

WESTPEAK RESEARCH ASSOCIATION

Craft Brew Alliance Inc. (NASDAQ: BREW)

Consumer Discretionary - Alcohol

Quality BREW?

May 21, 2019

Founded in 2008, Craft Brew Alliance ("the company" or "CBA") is a leader in brewing, branding, and producing high-quality craft beer products and is the seventh largest craft brewer in the US.

Thesis – Some Brands are Strong, and Some Aren't

Craft Brew Alliance is positioned to grow its topline through its new acquisitions and continued expansion of the Kona brand, despite increasing competition in the craft beer market. While CBA has managed to grow its Gross Profit at a CAGR of 3.14% over the past 6 years, it has failed to generate outstanding revenues. Its Widmer Brothers and Redhook brands have experienced significant declines in shipments, in turn contributing less to the company's revenue. The completion of their new 100,000 barrel brewery in Hawaii will increase Kona's topline and allow them to unlock new cost synergies that will increase their margins on a per barrel basis. CBA's objective to increase operational efficiency through acquisitions and exploiting the value of the Kona brand will allow the company to make a slight recovery from the depressed topline they experienced over the past several years.

Drivers – Macro-Tailwinds and Consolidation

Increases in disposable income and discretionary spending and consumers' shifting preferences towards craft beer products raise CBA's revenue. CBA's acquisition of Appalachian Mountain Brewery (AMB), Cisco Brewers, and Wynwood Brewing Company strengthen its position in an increasingly competitive market.

Valuation

Our target share price of \$17.45 represents a downside of 6.2%, based on a 50/50 weighting of our DCF model and Comparable Company analysis. We believe that BREW is fairly valued; thus, we are initiating a **HOLD** rating on the stock.

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Equity Research United States

Price Target	USD\$17.39
Rating	Hold
Share Price (May 21, 2019)	USD\$ 15.41
Total Return	14.3%

Key Statistics

52 Week H/L	\$21.00/\$13.16
Market Capitalization	\$268.1M
Average Daily Trading Volume	43.9K
Net Debt	38.9M
Enterprise Value	330.4M
Net Debt/EBITDA	6.0x
Diluted Shares Outstanding	19.4M
Free Float	58%
Dividend Yield	N/A

WestPeak's Forecast

	2018E	2019E	2020E
Revenue	\$217.3M	\$219.3M	\$233.2B
EBITDA	\$16.4M	\$8.5M	\$30.8M
Net Income	4.1M	(\$2.6M)	\$13.9M
EPS	\$0.21	(\$0.13)	\$0.72
P/E	81.8x	n/a	21.5x
EV/EBITDA	26.7x	50.0x	13.4x

1-Year Price Performance



Business Overview/Fundamentals

Company Overview

Craft Brew Alliance is a company that consists of a diverse set of breweries that specialize in craft beer production. What differentiates a craft brewery and a commercial brewery is that its products are more “artisanal” than commercial. The company was founded in 2008 through the merger of Redhook Brewery and Widmer Brothers Brewing, the two largest craft breweries in the Northwest at the time. Since then, the company has strived to maximize its brewing footprint through strategic partnerships and acquisitions, thus providing local relevance in particular geographies. Craft Brew Alliance outsources craft beers to wholesalers located throughout all 50 U.S. states and approximately 30 international markets. Through the Master Distributor Agreement with Anheuser-Busch LLP (“A-B”), an agreement that enabled A-B to purchase approximately 1/3rd of CBA’s shares in exchange for access to A-B’s wholesaler distribution network. The company operates within two segments: beer related operations and brewpubs operations. Like many other craft brewery companies, CBA offers no dividends as all of their retained earnings go towards product innovation, a necessary expenditure in the craft beer industry. For the sake of this report, any brewery that produces greater than 350,000 hl (hectolitres) per year will be deemed a commercial brewery.

Portfolio Brands



Source: [Craft Beer Kings](#)



Source: [BottleMixx](#)



Source: [Craft Beer Kings](#)

Kona Brewing Company

Now one of the top craft beer brands in the world, Kona Brewing Company is Hawaii’s largest and favorite craft brewery. The company is renowned for its best-selling beers Longboard Island Lager and Big Wave Golden Ale as well as their accolade-proven innovative small-batch beers. With revenue growth in the double digits, Kona is CBA’s fastest growing craft beer brand and is a significant reason for most of the company’s revenue growth over the past few years.

Widmer Brothers Brewing

Founded in 1984 Portland, Oregon, the brewery primarily focuses on the production of unique interpretations of traditional German beer brews. The original American-style Hefeweizen is Oregon’s craft beer of choice.

Redhook Brewery

One of America’s most recognized breweries and was founded in the early 1980s. Redhook brews a number of beers (including seasonal beers), which they sell in the form of draught, bottles, and cans around the country.

Omission Beer

Founded in 2012, Omission Brewing Co. is the first American craft beer brand to offer gluten-free beer.

Square Mile Cider Company

Launched in 2013, this brewery produces hard cider in two main varieties: The Original and Spur & Vine, their hopped version.

Appalachian Mountain Brewery

Appalachian Mountain Brewery, LLC, is a brewery dedicated to producing craft beer with a number of social entrepreneurship objectives such as community building, sustainability, and philanthropy. Appalachian’s programs, “We Can So You Can” and “Pints for Non-Profits” promote these principles by supporting local organizations.

Cisco Brewers

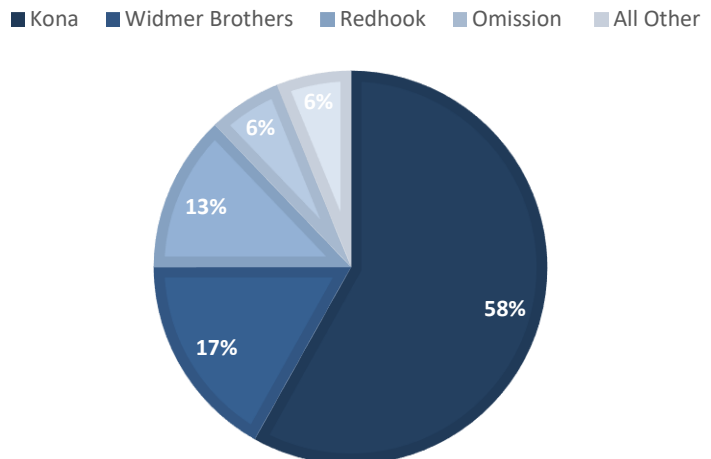
Cisco has managed to carve out a strong cult following among visitors to the island. Nantucket has been referenced as a top travel destination by the Time Magazine, Huffington Post, and Travel & Leisure. Currently, they only sell beer in Nantucket.

