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National Beverage Corp. (FIZZ: $89.49 Outperform; $125 PT)

Initiating Coverage of FIZZ with an Outperform Rating and $125 Price Target—Leading Brand in a Fast Growth Consumer Market

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Key Data

Symbol:	FIZZ
Price (4/15/18):	$89.49
Rating:	Outperform
Price Target:	$125
Estimates:	
FY18E EBITDA:	$221.5
FY19E EBITDA:	$262.3
FY20E EBITDA:	$301.8
FY18E EV/EBITDA:	18.2x
FY19E EV/EBITDA:	15.4x
FY20E EV/EBITDA:	13.4x

Company Description
National Beverage is a manufacturer and seller of sparkling water, juice, energy drinks, and carbonated soft drinks. Key brands include LaCroix, Shasta, Everfresh, Rip It, and Faygo.

Figure 1. National Beverage Corp.—Key Company Data, Prices as of 4/15/18

Key Data		FY: April	2017	2018	2019	2020
Price:	$89.49	Adj EBITDA:	Actual	Est	Est	Est
Price Target:	**$125.00**	Q1 (July)	47.1	61.3A	71.3	--
52-Week Range:	$81.65-$129.82	Q2 (Oct)	40.6	54.2A	66.1	--
Market Cap ($mn):	4,197	Q3 (Jan)	40.0	48.9A	58.5	--
Shares Out. (mn):	46.9	Q4 (April)	47.6	57.1	66.3	--
Avg. Daily Vol.:	300,000	Year	175.3	221.5	262.3	301.8
		EV/EBITDA		18.2x	15.4x	13.4x
Total Debt ($mn):	0	Revenue ($mn)				
Cash ($mn):	155	Q1 (July)	217.1	259.8A	296.2	--
EV ($mn):	4,042	Q2 (Oct)	203.2	244.1A	278.3	--
		Q3 (Jan)	194.6	227.5A	259.3	--
Annual Dividend:	0.00	Q4 (April)	212.1	244.9	279.2	--
Dividend yield:	0.0%	Year	826.9	976.4	1,113.1	1,257.8

Sources: Company data and Imperial Capital, LLC.

Financial Summary

National Beverage (FIZZ) generated revenue of $943.5mn and adjusted EBITDA of $212.1mn in the latest 12 month (LTM) period ended 1/27/18. The company had $155.0mn in cash and no debt as of that date.

View and Valuation

We are initiating coverage of FIZZ shares with an Outperform rating and a one-year price target of $125, 40% above the recent share price. Our price target is based on 18.9x FY20 EBITDA. National Beverage and its popular LaCroix brand have received some attention from the Street in recent years. LaCroix is a leading brand in the fast-growing sparkling water segment and its impressive growth has helped FIZZ outperform the market. More recently, a series of what we consider to be overblown negative "issues" have given us and investors another compelling entry-point. In the quarters ahead, we believe FIZZ will benefit from continued growth in the end market, potential upside to earnings and valuation, and disciplined capital allocation.

Rationale

Key brand LaCroix enjoys favorable industry tailwinds. Sparkling water is growing rapidly as consumers shift away from sugary beverages. LaCroix is the U.S. market leader.

Forward estimates appear conservative, we believe. Consensus estimates reflect decelerating revenue growth and lower incremental margins versus recent trends.

Compelling valuation. Current valuation is below peers, recent M&A transactions, and other leading millennial-focused consumer brands.

Recent negative "issues" are overblown, in our view. FIZZ has declined approximately 30% from a series of factors, including competition and raw materials pricing. We believe the reaction was overblown.

History of "shareholder-friendly" capital allocation. Management has a history of "shareholder-friendly" capital allocation.

