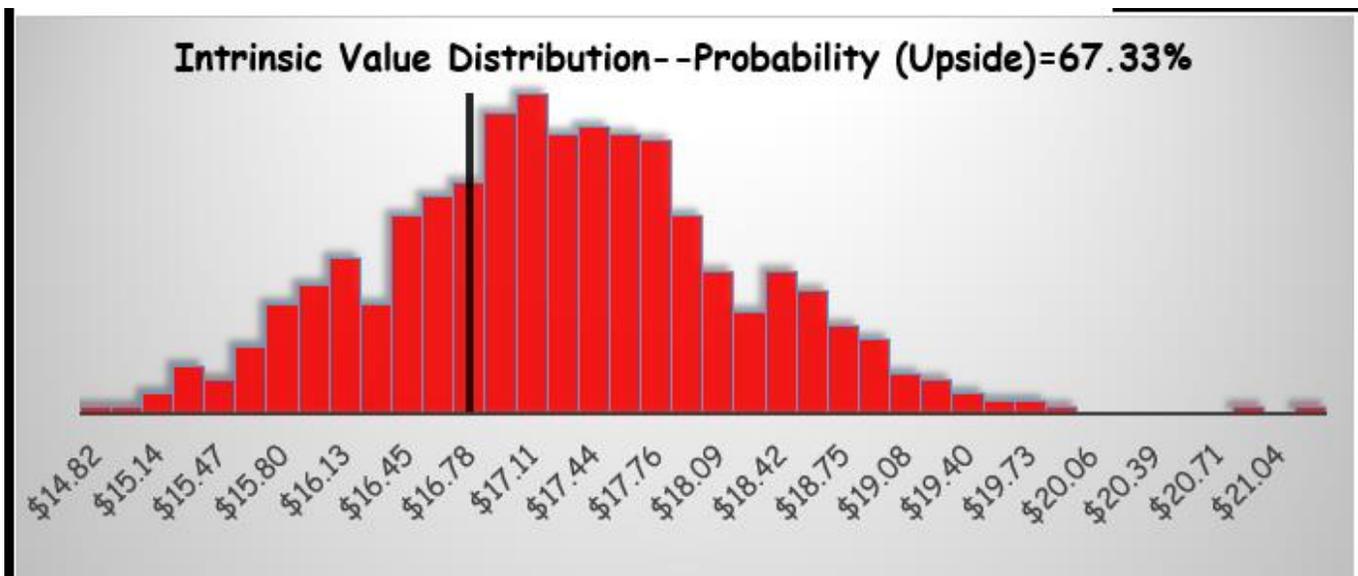
One of the question during the call was about their SG&A cost and is it going to go up in the future. The explanation from CEO Andy is the marketing expenses will ticker this number up, hoping for positive results out of it. He also mention that the number range would stay around 25-30%. There was also question about cost of cans vs bottles, and COO Scott Mennen explained that cost of cans will be cheaper even with new tariffs proposed on China imports. It shows that they are focusing their production on cans and not bottles. He stated that going forward they will have more beer cans as percentage of volume which will lower the production cost.

BREW US Equity				96) Actions	97) Export	98) Settings	Financial Analysis										
ADJ Craft Brew Alliance Inc				Periods			10	Annuals	Cur	USD							
1) Key Stats		2) I/S		3) B/S		4) C/F		5) Ratios		6) Segments		7) Addl		8) ESG		9) Custom	
11) Adjusted		12) GAAP		13) As Reported		14) Reconciliation		15) SBC & Amort		16) Adj %		17) GAAP %					
In Millions of USD except Per Share				2016 Y	2017 Y	Last 12M	2018 Y Est	2019 Y Est	2020 Y Est								
12 Months Ending				12/31/2016	12/31/2017	06/30/2018	12/31/2018	12/31/2019	12/31/2020								
Revenue				202.5	207.5	211.9	214.3	223.7	234.0								
+ Sales & Services Revenue				202.5	207.5	211.9											
+ Other Revenue				-	-												
- Cost of Revenue				142.9	142.2	140.5											
+ Cost of Goods & Services				142.9	142.2	140.5											
Gross Profit				59.6	65.3	71.5	73.1	78.1	83.5								
+ Other Operating Income				0.0	0.0	0.0											
- Operating Expenses				59.1	59.5	59.8											
+ Selling, General & Admin				59.2	60.5	60.0											
+ Research & Development				0.0	0.0												
+ Other Operating Expense				-0.1	-0.9	-0.3											
Operating Income (Loss)				0.5	5.7	11.7	11.2	13.4	14.0								
- Non-Operating (Income) Loss				0.7	0.8	0.6											
+ Interest Expense, Net				0.7	0.7												
+ Interest Expense				0.7	0.7	0.6											
- Interest Income				0.0	0.0												
+ Foreign Exch (Gain) Loss				0.0	0.0												
+ (Income) Loss from Affiliates				-	-												
+ Other Non-Op (Income) Loss				0.0	0.0	0.0											
Pretax Income (Loss) Adjusted				-0.2	5.0	11.1	11.4	14.0	17.6								