Wynwood Brewing Co

Miami’s first craft brewery. Wynwood operates a 15-barrel brewhouse and taproom in the Wynwood Art District and distributes year-round, seasonal, and limited time beer offerings throughout Southern Florida.

Exhibit 1: Shipments by Brand

Brand	Shipments by Brand
Kona	456,300
Widmer Brothers	98,700
Redhook	71,200
Omission	44,700
Othersr	48,500
Total	719,400



Source: Company Filings

Seasonality

Like many other alcoholic beverage brands, CBA's sales reflect a degree of seasonality where Q1 and Q4 historically have exhibited lower sales than those of Q2 and Q3. Widespread consumer preference indicate that more beer is consumed in the warmer months to "cool off". Consumers are less inclined to drink beer in the presence of warm drinks such as hot chocolate, egg nog, and mulled wine that contrast the cold weather commonly experienced throughout most of North America in the winter season.

Ingredients and Raw Materials

Craft beer is produced from a combination of malted barley and premium-select hops, most of which are grown in the Pacific Northwest. Occasionally, small lots of international hops are purchased to create unique variability within their products for research and development purposes. The yeast used in the fermentation process of beer is cultivated in-house, thus fortifying the supply chain.

Distribution

As mandated by law, all brewers in the U.S. must sell their beers to independent wholesalers, who then sell the beer to retailers. Hence, the number of beer shipments is indicative of the revenue generated by a craft beer business. CBA distributes its products via A-B's distribution network as a result of their partnership (the Master A-B Distributor Agreement). Its International Distribution Agreement with Anheuser Busch Worldwide Investments, LLC ("ABWI") legally entitles ABWI to be the only distributor of CBA's malt beverages in jurisdictions outside of the U.S not including Kona beer.

Over the past few years, the number of barrels shipped has been on a steady decline. CBA has realized that the two largest brands, Redhook and Widmer Brothers, have been in decline for the past several years, so management is trying to consolidate its business and focus on its high growth Kona arm. The primary cause of this decline is increasing competition and consumer preferences for beer that is from their respective regions. Consumers want more "unique" flavors that can be identified by geography which hinders larger brands like Redhook and Widmer Brothers. The future of Redhook and Widmer involves smaller distribution networks and barrels of beer produced.

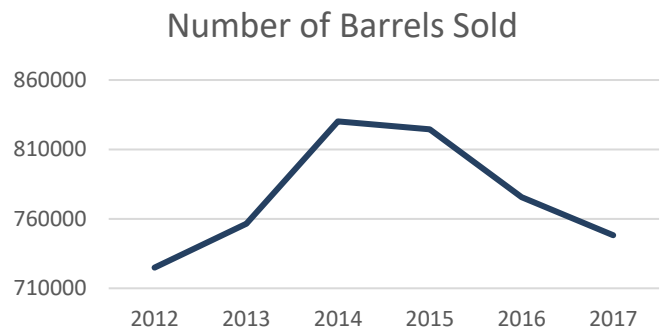
Business Segments

Beer Related Operations

Beer production is very capital intensive; requiring brewing facilities, packaging, quality control, and a reliable supply chain for ingredients and raw materials. As of FY 2018, CBA had an annual production of 855,000 barrels of beer.

Exhibit 2: Production Capacity and Barrels Sold

Brewery	Capacity (in barrels)
Oregon Brewery	630,000
Hawaiian Brewery	215,000
New Hampshire Brewery	10,000
Total	855,000



Source: Company Filings

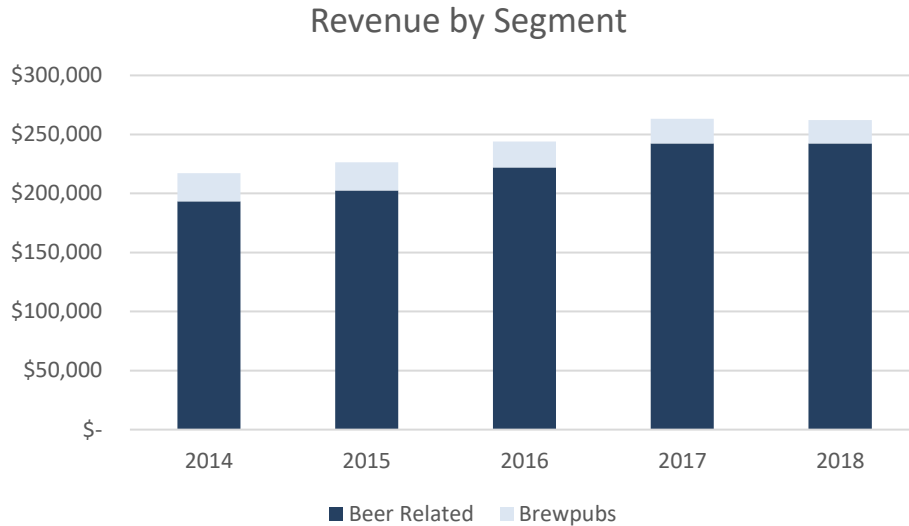
Furthermore, to follow CBA’s commitment to product innovation, the Company continues to build innovation breweries like the 10-barrel small batch innovation Redhook brewery constructed in 2017. To produce craft beer, hops (from the hop flower), yeast, and malted barley are required. All of these ingredients are supplied from the Pacific Northwest, but often more exotic hops from locations like New Zealand and Western Europe to innovate new flavors. To eliminate excess capacity, the company uses contract brewing agreements. Contract brewing agreements is used when one party pays another party to create beer for them.