Capitalization

Figure 2. National Beverage Corp.—Capitalization as of 1/27/18, Prices as of 4/15/18

			Debt Face		Net Debt Face		Net Debt Market			Price / YTM Analysis			Interest Exp. Analysis	
LTM Revenue	**(01/27/18)**	**943.5**												
LTM ADJ EBITDA	**(01/27/18)**	**212.1**												
LTM EBITDA %	**(01/27/18)**	**22.5%**												
LTM FCF	**(01/27/18)**	**118.1**												
Settlement Date		**NA**	**Cum. Debt Face**	**LTM EBITDA 212 Mult.**	**Net Cum. Debt Face**	**LTM EBITDA 212 Mult.**	**Debt Mkt**	**Net Cum. Debt Mkt**	**LTM EBITDA 212 Mult.**	**Price**	**YTM**	**Mat.**	**Rate/ Coup.**	**Est. Int. Exp.**
	M/S&P Rating	**Balance**												
Cash		155												
Debt														
Unsecured Revolver ($100mn)		-	-											-
Total		**-**	**-**											**-**
Common Equity														
Common Stock (FIZZ)		4,197												
Total Equity		**4,197**			**(155)**								**Interest**	**-**

Sources: Company data and Imperial Capital, LLC.

Quick Company Overview

Before delving into the Key Investment Considerations, we provide a short review of the basics of FIZZ's business.

Brands: National Beverage owns a portfolio of beverage brands in various categories. Brands are split into two segments:

- *Power+ Brands* include LaCroix (sparkling water), Shasta Sparkling (soft-drink alternative), Everfresh (juice), Mr. Pure (juice), and Rip It (energy). FIZZ also extended the LaCroix brand into LaCroix Curate and NiCola by LaCroix in 2014/2015.
- *Carbonated Soft Drink (CSD)* brands include Shasta and Faygo.

In recent periods, the Power+ Brands have overtaken the CSD segment due largely to LaCroix's growth, but company segment financial disclosure is limited, making it difficult to pinpoint brand revenue and profitability.

Figure 3. National Beverage Corp.—Key Brands

Sources: Company data.

Production: National Beverage is vertically integrated, producing beverages at 12 production facilities across the U.S., ten of which are owned by the company. Each facility is equipped to produce canned and bottled beverage products. The company also produces a substantial portion of the concentrates used in its products.

Distribution and sales: National Beverage utilizes a variety of distribution methods for its finished product. Most important is the warehouse distribution system, where its products are shipped to retailers' centralized distribution centers. FIZZ also sells through a direct-store delivery system (internal and 3P) and through independent distributers. The company focuses on supermarkets. We see LaCroix displayed prominently at grocery stores we have visited. The convenience and food service channel is less of a current focus. Sales and marketing is conducted through an internal sales force and broker network.

Competition: National Beverage is among the largest soft drink and beverage manufacturing companies in the U.S. Many of its competitors, such as Coca-Cola Company, PepsiCo, and Dr. Pepper Snapple, are larger and better capitalized. Many competitors have recently added sparkling water lines to compete with LaCroix, which we discuss in greater detail below. There are also many low-sugar juices and alternative beverages that compete against LaCroix.

Advertising: FIZZ utilizes social media and digital advertising and has been able to maintain relatively flat advertising spend while revenue has grown substantially in recent periods. FIZZ's brand LaCroix focuses on "influencers" and photo/video content intended for social platforms. The work has helped the brand develop a strong following, especially among millennials. LaCroix's Instagram posts, sampled in Figure 4 below, illustrate the brand image and millennial targeting. FIZZ does no print, radio, or television advertising.

Figure 4. National Beverage Corp.—Branding Example: Recent LaCroix Instagram Images

Sources: Company data and Instagram.

Management agreement: National Beverage has a unique operating structure. The company is managed by an external entity, Corporate Management Advisors (CMA), which provides executive management and financial and accounting services. CMA is owned by Nick Caporella, the Chairman and CEO, and it receives 1% of National Beverage revenue for its services. The board has considered, but never granted, incentive compensation to CMA. CMA was originally put in place because Mr. Caporella managed other companies.

Key Investment Considerations

Attractive Category

National Beverage's most important brand, LaCroix, participates in a rapidly growing category: sparkling water. The category has seen rapid growth as consumers shift out of sodas, but are still looking for something carbonated. According to Nielsen, the sparkling water category grew from $961mn in the 52 weeks ending 6/1/13 to $1.8bn in the 52 weeks ending 5/27/17 (fortune.com), and we believe that it has grown further since 2017. For context, the U.S. carbonated soft drink market is approximately 30x larger.

The sparkling water category is now fairly evenly split between sweetened/unsweetened products. Sparkling Ice has been the leader in the sweetened category and saw incredible growth about coming out of the recession, although growth declined recently as consumers shift into unsweetened products. LaCroix is the leader in the unsweetened category – importantly, the brand has zero calories and no artificial sweeteners or flavors. We do not receive Nielsen data, but we estimate LaCroix earns approximately 25-30% share of the unsweetened category.

