

## Boston Beer Company (SAM) - The Pain Is Just Beginning

Date: May 1, 2014

I've written SAM up 3 times:

- 30-Jan: As a short, SAM presents a very attractive risk-reward ([note](#)).
- 5-Feb: CEO cashing out ([note](#)).
- 26-Feb: Risks are building ([note](#)).

My negative bias has centered around three key points:

1. SAM is facing an all-out assault on its business – from niche local breweries to large international brewers – and consumers are getting saturated with choices. It's this shift – from wide-open greenfield to fiercely competitive brownfield – that will cause investors to re-price this company.
2. Competition is driving up costs and down margins.
3. SAM's stock is mispriced relative to the fundamental headwinds it's facing.

Today the market is finally waking up to the issues I've been highlighting for 3 months. Just take a look at what the company said on yesterday's conference call:

**[...] increased investments in advertising, promotional, and selling expenses.**

During our first quarter 2014, gross margin decreased to 49%, compared to 50% in the first quarter of 2013. The margin decrease was a result of product mix effects, increases in brewery processing costs and **increases in consumer, program, and incentive costs**, which were only partially offset by price increases.

**[...] you're seeing a little bit of cannibalization in the portfolio.**

**[...] there is a lot of uncertainty as we look at what's going on in the category, we've got two or three major players pushing brands into the cider category or reinvesting behind existing brands.**

I think that we're seeing continued increases in the shelf space devoted to craft beer. But **we may be getting to the point where those increases are going to slow just because there is only a limited amount of space** that can be taken out of the mass domestic beers before they start running into out-of-stocks or inadequate package or other SKU variety.

Let me be clear: **If you think the headwinds facing SAM aren't real, you aren't paying attention.**