Brewpubs Operations

CBA owns and operates five brewpub restaurants and retail stores, which build consumer awareness. 1.5 million consumers have interacted with CBA’s brewpubs, which establish brand loyalty and provide opportunities to perform research and development on its products. Customers are served brews with different varieties of hops and malts in all styles of beers. Each brewpub acts as an avenue to evaluate experimental craft beers by bringing test-sized batches to the market without releasing them to a broader consumer base.

Revenue Analysis

Exhibit 3: Revenue by Segment

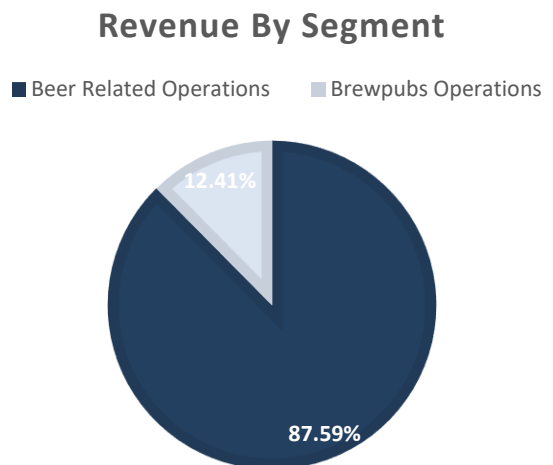


Source: Company Filings

Beer Related Operations

A majority of CBA's revenues are derived from the selling of its craft brew products, yet its topline growth has become stagnant in recent years. This can be attributed to declining performance of some of the company's largest brands: Widmer Brothers and Redhook Brewery. Growing industry trends of competition and a greater desire for local regional beer have created headwinds for these brewers. As a result of increasing competition, many smaller craft brewers have been stealing Redhook and Widmer's consumer base and lowering their topline potential. In response to the decreasing value of some of its brands, CBA lowered its production capacity by 220,000 barrels to 855,000 barrels and it has several initiatives underway that emphasize topline growth. The company's Kona Plus strategy, commitment to

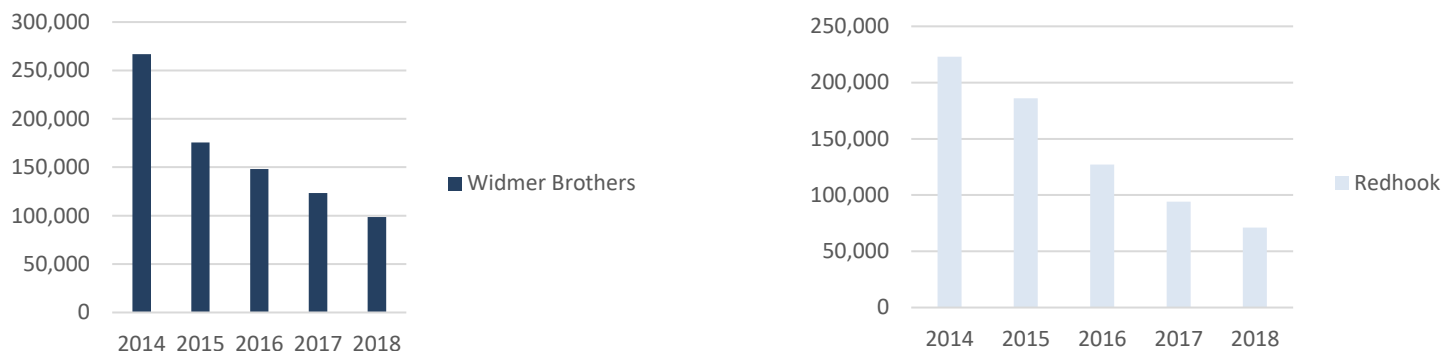
Exhibit 4: Revenue by Segment as a Percentage (2018)



Source: Company Filings

expanding margins, and achieving operational efficiency, indicates that management aims to consolidate their business, focusing on their higher growth brands like Kona, Omission and Wynwood.

Exhibit 5: Annual Number of Shipments by Widmer and Redhook



Source: Company Filings

Brewpub Operations

Brewpubs sales decreased in 2018 by 4.2% due to the closing of CBA's Woodinville brewpub and decreasing guest counts across its mainland brewpubs. Kona's brewpub has seen an increase in its guest count and managed to offset some of the losses. This can be attributed to Hawaii's active tourism as opposed to Woodinville, WA which is a less desirable travel destination.

Company Strategy

CBA has outlined three strategic objectives, which are increasing their (1) topline growth, (2) building on healthy business fundamentals, and (3) actively seeking out new opportunities within the craft beer segment.

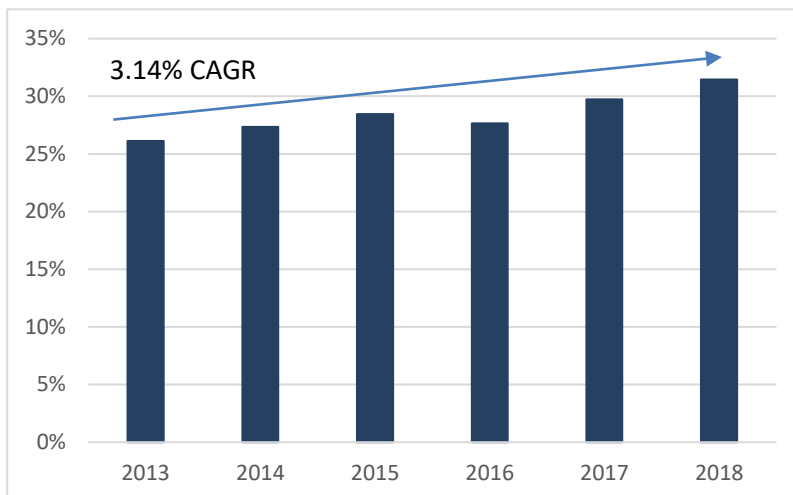
Increased Focus on Topline Growth

This strategic objective puts a heavy emphasis on growing Kona through the company's Kona Plus portfolio strategy. In the Q1 2019 Earnings Call, management outlined intentions to expand Kona into Brazil and that a new 100,000 barrel Kona brewery in Hawaii would be finished in Q1 2020. CBA is on plan to complete part of this facility, but it won't be fully operational until the latter half of 2020 based on prior construction deadlines and the delay in building permit approvals. The company aims to achieve higher revenue through its expanded Kona brand; however the construction delay and the acquisition of Wynwood, Appalachian Mountain Brewery and Cisco Brewers reduced their net revenue by 1%. The market is undervaluing the production capacity benefits that will arise from the new plant. Kona outpaced the craft beer industry as their sales-to-retailers increased by 5% this past quarter whereas the craft beer segment was down 2.6%, and Kona is expected to expand into the Brazillian market.