The category has seen competition in recent years from major beverage manufacturers. We discuss competition later in this report. Figure 5 below highlights the water brands owned by major beverage manufacturers.

Figure 5. National Beverage Corp.—Overview of Competing Water Brands

Coca-Cola	PepsiCo	Nestle	Anheuser-Busch	Talking Rain	Wonderful Company	Danone
Topo Chico	IZZE	Perrier	Hiball	Sparkling Ice	Fiji	Evian
Dasani	Bubly	San Pellegrino	Alta Palla	Himalayan		
Glaceau	Aquafina	Poland Spring		Talking Rain		
Smartwater	LIFEWTR	Deer Park				

Sources: Company data.

National Beverage's other brands, such as Faygo, Shasta, Rip It, and Everfresh operate in more competitive, slower growth markets, such as fruit juice, energy, and carbonated soft drinks. In our view, those brands are of significantly lower value and we are less focused on market size and competition in National Beverage's secondary brands. We present our estimates for FIZZ's segments in later sections of this report.

Forward-estimates appear conservative and reflect decelerating revenue growth and lower incremental margins

National Beverage splits its business into two segments: Power+ Brands, which includes LaCroix, other sparkling water, juice, and energy brands. LaCroix is the largest Power+ Brand. The second segment is Carbonated Soft Drinks (CSDs), which we call "other" in the modeling exhibited below. "Other" brands include Shasta, Faygo, and private label brands.

FIZZ does not disclose segment revenue or profitability, instead only providing year-over-year consolidated and Power+ volume growth in the MD&A sections of its quarterly and annual SEC filings. The company also occasionally provides overall pricing growth and volume growth in CSDs, allied brands, and branded CSDs. We utilized that data, in addition to published articles from Fortune and other news sources, to build the models shown below.

The key sections of our financial model to highlight are:

1) We believe that Power+ Brands now account for a majority of revenue and carry significantly higher margins versus the CSD segment. By our estimates, all consolidated revenue growth comes from the segment and its margin profile is 2000bp ahead of the "other" segment.

2) Growth in the Power+ Brand segment is volume driven, which is impressive given the challenging comparisons.

3) Our forward revenue estimates, which are relatively consistent with consensus, bake in decelerating Power+ Brand revenue growth in FY19 and FY20, slowing from >40% in 2017 to 20% in FY20. We also model for "other" revenue growth to continue declining through FY20.

4) Our forward EBITDA margin estimates reflect lower incremental margins in the Power+ Brand category. We prefer to model conservatively given the competitive dynamics and potential for higher raw materials pricing, although we have little evidence of an impact thus far. Despite lower incremental margin in the Power+ Brand segment, overall EBITDA margin grows to reflect a higher margin revenue mix.

Importantly, we believe there could be upside to estimates from continued category growth and generally conservative revenue growth and margin assumptions.

Figure 6. National Beverage Corp.—Estimated Segment Results, 2014-2020E

	2014	2015	2016	2017	2018E	2019E	2020E
Revenue (segments estimated)							
Power+ Brands	219.9	253.5	333.1	475.0	636.4	788.1	947.8
Growth	*8.2%*	*15.3%*	*31.4%*	*42.6%*	*34.0%*	*23.8%*	*20.3%*
Volume Growth (disclosed)	*8.2%*	*15.3%*	*31.4%*	*42.6%*	*na*	*na*	*na*
Other	421.3	392.3	371.7	351.9	340.0	325.0	310.0
Growth	*-8.2%*	*-6.9%*	*-5.3%*	*-5.3%*	*-3.4%*	*-4.4%*	*-4.6%*
Total	641.1	645.8	704.8	826.9	976.4	1,113.1	1,257.8
Growth	*-3.2%*	*0.7%*	*9.1%*	*17.3%*	*18.1%*	*14.0%*	*13.0%*
Volume Growth (disclosed)	*1.1%*	*1.1%*	*9.0%*	*16.6%*	*na*	*na*	*na*
ASP Growth (disclosed)	*flat*	*-0.4%*	*Increase*	*<16.6%*	*na*	*na*	*na*
EBITDA (segments estimated)							
Power+ Brands	27.8	44.9	71.3	144.9	193.9	244.1	289.5
Margin	12.6%	17.7%	21.4%	30.5%	30.5%	31.0%	30.6%
Incremental Margin	61.5%	51.0%	33.1%	51.9%	30.4%	33.1%	28.4%
Other	54.8	47.1	40.9	38.7	37.4	29.3	24.8
Margin	13.0%	12.0%	11.0%	11.0%	11.0%	9.0%	8.0%
CMA	6.4	6.5	7.0	8.3	9.8	11.1	12.6
EBITDA	76.1	85.6	105.1	175.3	221.5	262.3	301.8
Margin	11.9%	13.2%	14.9%	21.2%	22.7%	23.6%	24.0%

