Deutsche Bank

29 September 2004

Boston Beer Company, Inc.

Reuters: **SAM.N** Exchange: **NYSE** Ticker: **SAM**

Attractive SHP seeks BBP with deep pockets

Laurie Hahn, CFA
(+1) 203 863 2244
laurie.hahn@db.com

Marc Greenberg, CFA
(+1) 203 863 2355
marc.greenberg@db.com

Initiation of Coverage

Hold

Price at 24 September 2004 (US$)	**24.25**
Price target - 12mth (US$)	**25**
52-week range (US$)	**28.00 - 16.00**

Definition Key

SHP	Small High-End Player
BBP	Big Brewer Partner

Coverage initiated with Hold on rich valuation, scale concerns
SAM trades at more than fair valuation given long-term scale concerns; we're not buying here. However, high-end brands are growth inclined, albeit underleveraged, and could thrive with deep pockets. Our forecasted three-year EPS CAGR of 12% exceeds history and peers, but a lack of spending leverage drives our 10-year EPS growth estimate below peers to 4%. We believe a takeout is inevitable; play SAM on a pullback.

Deutsche Bank

29 September 2004

Boston Beer Company, Inc.

Reuters: **SAM.N** Exchange: **NYSE** Ticker: **SAM**

Attractive SHP seeks BBP with deep pockets

Laurie Hahn, CFA
(+1) 203 863 2244
laurie.hahn@db.com

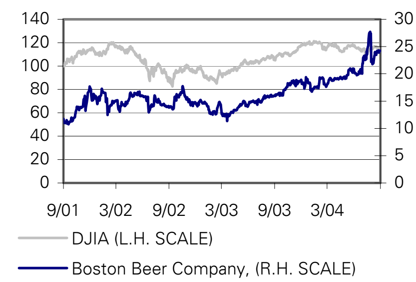
Marc Greenberg, CFA
(+1) 203 863 2355
marc.greenberg@db.com

Initiation of Coverage

Hold

Price at 24 September 2004 (US$)	**24.25**
Price target - 12mth (US$)	**25**
52-week range (US$)	**28.00 - 16.00**

Price/price relative



Performance (%)	1m	3m	12m
Absolute	*9.2%*	*15.6%*	*51.8%*
DJIA	*-2.0%*	*-3.7%*	*7.3%*

Stock data

Market Cap (US$)	**351.60**
Shares outstanding (m)	**14.50**
Free float	**NA**
Avg. daily volume ('000)	**137.00**
Beta	**0.64**
CY03 P/E-to-growth	**2.4x**
Est. 5 year EPS growth	**12.0%**

Coverage initiated with Hold on rich valuation, scale concerns

SAM trades at more than fair valuation given long-term scale concerns; we're not buying here. However, high-end brands are growth inclined, albeit underleveraged, and could thrive with deep pockets. Our forecasted three-year EPS CAGR of 12% exceeds history and peers, but a lack of spending leverage drives our 10-year EPS growth estimate below peers to 4%. We believe a takeout is inevitable; play SAM on a pullback.

SAM packs big growth potential, small market punch

The high-end niche is attractive, but spotty growth in Boston Lager and petering out of Sam Light growth underscore a lack of scale. By contrast, the overwhelming success of A-B's Michelob Ultra exemplifies scale at its best. In a concentrated beer market, we believe Boston Beer brands would thrive within a larger brewer's portfolio.

Scale changes the economics

One only needs look at per barrel financials to see the economics of scale. In spite of 71% superior revenue per barrel, SAM falls 55% short on EBIT per barrel than its peer group average. Media spending per barrel is over $28 compared to low-to-mid single digits for SAM's peers. The need to spend more per barrel – on media and promotions - to defend market share demonstrates SAM's primary challenge in achieving its growth targets.

Price target $25 – look for a pullback in difficult beer environment

Our $25 price target discounts 10-year EBIT growth of 4%, below our 5% forecast for BUD, and reflects 11x 2005E TEV/EBITDA, but a buyout could garner close to 12x, or $28. Current difficult beer conditions and higher spending pose risks to EPS. But a shot in the arm of ad spending could spur a near-term pickup, and ultimately, we believe SAM may find a home with a larger brewer, implying a stock price in the high $20s. A price in low $20s or better would spark our interest.

