

## CONSUMER PACKAGED GOODS RESEARCH

November 9, 2017

# Monster Beverage

## Momentum to Continue & Margins Improve, PT to \$64

### KEY TAKEAWAYS

**Growth remains strong and momentum is likely to improve from here.** The Energy category continues to grow and Monster continues to gain share in nearly every market. C-Store trend/traffic is improving, removing a key growth concern. International momentum is accelerating and launches continue (planning to launch add'l countries in the Caribbean & Central/South America in 2018, will re-launch India). In addition, Java production has come online and innovation plans are strong for 2018 (2 new X-Presso Monster flavors, Caffe Monster in glass bottles, NOS Nitro Mango, 4 new Hydro SKUs, Lewis Hamilton drinks for Australia, better distribution in China). This suggests already strong organic growth should continue or improve from here. This is supported by October trends, up ~14% (adjusted).

**Margins should improve as International investments drop off & markets gain scale.** Margins were weak in Sept-Q, driven partially by input costs, but more by margin mix, given impressive International growth. China, for example, is a priority and currently sustaining losses. We don't anticipate the cost-of-growth push-back will go away anytime soon & structural differences suggest International margins will remain lower than the US. However, we'll take high growth even with lower margins and expect International profitability will improve over time with scale, local production, & drop-off in up-front investment.

**Good start to repurchase program shows confidence in the future.** Despite meaningful excess cash and a \$500m repurchase program authorized on 2/28, Monster repurchased no shares in Mar- or Jun-Q. With Sept-Q's strong start to the repurchase program (\$248.8m of repurchases), we have more concrete evidence of management's optimism. We believe repurchases remain Monster's cash priority and expect them to continue in Dec-Q and 2018.

**We remain overweight, PT increased to \$64 from \$60.** US should improve as innovation launches & production issues resolve (+ easy comp); benefits of Coke Int'l distribution still ahead; & proving brand incubation ability could expand Coke relationship. At 36x NTM PE, Monster still looks attractive given the scarcity value of growth in CPG and its PE multiple relative to growth is among the lowest in our coverage.

### MNST: Quarterly and Annual EPS (USD)

FY Dec	2016A	2017			2018		
		Old	New	Cons	Old	New	Cons
Q1	0.27A	-	0.31A	0.33E	0.38	0.37E	0.37E
Q2	0.33A	-	0.39A	0.39E	0.46	0.48E	0.45E
Q3	0.34A	0.41	0.40A	0.40E	0.47	0.43E	0.45E
Q4	0.35A	0.37	0.38E	0.37E	0.40	0.44E	0.42E
Year	1.28A	1.48	1.47E	1.48E	1.72	1.73E	1.71E
P/E	-	39.2x	39.5x		33.7x	33.5x	

Source: Renaissance Macro Research  
Consensus Estimates are from FactSet

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### Ratings

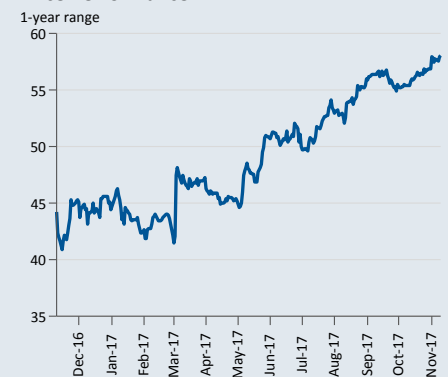
Stock Rating: Overweight  
Industry View: Neutral  
Target Price: \$64.00

### Financial Data

Symbol: MNST (NASDAQ)  
Rating/Target Price: OW / \$64.00  
Price (11/08/2017): \$58.00  
52-Week Price Range: \$40.64 - \$58.54  
Diluted Shares Outstanding (mm): 578  
Market Cap (mm): \$32,954  
Average Daily Vol (mm): 1.6  
Book Value/Share: \$6.65  
Dividend/Yield: 0.0%  
Net Debt (mm): \$(1,096)

### Price Performance

#### Price Performance



Source: FactSet

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**MONSTER BEVERAGE CORP. (MNST, OW, \$64PT) – Key Sept-Q Earnings Take-Aways**