Sources: Company data and Imperial Capital LLC.

If we adjusted our model to assume a 22% CAGR in Power+ through 2022, with 35% incremental EBITDA margin, we estimate the Power+ Brand segment would generate $1.4bn in revenue and $460mn in EBITDA in 2022. Assuming continued declines in the "other" segment, the consolidated business in 2022 could generate $1.7bn in revenue and $465mn in EBITDA in 2022. Using a 15.0x forward multiple drives a $160 share price at YE20 (April), or a two-year return of over 70%.

Attractive Valuation

We value FIZZ against major beverage companies, niche water companies, and other leading millennial-focused consumer brands. As shown in Figure 7, FIZZ trades well below peers on an EV/EBITDA basis despite superior growth and an attractive margin profile.

We also value the company taking into account its unique operating structure, which may inflate EBITDA by undercounting operating expenses. Remember that FIZZ's executive, finance, and accounting functions are externally managed for 1% of revenue. To neutralize the structure, we value FIZZ using EV/gross profit. As shown, valuation remains attractive, with FIZZ trading at a discount versus both peer groups.

Figure 7. National Beverage Corp.—Analysis of Select Beverage Comparables

	EV/REV		EV/EBITDA		EV/GP		Rev Growth		EBITDA Mgn	GPM
	2018	2019	2018	2019	2018	2019	2018	2019	2017	2017A
Monster	8.4x	7.6x	22.5x	19.9x	13.4x	12.0x	11.7%	10.5%	37.0%	63.5%
Boston Beer	2.9x	2.8x	15.5x	14.8x	5.4x	5.2x	2.7%	2.4%	19.3%	52.1%
Coca-Cola Co	7.0x	6.7x	18.6x	17.5x	10.7x	10.1x	-11.1%	4.0%	22.6%	62.6%
Dr Pepper Snapple	3.8x	3.7x	15.9x	15.3x	6.4x	6.2x	3.7%	3.1%	24.2%	59.7%
Beverage Comps	*5.5x*	*5.2x*	*18.1x*	*16.9x*	*9.0x*	*8.4x*	*1.7%*	*5.0%*	*25.8%*	*59.5%*
Primo Water	2.2x	2.1x	10.6x	9.8x	7.6x	7.2x	5.6%	5.3%	6.0%	29.1%
SodaStream	3.2x	3.0x	17.2x	15.1x	5.9x	5.4x	13.3%	8.0%	18.7%	53.4%
Fevertree Drinks	14.9x	12.6x	46.7x	39.9x	27.6x	22.9x	19.7%	18.0%	34.5%	53.5%
MGP Ingredients	3.9x	3.6x	23.8x	20.3x	17.2x	15.3x	7.4%	9.4%	15.6%	21.9%
Cott	1.6x	1.5x	11.8x	11.0x	3.1x	3.0x	4.5%	3.3%	10.6%	49.7%
Other Comps	*5.1x*	*4.5x*	*22.0x*	*19.2x*	*12.3x*	*10.8x*	*10.1%*	*8.8%*	*17.1%*	*41.5%*
National Beverage	3.7x	3.3x	16.0x	13.8x	9.2x	8.1x	14.3%	13.2%	22.5%	40.0%

Note: Figures 7&8 represent CY metrics for FIZZ.
Sources: Company data, ThomsonOne, and Imperial Capital LLC.

Another relevant comp group is what we call "millennial-oriented consumer brands," which are challenging to find. While the definition is flexible, we utilize companies that generally have "authentic" brands and a focus on millennial growth categories, often health and wellness related. Most millennial brands have been acquired, so the "pure-play" list is not long. We do not include restaurants or tech companies.