Building on Healthy Business Fundamentals

CBA has a steady track record of expanding its gross margins over the past 6 years. In 2018, there was a decrease in beer related cost of sales on a per barrel basis by outsourcing its production to breweries that can produce beer at a cheaper rate than itself. Also, there were cost savings associated with the removal of the Woodinville brewpub facility from its portfolio. With the purchase of Cisco and acquisitions of Appalachian Mountain Brewery and Wynwood Brewing Co., the trend of increasing gross profit figures could continue since CBA will no longer have to pay alternating proprietorship fee (lease-like fees).

Exhibit 6: Gross Profit as a Percentage of Revenue



Source: Westpeak Analysis

Seeking Out New Opportunities

The craft beer industry is heavily fragmented, and the largest firms are seeking to consolidate. Because of a growing trend in consumer preferences for local beer, the largest craft beer companies have been increasing their revenues by acquiring other craft brewers to increase their geographical influence. AMB, Cisco Brewers, and Wynwood Brewing Co. have each grown their market share in North Carolina, Nantucket, and Miami. Acquiring these companies may offer CBA cost synergies on a per barrel basis and more opportunities for topline growth in these newly entered markets.

Industry Analysis

Industry Overview

The craft brewing market is part of the much larger alcoholic beverage market. Beer is the highest consumed beverage in the world after water and tea. Over the past five years, the craft beer industry grew by 13.6% to reach \$6 billion. Concurrently, the number of businesses grew by 17.7%. In 2017 alone, beer sales declined by 1.2% whereas craft brewer sales exercised a comparatively bullish growth in volume sales of 5%. Despite year-over-year decline in the annual consumption of beer, the craft beer subindustry continues to outperform the more encompassing beer market. Craft beer appeals to beer aficionados/connoisseurs, which contrasts commercial beers like Molson Coors who market lifestyles like party atmospheres. There are a growing amount of millennials who favor craft beer because of the superior taste/quality present in hand-crafted goods. Due to consumer demand for innovative and delicious beer products, the craft beer industry has experienced consistent revenue growth during the earlier half of the decade. The estimated market value of the industry will reach USD 135.54B from 2017 to 2023.

The market is segmented by type, distribution, and geography. Craft beer gets higher sales per bottle than traditional beer because of endeavors from local and international brewers to expand their distribution network and innovate new flavors and tastes. A rising consumer preference for low alcohol by volume (ABV) beer is fueling the growth of the global craft beer

market. Consumers are consistently seeking out more and more “unique” beers, products that leverage and elevate the special flavors and tastes of a particular region. If firms fail to enter joint ventures, obtain production agreements to increase capacity, or acquire other brewers, then their revenues will become stagnant.

Competitive Landscape

In 2017, the market experienced increased competition, which can be attributed to the following industry trends: (1) the growing number and popularity of local craft breweries capturing market share from established brands, (2) continued acquisition and investment activity between craft brewers, large domestic and foreign brewers, and private equity firms, (3) continued competitive pressure from international brewers like A-B and MillerCoors, which target both domestic craft beer drinkers. According to CBA’s 2017 filings, A-B and MillerCoors accounted for 80% of total non-craft beer shipped in the U.S. excluding imports.

Craft beer faces competition from a variety of other substitutes such as flavored alcoholic beverages, wine, and spirits. While the effect has not been accounted for in full, weed has had very little material effect on beer sales in the states that it has been legalized in.

External Drivers

Excise Tax on Beer

Federal and median state taxes levied on beer together form the excise tax on beer, which are charged per gallon of beer produced. Taxes are levied on brewers, who then transfer the tax burden to wholesalers and subsequently consumers by charging higher prices due to the inelastic nature of beer products. Higher excise taxes directly impact brewers’ profit margins and can threaten their financial stability. Excise tax is high in the United States to disincentivize consumers from purchasing more of this substance. As of right now, the US government has not shown initiative that would lead us to believe otherwise.

Consumer Spending

As spending increases, individuals become more confident in their incomes, thus more prone to discretionary purchases like beer. With that in mind, consumer discretionary spending increased in 2018 and is forecasted to increase in 2019. CBA will benefit from this trend as more consumers will purchase their products in the near future.

There exists a positive correlation between the per capita expenditure of income on alcohol and beer sales. As consumer incomes, preferences, and/or tastes become more favorable for the alcohol industry, the sales potential of craft breweries rises as well.

Tariffs

President Donald Trump threatened to impose a 5% tariff on all Mexican goods on May 30, 2019. Much of the beer industry shuddered in response to this announcement. Big beer brands like Constellation Brands (NYSE: TAP) imports beer from the

US and their share price plunged 6% after the announcement. This could erode profit margins of the cheaper beers and force them to charge higher prices, in turn making craft beer appear as a more favorable beverage.

Catalysts

Acquisition of Partners

CBA acquired AMB, Wynwood Brewing Co. and Cisco Brewers in October 2018, through three separate purchase agreements. CBA will be entitled to these profits and can benefit from the revenues of these three companies. The acquisition of these three companies provides CBA with the opportunity to penetrate the Miami, North Carolina, and Massachusetts markets for the first time. It is difficult to forecast the material improvement or detriment that these acquisitions will have on CBA's revenues because if any of these breweries' local markets become more competitive, then their ability to generate revenues would suffer. On the other hand, any new agreements signed or acquisitions underway would fluctuate the intrinsic value of the company as well.

