

# Questions?

## Fair Value Based on Relative Valuation



## Fair Value Based on DCF

- Fair Value is approximately \$215 million
- Thecasesolutions.com**
- Key Assumptions
  - growth in net sales (7.3% decline)
  - cost of goods sold (46% of net sales)
  - advertising expense (41% of net sales)
  - depreciation (26.35% of PPE)
  - assets (grows at same rate as net sales)
  - networking capital (8.5% of net sales)
- Arriving at Free Cash Flow

## Thecasesolutions.com The Beer Cases (D): Thai Bev

Equity Assets – BUSI 3405u-002

Professor: Arup Ganguly

Students:  
100369733 Saaim Mussaddeq  
100406022 Harshadkumar Patel  
100372079 Rohan Bhardwaj  
100285122 Syed Zaidi  
100367320 Majuran Kulendran  
100369459 Sajid Ahmed

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## Executive Summary

- Fair Value based on DCF method \$215
- Fair Value based on Relative Valuation \$313
- IPO based on DCF is \$10.52 per share
- IPO based on Relative Valuation is \$15.08
- Craft beer industry is overpriced in the market

## Factors Influencing Valuation

- Craft beer industry is overpriced in the market
- in maturity stages
- many competitors (price wars)
- optimistic valuation on the company
- Valuation is more incorrect than wrong

## Company Background

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- The founder of Boston Beer Company
- Founded in 1984
- The 4 fundamental guiding principals
- Preference in America



## Determining the IPO

- Determining the total number of diluted shares
- IPO price per share is \$10.32 based on DCF
- Relative comparison gives a more accurate prediction
- IPO price per share is \$15.08 based on relative comparison
- Similar situation as competition

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## **Comparable Company 1**

Pete's Brewing Company:


- Major competitor
- Similar in revenue generating strategies
- High investment in marketing efforts
- Focus on building Brand loyalty

A large, thick red circular graphic that is partially cut off on the left side, framing the central text.

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## **Comparable Company 2**

Redhook Ale Brewing Company:

- Different capital cost structure
  - High investment in production facilities.
  - Higher cost of doing business.
  - Profitability varies.
  - Next to Pete's in competition
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## **Evaluation of Boston Beer Company**

- PEG ratio analysis of Pete and Redhook Ale company using P/E ratio given in the case
- Pete's PEG ratio = 0.90
- Redhook Ale REG ratio = 0.88
- Average of the two numbers = 0.89
- Translating the PEG ratio by using P/E ratio of Boston x total expected returns for BBC (1995) x avg. growth



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## **Evaluation of Boston Beer Company pt 2**

- Market Value of equity = \$312 Million
- Market Value of debt (given) = \$1.95 Million
- Fair Value of the firm = \$313.95 Million
- Constraints: Lack of comparable companies(at least 5-6 required for an accurate evaluation)