Positives	Negatives
<ul style="list-style-type: none"> <li>Energy category continues to grow (though moderate +lsd)</li> <li>Slow C Store trend/traffic seems to be turning</li> <li>Gained share in nearly every market (highest ever share at 37.2%).</li> <li>Continued Int'l expansion, but lower margin than US biz</li> <li>Additional Java &amp; Muscle production came online, encouraged they'll regain shelf-space quickly</li> <li>Launching Espresso Monster this week, could drive growth</li> <li>Excited about new product launches</li> <li>Launching 4 Hydro SKUs (incl a zero sugar/calorie) &amp; adding a 750ml bottles, and securing add'l capacity to make the can.</li> </ul>	<ul style="list-style-type: none"> <li>Gross margin miss due to geographic/product mix + input costs</li> <li>Strategic Brands still up only modestly (below expectations)</li> <li>Continued supply constraints in differentiated Hydro plastic can</li> <li>China positioning issue (bottlers putting it in Coke coolers, not Energy)</li> <li>Energy + Coffee category slowed (-8.5%, Java Monster -12.3%)</li> <li>Lack of transparency on Java fix timeline &amp; shelf space reclamation</li> </ul>
Guidance Changes	Model Changes
<ul style="list-style-type: none"> <li>None</li> </ul>	<ul style="list-style-type: none"> <li>F17 \$1.47 vs \$1.48 prior; organic 12.1% vs 12.3% prior</li> <li>F18 \$1.73 vs \$1.72 prior; organic 13.0% vs 9.5% prior</li> <li>F19 \$1.96 vs \$1.94 prior; organic 12.5% vs 11.3% prior</li> </ul>


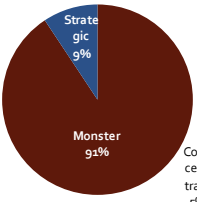
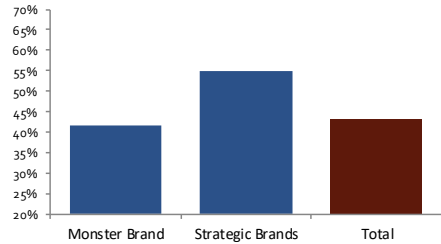
**MONSTER BEVERAGE CORP. (MNST, OW, \$64PT) – Revised Estimates**