Potential Buyout

A-B InBev SA/NV ("AB/I") is the largest shareholder of Craft Brew Alliance, owning 31.30% of its shares. A-B can buyout CBA at a \$24.50 per share, but this offer expires on August 23, 2019. AB/I currently pays \$30/barrel royalties to sell Kona beer in Brazil and Chile, but this is extremely less profitable than owning the brand and potentially losing international distribution rights in seven years. AB/I acquired eight craft brewers between 2014 and 2017 around the US including Goose Island Brewery, Blue Point, and many more. AB/I will likely not buy out CBA because the Master Distributor agreement entitles the beer giant to buy CBA out at \$24.50. The current share price of the company is \$15.41, 55% lower than the price outlined in their agreement. Aside from AB/I, there are many potential buyers who could take advantage of Kona's availability and opportunity both domestically and internationally. These companies would be able to buy CBA on August 24, 2019. For this reason, the market could value CBA at a premium.

New 100,000 Barrel Brewery

CBA is producing a new 100,000 barrel brewery in Kailua-Kona Hawaii which is expected to be completed by 2020. The new state-of-the-art facility will increase the production capacity of Kona beer just in time as CBA had been increasing its advertising efforts by airing a commercial at the NCAA's March Madness Tournament and preparing to penetrate the Brazilian market. This will increase the topline growth of the company, which is a critical strategic imperative to Craft Brew Alliance. We believe this new facility will be beneficial to the firm and that the market is punishing CBA's share price for delaying the project's completion from 2019 to 2020.

Management Team

Chief Executive Officer, Andrew Thomas

Andrew J. Thomas was established as CEO of Craft Brewers Alliance Inc. in January of 2014, and previously served as its President of Commercial Operations. All sales and marketing activities are under his purview. Before being hired by CBA, he consulted for them. Mr. Thomas has over 20 years of experience in the consumer packaged goods and beverage industry, holding roles ranging from an Independent Marketing and Strategy Consultant to being President and CEO of Heineken USA Incorporated. His base salary was \$475,036, earns a bonus of \$50,000 and receives \$391,864 in restricted stock awards and stock options valued at \$263,912.

Chief Operating Officer, Scott Mennen

Scott Mennen has been the Chief Operating Officer of Craft Brew Alliance, Inc. since May 20, 2015. He acted as the Vice President of Brewery Operations at Craft Brew Alliance, Inc. from January 1, 2014 until May 20, 2015. He was promoted in May of 2015 to the role of Vice President. He receives a base salary of \$270,865, \$115,599 in restricted stock awards and \$81,407 in stock options.

Chief Marketing Officer & Vice President, Kenneth C. Kunze

Kenneth Kunze previously worked as the Chief Marketing Officer of Sabra Dipping, Co. LLC and a Vice President-Marketing of Heineken USA, Inc. He also worked as a Brand consultant for a small firm. He, like Mr. Andrew Thomas, has over 20 years of experience in the consumer-packaged and beverages industry, with over half of it spent working for a beer company. He is paid a base salary of \$272,264, \$112,037 in restricted stock awards and \$24,265 in stock options.

Management Depth

M&A activity is clearly apart of the current management's corporate agenda. In October 2018, CBA acquired three partner brands that it was previously engaged in strategic partnerships with. Through three separate purchase agreements, CBA acquired Appalachian Mountain Brewery, Cisco Brewers, and Wynwood Brewing Co, to expand to new markets. Arguably, management has effectively integrated and grown the number of shipments coming from new businesses. Prior to 2015, Appalachian Mountain Brewery only sold products in North Carolina. In 2015, CBA expanded the reach of its portfolio to South Carolina and Tennessee. CBA also improved the operational efficiency of Wynwood Brewing Co.

Shareholder Base, Liquidity, Market Depth

Shareholder Base

Craft Brew Alliance's largest holder is Anheuser-Busch InBev SA/NV, who currently holds 31.3% of the company's shares. Given the nature of A-B and the brewery industry, A-B could potentially acquire Craft Brew Alliance if enough incentive is present for the alcohol giant. Below is a breakdown of Craft Brew Alliance's top 10 shareholders and their relative positions.

Exhibit 7: BREW's Top 10 Shareholder Base

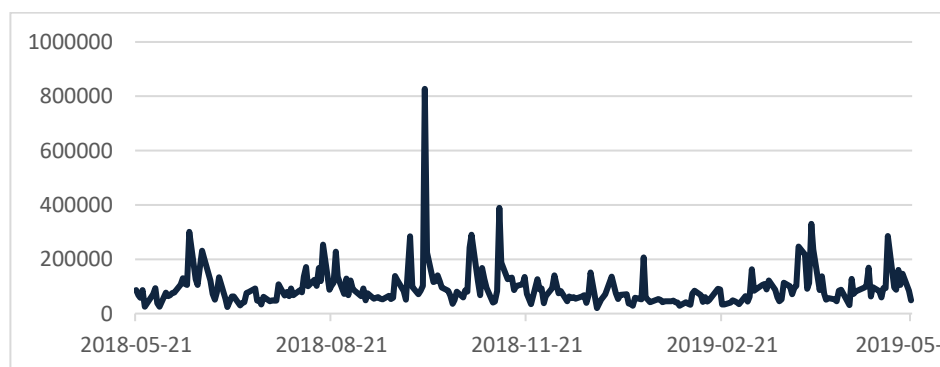
Shareholder	Shares Owned	% Of Shares Outstanding	Insider
Anehusser-Busch InBev SA/NV	6,069,047	31.26	No
Dimensional Fund Advisors LP	1,361,395	7.01	No
Cannell Capital LLC	838,606	4.32	No
BlackRock Inc.	675,542	3.48	No
Vanguard Group, Inc. (The)	631,097	3.25	No
Boyle Timothy P	487,634	2.51	Yes
Renaissance Technologies LLC	276,148	1.42	No
Balter Liquid Alternatives LLC	271,538	1.40	No
Susquehanna International Group LLC	254,512	1.31	No
State Street Corp.	236,876	1.22	No
Top 10 Shareholders	11,102,395	57.18	

Source: Bloomberg

Liquidity

With an annual average daily trading volume of 91,171 shares, it is evident that Craft Brew Alliance's stock is illiquid and poses a risk to investors. The number of shares outstanding as of May 21, 2019 was 19.41M, which can be used to derive a share turnover ratio of 0.0048. This is reasonable considering that CBA is unappealing to a wide number of investors because of their lack of dividend payouts. Furthermore, since A-B accounts for 31.30% of CBA's shares, the company's shares become more illiquid because it is not in the best interest of A-B to sell them anytime soon.