As shown, FIZZ trades at a material discount to the group.

Figure 8. National Beverage Corp.—Analysis of Select Millennial-Focused Consumer Brands

	EV/REV		EV/EBITDA		EV/GP		Rev Growth		EBITDA Mgn	GPM
	2018	2019	2018	2019	2018	2019	2018	2019	2017	2017A
Planet Fitness	8.4x	7.6x	20.8x	17.6x	13.0x	12.0x	21.6%	11.2%	43.0%	70.0%
Freshpet	3.4x	2.8x	32.4x	19.9x	7.1x	5.7x	18.3%	21.2%	11.2%	46.3%
Fevertree Drinks	14.9x	12.6x	46.7x	39.9x	27.6x	22.9x	19.7%	18.0%	34.5%	53.5%
MGP Ingredients	3.9x	3.6x	23.8x	20.3x	17.2x	15.3x	7.4%	9.4%	15.6%	21.9%
Nike	2.8x	2.6x	18.3x	16.4x	6.3x	5.8x	7.6%	7.5%	14.4%	43.7%
Lululemon Athletica	3.8x	3.4x	16.2x	14.4x	7.1x	6.4x	14.0%	10.8%	23.1%	53.1%
Millennial Comps	*6.2x*	*5.4x*	*26.4x*	*21.4x*	*13.0x*	*11.4x*	*14.8%*	*13.0%*	*23.6%*	*48.1%*
National Beverage	3.7x	3.3x	16.0x	13.8x	9.2x	8.1x	14.3%	13.2%	22.5%	40.0%

Note: Figures 7&8 represent CY metrics for FIZZ.
Sources: Company data, ThomsonOne, and Imperial Capital LLC.

Our price target of $125 is based on 18.9x FY20 (April) EBITDA (19.6x CY19), a premium multiple versus beverage comps, but a discount versus fast growth beverage and millennial-focused peers.

We also highlight the many recent transactions in the healthy foods, beverages and pet categories. While financial details were not made public on most of the transactions listed, Ainsworth Pet Nutrition, Snyder's-Lance, Blue Buffalo Pet Products, and Amplify Snack Brands all traded between 18x and 25x TTM EBITDA.

Figure 9. National Beverage Corp.—Summary of Growth Consumer M&A Transactions

Date	Target	Acquirer
2018	Ainsworth Pet	Smucker
2018	Snyder's-Lance	Campbell
2018	Blue Buffalo	General Mills
2017	Chameleon	Nestle
2017	Topo Chico	Coca-Cola
2017	Rxbar	Kellog
2017	Duke's	Conagra
2017	Angie's Bomchickapop	Conagra
2017	Pacific Foods	Campbell
2017	Amplify	Hershey
2017	Blue Bottle Coffee	Nestle
2017	Sweet Earth	Nestle
2017	Hiball	Anheuser-Busch
2017	King Juice	Mason Wells
2017	Kicking Horse Coffee	Lavazza
2016	EPIC Provisions	General Mills
2016	barkTHINS	Hershey
2016	BAI	Dr Pepper Snapple
2016	Joe & the Juice	General Atlantic
2015	Krave	Hershey

Sources: Company data and Imperial Capital, LLC.

It is also important to highlight the 2016 acquisition of Bai by Dr Pepper Snapple for $1.7bn, or 4.0x 2017 revenue (7.4x 2016E revenue, according to foodbusinessnews.net). Pre-recession, Coca-Cola acquired Glaceau for $4.1bn (4.0x revenue) and PepsiCo acquired IZZE.

We do think an acquisition of FIZZ is certainly possible. The company still has a controlling shareholder, Nick Caporella, who owns over 70% of FIZZ and has not sold stock recently. Nick sold a previous company, Burnum & Sims, to Mastec in 1994. Mr. Caporella is 82 years old. His son is currently President and is 57 years old.

We also think a larger CPG or beverage company would bring value to FIZZ, most likely in the form of revenue synergies. FIZZ has limited international, convenience, or food service distribution. It also could benefit from incremental marketing. The company currently invests a much less in marketing than beverage peers.

