

Boston Beer (SAM) - Risks Are Building

Date: February 26, 2014

Four items stood out on the SAM 4Q13 conference call - it's becoming clear that **significant risks to the bull case are emerging**:

- "Our core shipment volume for the fourth quarter was approximately 941,000 barrels, a 29% increase over the fourth quarter of 2012."

Buyside Notes: If I average out the volume growth over the last 4 December quarters, I come to an expectation of 961,000 barrels (vs a reported 941,000). This was a miss in my eyes; not good for a stock valued at SAM's multiple.

- "we expect a continued high level of brand investment and capital investment as we pursue growth and innovation. We are prepared to forsake the earnings that may be lost as a result of these investments in the short term as we pursue long term profitable growth. [...] We intend to increase investments in advertising promotion and selling expenses by between \$34 million and \$42 million for the full year of 2014, not including any increases in freight cost for the shipment of beer products to our distributors."

Buyside Notes: Look for margins to come down. Also not good for a stock valued at SAM's multiple.

- "We are continuing to evaluate 2014 capital expenditures and currently estimate investments of between \$160 million and \$220 million, which could be significantly higher depending on capital required to meet future growth."

Buyside Notes: Let's do a quick look-back on the company's CapEx guidance:

[2Q13](#): "The Company is increasing its 2014 estimated capital expenditure range to between \$100 million and \$130 million from \$30 million to \$50 million."

[3Q13](#): The Company stated that 2014 CapEx would be "between \$140 million and \$180 million, an increase in the range from the previously communicated estimate of \$100 million to \$130 million."

[4Q13](#): "The Company expects to invest between \$160 million and \$220 million in 2014"

In just 6 months, the CapEx plan has moved from \$40MM to \$190MM (midpoints). Isn't it strange that the Company is having such a hard time planning their capital investments? What does this say about management's forecasting ability?

Note that in 2013, the Company spent \$104MM on capital investments so CapEx will ~double Y/Y. Not good for FCF.

- "we amended our line of credit to increase the amount available from \$50 million to \$150 million and extended the schedule exploration date to March 31, 2019."

Buyside Notes: CapEx is going to eat up their current cash (\$50MM at YE13) and their operating cash flow (\$100MM in 2013) and the company will likely be borrowing money in 2014 (they have 0 long term debt at YE13). This isn't a big deal given the strength of their balance sheet, but on the margin increases risks to shareholders.