ACTUALS													ESTIMATES										
\$m	1Q14 A	2Q14 A	3Q14 A	4Q14 A	1Q15 A	2Q15 A	3Q15 A	4Q15 A	1Q16 A	2Q16 A	3Q16 A	4Q16 A	1Q17 A	2Q17 A	3Q17 A	4Q17 E	1Q18 E	2Q18 E	3Q18 E	4Q18 E	FY17 E	FY18 E	FY19 E
Net revenues	\$536	\$687	\$636	\$606	\$587	\$694	\$757	\$645	\$680	\$832	\$788	\$754	\$742	\$907	\$909	\$849	\$865	\$1,037	\$987	\$950	\$3,407	\$3,839	\$4,321
% organic	10.7%	8.9%	7.7%	12.0%	16.3%	1.0%	21.7%	7.8%	12.0%	20.6%	3.4%	16.0%	8.5%	10.6%	15.7%	13.2%	17.2%	14.3%	9.2%	11.9%	12.1%	13.0%	12.5%
Operating profit	\$154	\$224	\$197	\$197	\$177	\$228	\$294	\$232	\$258	\$324	\$300	\$303	\$264	\$350	\$333	\$328	\$314	\$407	\$368	\$373	\$1,276	\$1,462	\$1,650
% sales	28.7%	32.6%	31.0%	32.5%	30.2%	32.9%	38.8%	35.9%	38.0%	38.9%	38.1%	40.2%	35.6%	38.6%	36.6%	38.6%	36.3%	39.3%	37.3%	39.3%	37.4%	38.1%	38.2%
E.P.S. (underlying)	\$0.19	\$0.28	\$0.24	\$0.24	\$0.21	\$0.26	\$0.28	\$0.23	\$0.27	\$0.33	\$0.34	\$0.35	\$0.31	\$0.39	\$0.40	\$0.38	\$0.37	\$0.48	\$0.43	\$0.44	\$1.47	\$1.73	\$1.96
<b>Consolidated Growth</b>																							
Revenue	10.7%	8.9%	7.7%	12.0%	9.5%	0.9%	19.0%	6.6%	15.9%	20.0%	4.1%	16.8%	9.1%	9.0%	15.4%	12.6%	16.6%	14.3%	8.5%	11.9%	11.6%	12.7%	12.5%
Operating Profit	29.7%	20.5%	26.0%	41.3%	15.3%	2.1%	48.9%	17.7%	45.5%	41.8%	2.1%	30.8%	2.4%	8.2%	11.1%	8.1%	18.8%	16.2%	10.5%	13.8%	7.6%	14.6%	12.9%
Margin Expansion	420bp	313bp	449bp	675bp	153bp	37bp	781bp	339bp	773bp	597bp	-78bp	430bp	-235bp	-29bp	-143bp	-160bp	66bp	66bp	66bp	66bp	-137bp	66bp	11bp
EPS	36.6%	29.1%	31.8%	56.9%	12.4%	-6.0%	16.6%	-6.5%	26.0%	25.4%	19.4%	53.0%	14.3%	18.2%	17.9%	8.9%	20.9%	23.1%	9.6%	16.1%	15.0%	17.2%	13.4%
<b>Segment Results (\$m)</b>																							
<b>Monster</b>	<b>1Q14 A</b>	<b>2Q14 A</b>	<b>3Q14 A</b>	<b>4Q14 A</b>	<b>1Q15 A</b>	<b>2Q15 A</b>	<b>3Q15 A</b>	<b>4Q15 A</b>	<b>1Q16 A</b>	<b>2Q16 A</b>	<b>3Q16 A</b>	<b>4Q16 A</b>	<b>1Q17 A</b>	<b>2Q17 A</b>	<b>3Q17 A</b>	<b>4Q17 E</b>	<b>1Q18 E</b>	<b>2Q18 E</b>	<b>3Q18 E</b>	<b>4Q18 E</b>	<b>FY17 E</b>	<b>FY18 E</b>	<b>FY19 E</b>
Segment revenues	\$502	\$643	\$594	\$575	\$595	\$651	\$687	\$585	\$624	\$743	\$710	\$682	\$669	\$815	\$828	\$771	\$789	\$938	\$894	\$863	\$3,082	\$3,484	\$3,932
% organic	--	--	--	--	--	--	15.6%	--	5.5%	14.1%	3.5%	16.9%	7.4%	10.3%	17.1%	13.0%	18.0%	15.0%	8.0%	12.0%	12.0%	13.0%	12.9%
<b>Strategic Brands</b>						\$13	\$70	\$60	\$56	\$77	\$72	\$67	\$68	\$86	\$77	\$73	\$71	\$94	\$88	\$82	\$303	\$336	\$369
Segment revenues	--	--	--	--	--	\$13	\$70	\$60	\$56	\$77	\$72	\$67	\$68	\$86	\$77	\$73	\$71	\$94	\$88	\$82	\$303	\$336	\$369
% organic	--	--	--	--	--	--	--	--	--	--	4.7%	10.9%	20.7%	10.7%	6.1%	9.0%	5.0%	10.0%	15.0%	12.0%	11.0%	10.6%	10.0%
<b>2-yr Avg Organic Growth</b>																							
<b>Total</b>	8.6%	7.7%	8.3%	13.3%	13.5%	5.0%	14.7%	9.9%	14.2%	10.8%	12.5%	--	10.3%	15.6%	9.5%	14.6%	12.8%	14.3%	9.2%	10.2%	12.4%	12.5%	12.3%
Monster	--	--	--	--	--	--	15.6%	--	5.5%	14.1%	9.6%	--	6.5%	12.2%	10.3%	15.0%	12.7%	15.0%	8.0%	9.7%	10.9%	12.5%	12.4%
Strategic Brands	--	--	--	--	--	--	--	--	--	--	4.7%	10.9%	20.7%	10.7%	5.4%	10.0%	12.8%	10.0%	15.0%	16.3%	4.7%	10.8%	10.5%

Source: Company reports, RenMac estimates.