Exhibit 8: Average Daily Trading Volume LTM



Source: Yahoo Finance

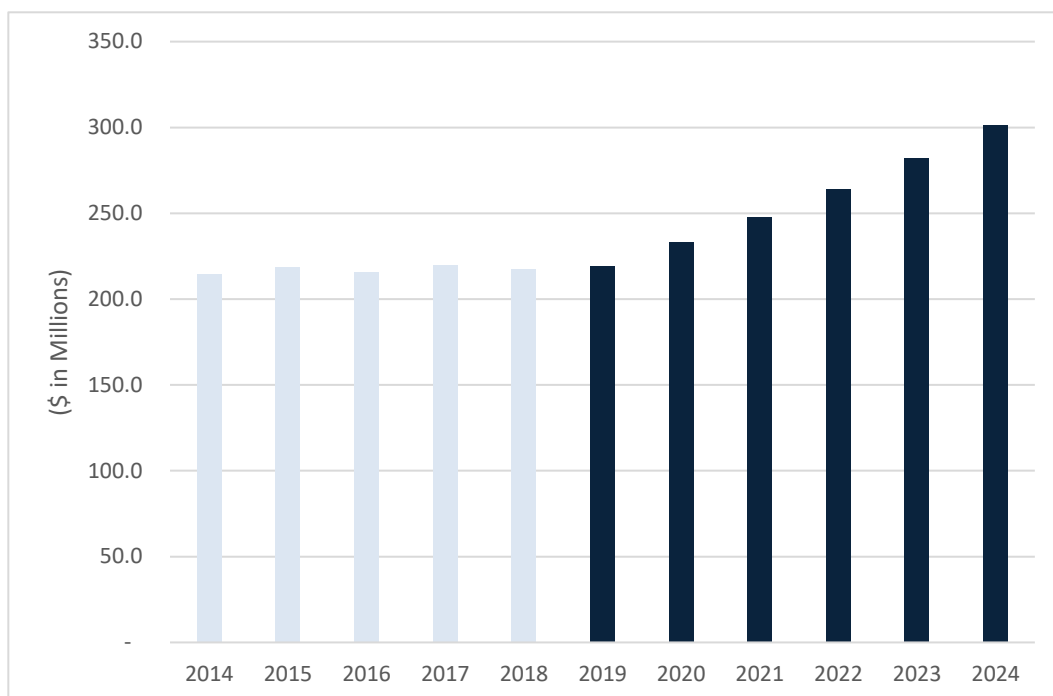
Valuation

Discounted Cash Flow Analysis (DCF)

Segmented Revenue Forecasts

We expect CBA's revenue growth will make leaps and bounds in 2020 as Kona's new 100,000 barrel brewery will finish construction in Q1 2020. With increasing international demand for Kona and increased domestic advertising efforts, we believe that there is demand that exceeds Kona's current production capacity. By completing their new brewery, they can satisfy some of the excess demand and generate greater revenues. We have driven the beer-related operations segment through projected growth in number of barrels sold and corresponding increases in revenue growth per barrel. The brewpubs operations segment was forecasted based on historical revenue data.

Exhibit 9: Revenue Forecasts



Source: Westpeak Forecasts

Selling, General and Administrative Expense (SG&A)

SG&A as a percentage of revenue has remained consistent throughout CBA's long history. This is mainly attributed to their sturdy supply chain and their continuing relationship with A-B, thus gaining access to their distribution network. We leveled off SG&A at 25% based off historicals and consistent cost structure because of the economies of scale that would be achieved via the company's expansion.

Cost of Goods Sold (COGS)

COGS as a percentage of revenue has decreased in the past two years and with the new plant fully constructed in FY2020 it will further decrease. We leveled COGS off at 64% from Q2 2019 to Q1 2020 because it won't change significantly from CBA's 2018 figures. After Q1 2020, COGS will decrease to 62% because the company's increased production capacity will induce revenue growth that outpaces growth in COGS.

Capital Expenditures (CAPEX)

We project lower capital expenditures as CBA will have finally finished building their new Hawaiian plant in FY2020. Building maintenance and contract construction costs will decline. The company's capital expenditures were leveled off at 14% after FY 2020 to account for the completion of the entire plant. After FY2020, CAPEX is 16% to correspond with our revenue projections.

Weighted Average Cost of Capital (WACC)

Using the capital asset pricing model, we calculated the WACC to be 6.3%. Using the 5-year Treasury bill as the risk-free rate, the normalized S&P 500 expected return and a levered beta of 0.62 we found the cost of equity to be 6.8%. In determining the cost of debt, 3.7% was used as per the interest rate the firm currently has on their long-term debt. The effective tax rate of 21.0% was used according to the US statutory rate, concluding a cost of debt of 2.9%.

Tax Rate

We have assumed an effective tax rate of 21.0% in accordance with the US statutory rate.

Comparable Companies Analysis (CCA)

The companies listed below have a comparable business model. They share similar operating activities and/or offer similar products that compete directly with Craft Brew Alliance. Their primary end consumer markets are in the United States (some have a greater international presence) and some share similarly sized market capitalizations.