Figure 10. National Beverage Corp.—Advertising in Recent Fiscal Year

	Revenue	Advertising	%
FIZZ	827	45	5.4%
KO	35,410	3,958	11.2%
PEP	63,525	4,100	6.5%
DPS	6,690	547	8.2%
MNST	3,369	324	9.6%
SODA	543	76	14.0%
SAM	863	128	14.8%

Sources: Company data and Imperial Capital, LLC.

Recent Issues Provide Investors with a Potentially Attractive Entry Point for FIZZ

FIZZ shares have declined approximately 30% since September 2017 for a variety of reasons, including competition, raw materials pricing, and January quarter results. A short report released in 2016 by the Glaucus Research Group has also likely had a lingering impact. However, we are comfortable and believe these issues will not materially impact near/medium-term earnings.

Competition: The growth in sparkling water and LaCroix has attracted competition from the major beverage companies. In August 2017, Anheuser-Busch acquired Hiball, in October 2017, Coca-Cola acquired Topo Chico, in January, Nestle Water North America extended its regional spring water brands into sparkling, and in February, PepsiCo launched a new sparkling brand, Bubly, with national advertising. Many private label brands have also expanded in recent periods.

The competitive offerings have caught investor attention, however, we believe it is too early to determine if they will be successful and if LaCroix will lose material share.

First, competitors have not dampened volume growth in FIZZ's Power+ Brand segment thus far. Volumes grew 41% and 38% in the October and January quarters, as shown in Figure 11 below.

Figure 11. National Beverage Corp.—Segment Volume Growth, 2014-3Q18

	2014	2015	2016	2017	Q1'18	Q2'18	Q3'18
Stats							
Power+ Volume Growth (actual)	8.2%	15.3%	31.4%	42.6%	37.9%	41.0%	38.0%
Other Volume (estimated)	-8.1%	-7.2%	-7.8%	-11.5%	na	na	na
Total Volume Growth (actual)	1.1%	1.1%	9.0%	16.6%	14.9%	17.7%	14.9%

Sources: Company data and Imperial Capital LLC.

Secondly, there have been many other competitive products launched into the market in recent years that appear to have had little impact LaCroix's market share. PepsiCo launched Aquafina Sparkling in 2016 and Coca-Cola launched Dasani sparkling in 2013. Neither product gained much market share. SodaStream, which allows consumers to carbonate water from home, has also been in the market aggressively for several years and not appeared to negatively impact LaCroix.

While we are monitoring the competitive dynamics, we believe that LaCroix will not be easy to displace. The brand has grown without material traditional media advertising – millennials appear to identify with the brand and message (likely aiding brand stickiness). Also, we continue to see prominent placement during our store visits.

It is important to note that other independent beverage and food companies have successfully navigated niche products to scale. Blue Buffalo Pet Products (BUFF) grew from a niche "wholesome natural" pet food brand into a major industry participant, recently selling for $8bn to General Mills; Monster (MNST) remains independent, scaling into a $32bn market capitalization despite heavy competition; and Jack Links (private) has maintained strong market share in the meat snacks category, which has grown rapidly in recent years, despite competition from bigger food and snack peers.

Ultimately, if the larger beverage companies are successful, we think it may help lift the overall size of the U.S. sparkling water market, where per-capita consumption is still well below Europe.

Raw materials pricing: Aluminum tariffs have not currently had much of an impact on pricing. Additionally, FIZZ is mostly hedged through 2019.

Earnings: FIZZ's January quarter results came in slightly below consensus revenue. Management called attention to severe weather, which "temporarily disrupted deliveries in certain markets…", something we have heard from other consumer businesses. The Northeast, Midwest, and South regions of the U.S. faced harsh winters. The weather impact was not quantified, but as mentioned above, Power+ Brand volume growth was still strong at 38% yoy. Operating margin also expanded by 120bp yoy.

Short report: Although not recent, Glaucus Research Group published a short report in September 2016 that likely still receives attention. The report calls attention to fraud allegations made by a former attorney for FIZZ's CEO. The allegations were part of a lawsuit against FIZZ. Additionally, the report highlighted the unique management structure and external management, among other items. While we are not privy to CMA's books, we are comfortable as FIZZ's businesses have been carefully examined (audits, Nielsen and scanner data, etc.) and the cash generation and dividend payments bring additional check-points. As mentioned above, we value the business neutralizing the impact of the CMA structure.