	2018	2017	2018	2017
Net income (loss)	\$ 4,452	\$ 1,724	\$ 4,613	\$ (63)
Interest expense	107	173	241	354
Income tax provision (benefit)	1,732	882	1,794	(309)
Depreciation expense	2,608	2,508	5,301	5,338
Amortization expense	43	65	86	130
Stock-based compensation	202	197	687	554
(Gain) loss on disposal of assets	22	143	(494)	146
Adjusted EBITDA	\$ 9,166	\$ 5,692	\$ 12,228	\$ 6,150

Conclusion:

BREW has shown the willingness to learn about market and try to introduce new products that will bring more revenue. The market of Cannabis is growing at 36.4% CARG ,however there is still no answer how will market react to cannabis-beer . As beer industry is on the way to have another negative growth rate, BREW has shown positive results with acquiring three new companies and willingness to go with new products. They also improved their margins which implies that their strategies are working well. It is very risky industry at this moment and my recommendation is to HOLD. Analysts have targeted price of \$21.75 and there is 50/50 on hold and buy, while no analyst said to sell it.



Craft Brew Alliance, Inc.

CENTER FOR GLOBAL FINANCIAL STUDIES

NEUTRAL

(BREW)

Analysis by Al Capone
10/14/2018

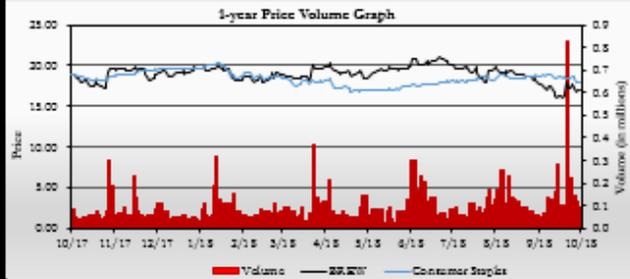
Current Price:
Dividend Yield:

\$16.94
0.0%

Intrinsic Value
Target Price:

\$17.07
\$18.90

Target 1 year Return: 11.55%
Probability of Price Increase: 67%



Description	
Craft Brew Alliance, Inc. brews and sells craft beers and ciders in the United States and internationally.	
General Information	
Sector	Consumer Staples
Industry	Beverages
Last Guidance	May 8, 2018
Next earnings date	November 8, 2018
Market Assumptions	
Estimated Equity Risk Premium	6.00%
Effective Tax rate	28%

Market Data	
Market Capitalization	\$328.00
Daily volume (mil)	0.10
Shares outstanding (mil)	19.36
Diluted shares outstanding (mil)	19.56
% shares held by institutions	58%
% shares held by investment Managers	25%
% shares held by hedge funds	11%
% shares held by insiders	18.69%
Short interest	2.97%
Days to cover short interest	5.24
52 week high	\$21.00
52-week low	\$15.76
Volatility	46.96%

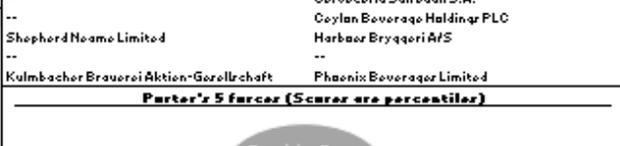
Part Earning Surprises		
Quarter ending	Revenue	EBITDA
6/30/2017	3.43%	70.70%
9/30/2017	-1.32%	47.60%
12/31/2017	0.06%	32.79%
3/31/2018	7.93%	203.12%
6/30/2018	-0.29%	49.35%
Mean	1.96%	\$0.83%
Standard error	1.0%	1775.0%