Molson Coors Brewing Company (NYSE: TAP)

Molson Coors Brewing Company is a multinational brewing company formed in 2005 by the merger of Molson (of Canada) and Coors (of the US). They are the world's seventh largest brewer by volume. Molson Coors Canada entered the craft beer market with their acquisition of Creemore Springs Brewery and Granville Island Brewing. It trades on both the Canadian and US exchanges.

The Boston Beer Company, Inc. (NYSE: SAM)

The Boston Beer Company, Inc. produces and sells alcohol beverages primarily in the US. The company sells approximately 60 beers under its flagship brand Samuel Adams, 10 flavored malt beverages under the Twisted Tea brand name, 20 hard cider beverages, 5 hard sparkling waters, and 50 beers under 4 brand names.

Brown-Forman Corporation (NYSE: BF-B)

Brown-Forman manufactures bottles, imports, exports, markets, and sells alcoholic beverages worldwide. It produces a number of spirits such as wines, ready-to-drink cocktails, whiskeys, vodkas, tequilas, champagnes, brandy, and liqueurs. Brands include Jack Daniel's, Gentleman Jack, Woodford Reserve, and many more. It was founded in 1870 in Louisville, Kentucky.

National Beverage Corp. (NYSE: FIZZ)

An American beverage developer manufacturer that has a distinctive portfolio of sparkling waters, juices, and energy drinks. Over the past few years, they have continued to modify and innovate their products. Their brands include LaCroix, Shasta Sparkling, Shasta Soda, Everfresh and Mr. Pure, and Rip It.

Farmers Brothers Co. (NYSE: FARM)

A national coffee roaster, wholesaler, and distributor of coffee, tea and culinary products. They have a wide variety of clients ranging from restaurants to foodservice operators and competitor in the beverage space.

Recommendation

We believe that Craft Brew Alliance is currently fairly valued by the market. However, we believe CBA has long term growth potential. Although the company's revenues suffered from the decline of the firm's two largest brands, we believe that the company's increased operational efficiencies through their recent acquisitions Appalachian Mountain Brewery, Wynwood Brewing Co., and Cisco Brewers and topline growth will be realized once Kona's production capacity has been completed. Craft Brew Alliance will become a stronger player in the craft beer space over time as they lower their COGS as a percentage of their revenue, but its declining shipment of beer for certain brands may hinder short-term growth. We are initiating a **HOLD** rating since the market overvalues the company because of its current buyout potential, but fail to (1) properly assess the risk of a declining number of beer shipments and (2) are expecting CBA to be bought out by AB/I.

Based on our Discounted Cash Flow Analysis and Comparable Companies Analysis, we determined a target share price of \$17.62, representing a 14.3% upside of its current share price of \$15.41.

Risks

Decreases in Consumer Spending

Consumer spending is crucial to the wellbeing of the craft beer industry. As consumer discretionary incomes fall in recessionary economic phases, consumer spending decreases as well and the alcohol industry's revenues suffer. During the financial crisis of 2008, CBA's share price experienced an 80% decline because of market volatility and decreased consumer spending. The simple answer is that alcohol is expensive and during the harder times; people allocate more of their income to necessities such as consumer staples and rent. Craft beer is more prone to decreases in consumer spending because it is priced several dollars higher than more commercial brands like Corona Light.

Operating Breweries Below Their Designed Capacities

The annual working capacity of CBA's breweries was approximately 855,000 barrels. A period of lower sales and brewing volume may have an adverse effect on the company's gross margins, operating cash flows and overall financial performance because of their high fixed costs.

Threat of Substitutes

Today's markets are tougher on craft beer than they were in 2013. After the explosive increase in consumer popularity and awareness of craft beer, industry demand and revenue surged. The craft beer market experienced more turbulence in 2017 because of the high number of substitutes available for their products. CBA must compete with other craft beer companies, larger and more established brands that compete in the traditional beer market, other alcoholic beverages, and marijuana. The presence of these substitutes lower CBA's revenues.