History of Shareholder-Friendly Capital Allocation

We display National Beverage's cash generation and dividend history in Figure 12. As shown, FIZZ generates substantial free cash flow and has returned most of it in the form of one-time dividends. From 2010 to 2017, the company returned over 85% of its free cash to shareholders through special dividends.

Earlier in FY18, FIZZ paid out a $70mn special dividend, and we believe it will have capacity to pay >$400mn in additional dividends in FY19 and FY20 while maintaining a debt-free balance sheet.

Figure 12. National Beverage Corp.—Cash Flow History

	'10-'17	2018E	2019E	2020E
Cash from Operations	490.8	151.7	201.1	230.7
Capex	(89.2)	(24.7)	(24.0)	(24.0)
Free Cash Flow	401.5	127.0	177.1	206.7
Dividends	(356.6)	(69.9)	na	na

Sources: Company data and Imperial Capital, LLC.

Management and Operating Agreement

National Beverage has a unique operating structure. The company is managed by an external entity, Corporate Management Advisors (CMA), which provides executive management and financial and accounting services. CMA is owned by Nick Caporella, the Chairman and CEO, and it receives 1% of National Beverage revenue for its services. The board has considered, but never granted, incentive compensation to CMA. CMA was originally put in place because Mr. Caporella managed other companies.

Current management includes:

Nick Caporella, Chairman and CEO. Mr. Caporella has served as Chairman and CEO since he acquired the company in 1985. Mr. Caporella previously served as President, CEO, and Chairman of Burnup & Sims, an engineering and construction firm.

Joseph Caporella, President and member of the board. Mr. Caporella has served as President since 2002, prior to which he served as EVP since 1991. He has been involved in many different aspects of the business. He is the son on Nick Caporella.

George Bracken, EVP-Finance. Mr. Bracken has served as EVP-Finance since 2012 and served in various roles since 1996.

Figure 13. National Beverage Corp.—Income Statement, FY16-FY20E

National Beverage (FIZZ)	2016	2017	1Q18 July	2Q18 Oct	3Q18 Jan	4Q18E April	2018E	1Q19E July	2Q19E Oct	3Q19E Jan	4Q19E April	2019E	2020E
Net Sales	704.8	826.9	259.8	244.1	227.5	244.9	976.4	296.2	278.3	259.3	279.2	1,113.1	1,257.8
Growth	*9.1%*	*17.3%*	*19.7%*	*20.1%*	*16.9%*	*15.5%*	*18.1%*	*14.0%*	*14.0%*	*14.0%*	*14.0%*	*14.0%*	*13.0%*
Cost of Sales	463.3	500.8	155.3	148.0	136.3	144.5	584.2	176.2	165.6	154.3	164.7	660.9	742.2
Gross Profit	241.4	326.1	104.5	96.1	91.2	100.4	392.2	120.0	112.7	105.0	114.5	452.2	515.6
General and Administrative	148.4	163.6	46.7	45.4	45.4	46.5	184.1	52.1	50.1	50.0	51.7	203.9	227.8
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating Income	93.1	162.5	57.8	50.7	45.8	53.9	208.1	67.8	62.6	55.0	62.8	248.3	287.8
Interest Expense	0.2	0.2	0.1	0.1	0.1	0.1	0.3	0.1	0.1	0.1	0.1	0.4	0.4
Other Income	(0.1)	0.5	0.3	0.3	0.4	0.4	1.4	0.4	0.4	0.4	0.4	1.6	1.6
Pretax Income	92.7	162.8	58.0	50.9	46.1	54.2	209.3	68.1	62.9	55.3	63.1	249.5	289.0
Taxes	31.5	55.8	19.8	16.9	5.0	12.5	54.2	17.0	15.7	13.8	15.8	62.4	72.2
Net Income	61.2	107.0	38.3	34.0	41.1	41.7	155.1	51.1	47.2	41.5	47.3	187.1	216.7
GAAP EPS	$1.31	$2.29	$0.82	$0.72	$0.88	$0.89	$3.30	$1.09	$1.01	$0.88	$1.01	$3.99	$4.62
Shares	46.7	46.8	46.9	46.9	46.9	46.9	46.9	46.9	46.9	46.9	46.9	46.9	46.9
Adj EBITDA	105.1	175.3	61.3	54.2	48.9	57.1	221.5	71.3	66.1	58.5	66.3	262.3	301.8
FCF	66.8	99.8	39.5	22.5	26.1	38.9	127.0	48.6	44.7	39.0	44.8	177.1	206.7
Gross Margin	34.3%	39.4%	40.2%	39.4%	40.1%	41.0%	40.2%	40.5%	40.5%	40.5%	41.0%	40.6%	41.0%
S, G, A	21.1%	19.8%	18.0%	18.6%	20.0%	19.0%	18.9%	17.6%	18.0%	19.3%	18.5%	18.3%	18.1%
Taxes	34.0%	34.3%	34.1%	33.3%	10.9%	23.0%	25.9%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Operating Margin	13.2%	19.6%	22.2%	20.8%	20.1%	22.0%	21.3%	22.9%	22.5%	21.2%	22.5%	22.3%	22.9%
EBITDA Margin	14.9%	21.2%	23.6%	22.2%	21.5%	23.3%	22.7%	24.1%	23.8%	22.5%	23.8%	23.6%	24.0%
Incremental Gross Margin	37.8%	69.3%	44.5%	42.4%	46.4%	44.0%	44.2%	42.5%	48.7%	43.4%	41.0%	43.9%	43.8%
Incremental EBITDA Margin	33.2%	57.5%	33.2%	33.3%	27.1%	28.8%	30.9%	27.5%	34.8%	30.0%	26.9%	29.8%	27.3%