Market and Credit Scores	
Recommendation (STARS) Value	--0
Recommendation (STARS) Description	--0
Quality Ranking Value	--B-
Quality Ranking Description	--Lower
Short Score	--0
Market Signal Probability of Default (Non-Rating)	--1.35%
Credit Model Score (Non-Rating)	--b+

Industry and Segment Information	
LTM Revenue by Geographic Segment	LTM Revenue by Business Segment
United States--100%	Beer Related--87%
--	Brewpubs--13%
--	--
--	--
--	--

Management		Partitions	
Thamar, Andreu	Chief Executive Officer	Total Compensation Growth	Stock Price Growth During Tenure
Monson, J.	COO & VP	17.24% per annum over 5y	19.09% per annum over 5y
Kunze, Kenneth	Chief Marketing Officer & Vice President	0.41% per annum over 3y	-1.69% per annum over 3y
Hahn, Derek	Vice President of Sales	-4.83% per annum over 3y	-1.69% per annum over 3y
Widmer, Kurt	Founder	42.8% per annum over 1y	13.61% per annum over 1y
Widmer, Robert	Founder	-100% per annum over 3y	-1.69% per annum over 3y

Peer Comparison		
Peer	BREW Historical	Peer's Median (LTM)
Cerveceria San Juan S.A.	2.58%	5.41%
Ceylan Beverage Holding PLC	1.99%	13.88%
Harbor Brewery A/S	1.30	0.39
Phoenix Beverage Limited	1.6%	7.1%
Shepherd Neame Limited	1.0%	3.8%
Kulmbacher Brauerei Aktien-Gesellschaft	1.63	1.87

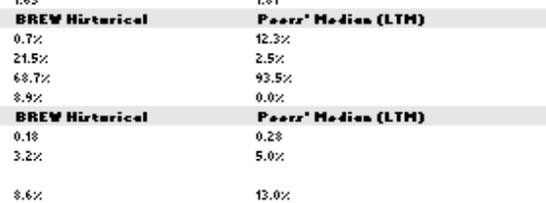


Profitability		
Peer	BREW (LTM)	Peer's Median (LTM)
Return on Capital (GAAP)	4.8%	5.41%
Operating Margin	5%	13.88%
Revenue/Capital (GAAP)	0.92	0.39
ROE (GAAP)	8.8%	7.1%
Net margin	5.2%	3.8%
Revenue/Book Value (GAAP)	1.690039484	1.87

Invested Funds		
Peer	BREW (LTM)	Peer's Median (LTM)
Cash/Capital	2.5%	0.7%
NWC/Capital	26.7%	21.5%
Operating Assets/Capital	63.2%	68.7%
Goodwill/Capital	7.6%	8.9%

Capital Structure		
Peer	BREW (LTM)	Peer's Median (LTM)
Total Debt/Market Capitalization	0.13	0.28
Cost of Debt	3.5%	5.0%
CGFS Rating (F+ score, Z+ score, and default Probability): A		
WACC	10.8%	8.6%

Forecast Assumptions		
Explicit Period (4 years)	Continuing Period	Valuation
Revenue Growth CAGR	12%	4.5%
Average Operating Margin	12%	12%
Average Net Margin	6%	6%
Growth in Capital CAGR	10%	4%
Growth in Claims CAGR	0%	4%
Average Return on Capital	10%	11%
Average Return on Equity	11%	11%
Average Cost of Capital	11%	11%
Average Cost of Equity	11%	11%



Sensitivity Attribution Analysis	
Revenue	18.2%
Operating costs	36.0%
Capital expenditures	18.2%
Discount Rate	18.2%

Forecast Assumptions		
Explicit Period (4 years)	Continuing Period	Valuation
Revenue Growth CAGR	12%	4.5%
Average Operating Margin	12%	12%
Average Net Margin	6%	6%
Growth in Capital CAGR	10%	4%
Growth in Claims CAGR	0%	4%
Average Return on Capital	10%	11%
Average Return on Equity	11%	11%
Average Cost of Capital	11%	11%
Average Cost of Equity	11%	11%