Forecasts and ratios

Year End Dec 31	2003E	2004E	2005E
1Q EPS (US$)	**-0.01**	0.09	NE
2Q EPS (US$)	**0.20**	0.27	NE
3Q EPS (US$)	**0.28**	0.23	NE
4Q EPS (US$)	**0.28**	0.14	NE
FY EPS (US$)	**0.73**	0.83	0.95
CY P/E	**33.2x**	29.2x	25.5x
EV/EBITDA	**9.4x**	12.5x	10.8x
Rev (US$)	**208**	216	227

Source: Deutsche Bank

Model updated: 24 September 2004

Equity Research

North America

US

Beverages

Boston Beer Company

Reuters: SAM.N Bloomberg: SAM UN

Hold

Price as of 24 September	US$ 24.25
Target price	US$ 25.00

Company website

http://samadams.com

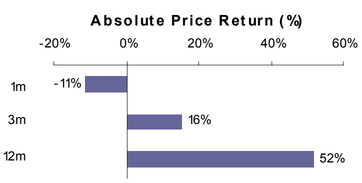
Company description

Jim Koch, the company's Chairman, founded The Boston Beer Company in 1984, and subsequently grew the company from a Boston startup to the largest specialty brewer in the U.S (6th largest overall U.S. brewer). The company defines itself within the "better beer" category, which includes craft or specialty beers and most imports. We view Boston Beer as a niche player, catering to drinkers of premium, high-end beer brands. The brand appears distinctive and has a solid consumer base, but we question its ability to compete with the muscle brands in the industry, like Corona and Heineken.

Research Team

Marc Greenberg, CFA
+1 203 863 2355 marc.greenberg@db.com

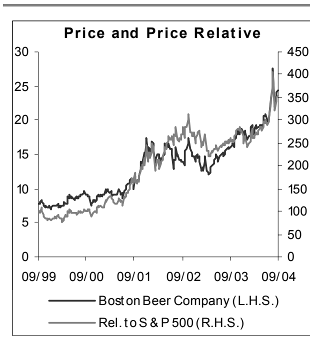
Laurie D. Hahn, CFA
+1 203 863 2244 laurie.hahn@db.com

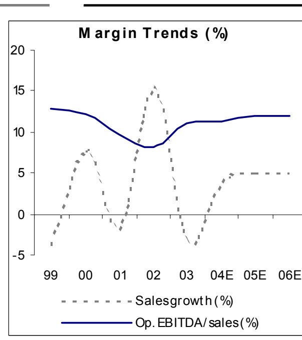


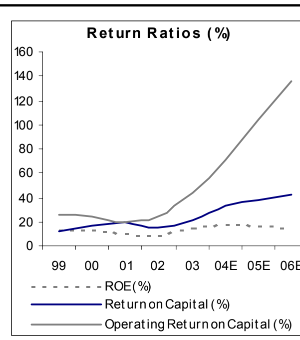
52-week Range:	US$ 15.92 - 27.70
Market Cap (m)	USD 390
	EUR 318

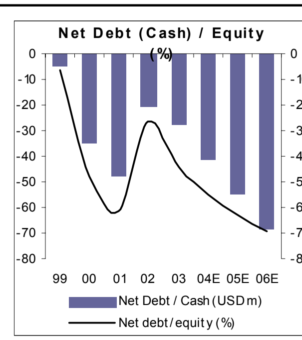
Company identifiers	
Cusip	100557107
SEDOL	2113393