Sources: Company data and Imperial Capital, LLC.

Risk Factors

- **Ownership:** National Beverage is majority owned and controlled by Nick Caporella. Mr. Caporella and his family own over 70% of FIZZ.
- **Operating structure:** FIZZ is managed by an external manager called Corporate Management Advisors (CMA), which is owned by Nick Caporella. CMA receives 1% of revenue as compensation to provide management, finance, accounting, and administrative support. The structure reduces transparency of the true cost structure of National Beverage.
- **2016 short report:** Glaucus Research Group published a short report in September 2016 calling attention to fraud allegations made by a former attorney for FIZZ's CEO. Additionally, the report highlighted the unique operating structure, among other items. If the allegations of fraud are true, it could have a negative impact on FIZZ.
- **Competition:** Other large beverage companies recently acquired or have launched competing sparkling water products.

Price Chart and Ratings History

Initiation of coverage

Companies under coverage: George Kelly, CFA: Acushnet Holdings (GOLF), Blue Buffalo Pet Products (BUFF), Brunswick Corporation (BC), Callaway Golf Company (ELY), ClubCorp (MYCC), Drive Shack (DS), Johnson Outdoors (JOUT), Lindblad Expeditions (LIND), MINDBODY (MB), National Beverage (FIZZ), Nautilus (NLS), Planet Fitness (PLNT), Town Sports International Holdings (CLUB).

Important Disclosures, Certifications and Other Information

Ratings Distribution and Definitions

Equity Ratings Definitions (as of 7/1/09)

Outperform	63.06%	**Outperform**: TRR expected to exceed basket by at least 10%
In-Line	34.23%	**In-Line**: TRR expected to be in-line with basket
Underperform	2.70%	**Underperform**: TRR expected to underperform basket by at least 10%

This Equity Ratings Distribution reflects the percentage distribution for rated equity securities for the twelve month period 4/1/17 through 3/31/18. Rating definitions are expressed as the total rate of return (TRR) relative to the expected performance of a basket of like securities over a 12-month period. Within the twelve month period ended 3/31/18, IC has provided investment banking services to 12.86% of companies with equity rated an Outperform, 0.00% of companies with equity rated an Underperform, and 5.26% of companies with equity rated an In-Line. As of 3/31/18.

Fixed Income Ratings Definitions and Equity Ratings Definitions (prior to 7/1/09)

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Hold: TRR expected to be in-line with basket
Sell: TRR expected to underperform basket by at least 10%

Rating definitions are expressed as the total rate of return (TRR) relative to the expected performance of a basket of like securities over a 12-month period. Please refer to our publication dated 7/1/09 for details associated with the transition of our Equity Ratings to the current definitions.

For a discussion of the valuation methods used to determine our price target, if any, please see pages 1 and 5. See page 10 for the risks that may impede achievement of such price target, and page 10 for our ratings history and price chart.

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