Appendix 1 – Model Summary

Discounted Cash Flow Analysis																			
	Dec-15	Dec-16	Dec-17	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24	
(Figures in thousands USD)	FY2015	FY2016	FY2017	FY2018	Q1-2019	Q2-2019	Q3-2019	Q4-2019	FY2019	Q1-2020	Q2-2020	Q3-2020	Q4-2020	FY2020	FY2021	FY2022	FY2023	FY2024	
WACC Calculations																			
Cost of Equity																			
Risk-free rate	2.1%																		
Expected market return	9.7%																		
Market Risk Premium	7.6%																		
Beta	0.62																		
Cost of Equity	6.8%																		
Cost of Debt																			
Pri-tax cost of debt	3.7%																		
Effective tax rate	21.0%																		
Cost of Debt	2.9%																		
WACC																			
Market value of equity	299.1																		
Market value of debt	57.5																		
Total Capitalization	356.7																		
Cost of equity	6.8%																		
Cost of debt	2.9%																		
WACC	6.2%																		
Free Cash Flow																			
EBIT	4.3	0.4	4.8	5.8	(9.4)	4.6	6.3	4.3	5.8	3.0	4.4	5.9	3.4	16.7	17.6	18.8	20.0	21.4	
Less: Tax expense	(1.5)	(0.0)	5.5	(1.3)	2.3	(0.9)	(1.3)	(0.9)	(0.8)	(0.6)	(0.9)	(1.2)	(0.7)	(3.5)	(3.7)	(3.9)	(4.2)	(4.5)	
Add: Depreciation and amortization	9.7	10.9	10.5	10.6	2.7	2.8	2.9	3.0	11.4	3.1	3.1	3.1	3.1	12.3	14.0	14.7	15.4	16.1	
Less: Capital expenditures	(15.7)	(15.7)	(18.3)	(12.8)	(5.2)	(6.4)	(6.6)	(6.8)	(25.1)	(2.5)	(4.3)	(4.3)	(4.4)	(15.4)	(20.1)	(21.1)	(22.2)	(23.3)	
Less: Change in net working capital	(2.4)	(5.3)	(0.6)	(2.4)	9.9	(3.9)	5.0	(6.8)	4.2	1.4	(2.9)	(8.1)	11.7	2.1	(5.4)	(1.8)	(0.5)	(2.0)	
Unlevered Free Cash Flow	(5.6)	(9.8)	1.8	(0.1)	0.4	(3.8)	6.2	(7.2)	(4.4)	4.5	(0.6)	(4.7)	13.1	12.2	2.4	6.6	8.6	7.8	
Discount factor											0.25	0.50	0.75	0.75	1.75	2.75	3.75	4.75	
Present Value of Unlevered Free Cash Flow											(0.6)	(4.6)	12.5	7.4	2.1	5.6	6.8	5.9	
Discounted Cash Flow Valuations																			
Perpetuity Growth Method																			
Perpetuity Growth Rate	2.0%																		
PV sum of unlevered FCF	27.8																		
Terminal value	158.5																		
Enterprise Value	186.4																		
Add: Cash	1.7																		
Less: Debt	57.5																		
Less: Other EV adjustments	-																		
Equity Value	130.5																		
Shares outstanding	19.4																		
Implied Share Price	\$ 6.72																		
Current Price	\$ 15.41																		
Implied Price	\$ 6.72																		
Total Return	-56.4%																		
Exit Multiple Method																			
Terminal EV/EBITDA Multiple	20.9x																		
PV sum of unlevered FCF	27.8																		
Terminal value	590.2																		
Enterprise Value	618.0																		
Add: Cash	1.7																		
Less: Debt	57.5																		
Less: Other EV adjustments	-																		
Equity Value	562.1																		
Shares outstanding	19.4																		
Implied Share Price	\$ 28.96																		
Current Price	\$ 15.41																		
Implied Price	\$ 28.96																		
Total Return	87.9%																		
Perpetuity Growth Rate																			
1.00%																			
1.50%																			
2.00%																			
2.50%																			
3.00%																			
Terminal EV/EBITDA Multiple																			
19.0x																			
20.0x																			
21.0x																			
22.0x																			
23.0x																			
WACC																			
7.20%	6.70%	6.20%	5.70%	5.20%															
\$ 3.80	\$ 4.41	\$ 5.14	\$ 6.02	\$ 7.12															
\$ 4.26	\$ 4.98	\$ 5.84	\$ 6.91	\$ 8.28															
\$ 4.82	\$ 5.67	\$ 6.71	\$ 8.05	\$ 9.80															
\$ 5.49	\$ 6.52	\$ 7.82	\$ 9.53	\$ 11.88															
\$ 6.33	\$ 7.60	\$ 9.28	\$ 11.57	\$ 14.90															
WACC																			
7.20%	6.70%	6.20%	5.70%	5.20%															
\$ 24.96	\$ 25.56	\$ 26.19	\$ 26.84	\$ 27.50															
\$ 25.34	\$ 26.98	\$ 27.64	\$ 28.32	\$ 29.02															
\$ 27.73	\$ 28.41	\$ 29.10	\$ 29.81	\$ 30.54															
\$ 29.12	\$ 29.83	\$ 30.55	\$ 31.30	\$ 32.06															
\$ 30.51	\$ 31.25	\$ 32.01	\$ 32.79	\$ 33.58															

Appendix 3 – Comparable Company Analysis

Comparable Company Analysis																				
<i>(Figures in Millions USD)</i>																				
Company	Ticker	Share Price	Diluted Shares Outstanding	Equity Value	Cash	Debt	Other EV Adjustments	Enterprise Value	EV/EBITDA Multiple			P/E Multiple								
									2017A EBITDA	2018E EBITDA	2019E EBITDA	2017A EV/EBITDA	2018E EV/EBITDA	2019E EV/EBITDA	2017A Diluted EPS	2018E Diluted EPS	2019E Diluted EPS	2017A P/E	2018E P/E	2019E P/E
Molson Coors Brewing Company	NYSE:TAP	\$ 166.62	166.1	27,682.2	418.6	11,313.5		38,577.1	1,842.8	1,464.0	1,581.5	20.9 x	26.4 x	24.4 x	\$ 7.23	\$ 5.15	\$ 4.57	23.0 x	32.4 x	36.5 x
Brown-Forman Corporation	NYSE:BF-B	\$ 47.06	308.0	14,492.1	239.0	3,660.0		17,913.1	991.0	1,051.0	1,027.0	18.1 x	17.0 x	17.4 x	\$ 1.37	\$ 1.48	\$ 1.63	34.4 x	31.8 x	28.9 x
National Beverage Corp.	NYSE:FIZZ	\$ 45.15	46.6	2,104.0	29.9	128.8		2,202.9	163.6	186.9	202.9	13.5 x	11.8 x	10.9 x	\$ 2.29	\$ 3.19	\$ 3.21	19.7 x	14.2 x	14.1 x
Farmer Bros Co.	NYSE: FARM	\$ 16.51	17.0	281.3	6.2	28.8		303.9	18.0	4.6	1.9	16.9 x	66.1 x	160.0 x	\$ 1.34	\$ (1.11)	\$ (3.83)	12.3 x	(14.9 x)	(4.3 x)
Craft Brew Alliance, Inc.	NYSE: BREW	\$ 15.41	19.4	299.1	1.7	57.5	-	355.0	4.8	5.8	5.8	74.0 x	61.7 x	61.3 x	\$ 0.49	\$ 0.21	\$ 0.22	31.5 x	72.8 x	70.8 x
Median												26.4 x	24.4 x					32.1 x	31.8 x	
Mean												30.4 x	47.8 x					29.6 x	28.5 x	
High												66.1 x	160.0 x					40.2 x	36.5 x	
Low												11.8 x	10.9 x					14.2 x	14.1 x	
Median												EV/EBITDA Implied Price			P/E Implied Price					
												\$ 4.93	\$ 4.40		\$ 6.79	\$ 6.91				
Mean												\$ 6.12	\$ 11.36		\$ 6.27	\$ 6.21				
High												\$ 16.70	\$ 44.83		\$ 8.51	\$ 7.94				
Low												\$ 0.61	\$ 0.36		\$ 3.00	\$ 3.06				

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