**MONSTER BEVERAGE CORP. (MNST, OW, \$64PT)**

**SUMMARY** Updated 11/9/17

Brand Map	Thesis
	<p>US should improve as innovation launches &amp; production issues resolve (+ easy comp); benefits of Coke Int'l distribution still ahead; &amp; proving brand incubation ability could expand Coke relationship.</p>
<p><b>F17E Revenue Breakdown</b></p> 	<p><b>F17E Operating Margin by Segment</b></p> 

**Estimates**

	ESTIMATES											VARIANCE										
												RenMac vs Consensus										
	1Q17 A	2Q17 A	3Q17 A	4Q17 E	1Q18 E	2Q18 E	3Q18 E	4Q18 E	FY17 E	FY18 E	FY19 E	1Q17 A	2Q17 A	3Q17 A	4Q17 E	1Q18 E	2Q18 E	3Q18 E	4Q18 E	FY17 E	FY18 E	FY19 E
\$m																						
Net Revs	\$742	\$907	\$909	\$849	\$865	\$1,037	\$987	\$950	\$3,407	\$3,839	\$4,321	—	—	—	1.7%	3.9%	2.3%	0.3%	4.0%	0.5%	2.1%	4.2%
% organic	8.5%	10.6%	15.7%	13.2%	17.2%	14.3%	9.2%	11.9%	12.1%	13.0%	12.5%	—	—	—	—	—	—	—	—	—	—	—
Op Profit	\$264	\$350	\$333	\$328	\$314	\$407	\$368	\$373	\$1,276	\$1,462	\$1,650	—	—	—	4.2%	0.2%	5.4%	-2.5%	9.2%	-1.0%	1.1%	1.1%
% sales	35.6%	38.6%	36.6%	38.6%	36.3%	39.3%	37.3%	39.3%	37.4%	38.1%	38.2%	—	—	—	—	—	—	—	—	—	—	—
E.P.S. (u/g)	\$0.31	\$0.39	\$0.40	\$0.38	\$0.37	\$0.48	\$0.43	\$0.44	\$1.47	\$1.73	\$1.96	—	—	—	2.9%	1.2%	5.8%	-0.8%	7.1%	-0.7%	1.6%	1.4%
Revenue	9.1%	9.0%	15.4%	12.6%	16.6%	14.3%	8.5%	11.9%	11.6%	12.7%	12.5%											
Op Profit	2.4%	8.2%	11.1%	8.1%	18.8%	16.2%	10.5%	13.8%	7.6%	14.6%	12.9%											
Margin Ch	-235bp	-29bp	-143bp	-160bp	66bp	66bp	66bp	66bp	-137bp	66bp	11bp											
EPS	14.3%	18.2%	17.9%	8.9%	20.9%	23.1%	9.6%	16.1%	15.0%	17.2%	13.4%											

Bull Case	Bear Case
<ul style="list-style-type: none"> <li>■ Management “gets it,” targeting niche consumers</li> <li>■ Int'l distribution thru KO more impactful than market thinks</li> <li>■ Big China opportunity now being addressed</li> <li>■ Strategic Brands open up new niche segments</li> <li>■ Add'l distribution gains: Home Depot, Best Buy, McDonalds, Club</li> </ul>	<ul style="list-style-type: none"> <li>■ Energy drinks could slow more (+37% '03-08 to +msd now)</li> <li>■ Competition (Red Bull flavors, Mountain Dew Kickstart)</li> <li>■ Little to no communication with investors (lacks visibility)</li> <li>■ Headlines re: health risks/FDA issues</li> <li>■ Gas prices/Convenience tailwind may reverse</li> <li>■ Trump could reduce exposure to important immigrant consumer</li> <li>■ Founders sold shares</li> </ul>

Catalysts	Current Guidance
<ul style="list-style-type: none"> <li>■ Additional details on China roll-out</li> <li>■ Traction on Strategic Brands</li> <li>■ Any change in IR methodology</li> </ul>	<p>N/A</p>

Source: Company documents, RenMac estimates.

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**Primary Stock:**

Monster Beverage (MNST, 11/08/2017, US \$58.00). Overweight

**Price target and Valuation Methodology:** Each Analyst has a single price target in all of the stocks that they cover. The price target represents that Analyst's expectation of where the stock will trade in the next twelve months.

To arrive at our valuation we use a blend of relative value metrics and a DCF.

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