Year Ending 31 December	1999	2000	2001	2002	2003	2004E	2005E	2006E
SUMMARY								
Headline EPS (US$)	0.54	0.62	0.47	0.52	0.73	0.83	0.95	1.03
P/E ratio Headline (x)	15.0	13.3	22.4	28.9	20.6	29.3	25.4	23.5
Headline EPS growth (%)	40.6	14.6	-23.9	10.4	40.4	13.2	15.2	7.9
EPS FD (US$)	0.54	0.59	0.46	0.44	0.70	0.85	0.96	1.03
P/E ratio FD (x)	15.1	13.9	23.2	34.1	21.4	28.7	25.4	23.5
Operating CFPS (US$)	0.67	0.96	1.17	0.86	1.33	0.73	-0.06	-1.01
Free CFPS (US$)	0.49	0.65	0.98	0.71	1.22	0.48	-0.34	-1.32
P/CFPS (x)	12.1	8.6	9.0	17.6	11.3	33.2	nm	nm
DPS (US$)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BV/Share (US$)	4.09	4.08	4.76	4.90	4.25	4.74	5.40	6.13
Price/BV (x)	1.76	2.16	3.60	2.92	4.27	5.12	4.49	3.96
Weighted average shares (m)	20	18	16	16	15	16	16	16
Average market cap (USD m)	166	149	174	243	222	390	390	390
Enterprise value (USD m)	121	114	126	190	179	327	314	300
EV/Sales	0.69	0.60	0.67	0.88	0.86	1.51	1.38	1.26
EV/EBITDA	5.3	5.0	6.9	10.7	7.8	13.4	11.6	10.5
EV/EBIT	7.2	6.9	11.0	16.3	11.3	17.7	15.5	14.0
EV/Operating Capital	3.1	3.0	4.2	7.2	9.1	24.7	28.8	34.3
INCOME STATEMENT (USD m)								
Sales revenue	177	191	187	215	208	216	227	238
Operating EBITDA	23	23	18	18	23	24	27	29
Depreciation	-576	-585	-1,007	6	7	6	7	7
Amortisation	582	591	1,014	0	0	0	0	0
EBIT	17	17	11	12	16	19	20	21
Net interest income(expense)	2	2	1	1	1	1	1	1
Associates/affiliates	0	0	0	0	0	0	0	0
Investment/other income(expense)	0	0	0	0	0	0	0	0
Exceptionals/extraordinaries	0	0	0	0	0	0	0	0
Income tax expense	8	8	5	6	6	7	8	9
Minorities/preference dividends	0	0	0	0	0	0	0	0
Net income	11	11	8	7	11	12	13	14
CASH FLOW (USD m)								
Cash flow from operations	14	17	19	14	20	12	-1	-16
Movement in net working capital	-4	-1	5	0	2	-2	0	0
Capex	-4	-6	-3	-2	-2	-4	-5	-5
Free cash flow	10	12	16	11	18	8	-5	-21
Other investing activities	6	0	0	-28	17	6	0	0
Equity raised(bought back)	-10	-21	-4	-9	-27	2	3	3
Dividends paid	0	0	0	0	0	0	0	0
Net inc(dec) in borrowings	-10	0	0	0	0	0	0	0
Other financing cash flows	0	0	0	0	0	-2	16	33
Total cash flows from financing	-20	-21	-4	-9	-27	0	18	35
Net cash flow	-3	-9	13	-25	7	14	13	14
Movement in net debt(cash)	-7	9	-13	25	-7	-14	-13	-14
BALANCE SHEET (USD m)								
Cash and other liquid assets	5	35	48	21	28	42	55	69
Tangible fixed assets	26	27	24	20	17	15	28	43
Goodwill	0	1	1	1	1	2	2	2
Other intangible assets	0	0	0	0	0	0	0	0
Associates/investments	39	0	0	32	15	21	21	21
Other assets	42	35	34	33	26	21	6	-9
Total assets	113	99	107	107	87	101	113	126
Interest bearing debt	0	0	0	0	0	0	0	0
Other liabilities	29	25	29	28	25	25	26	27
Total liabilities	29	25	29	28	25	25	26	27
Shareholders' equity	83	74	78	79	63	76	87	99
Minorities	0	0	0	0	0	0	0	0
Total shareholders' equity	83	74	78	79	63	76	87	99
Net working capital	14	13	8	6	3	5	5	5
Net debt(cash)	-5	-35	-48	-21	-28	-42	-55	-69
Capital	78	39	30	58	35	34	32	30
RATIO ANALYSIS								
Sales growth (%)	-3.6	7.8	-2.0	15.3	-3.4	4.0	5.0	5.1
Op. EBITDA/sales (%)	12.9	12.1	9.7	8.3	11.1	11.3	11.9	12.0
EBIT/sales (%)	9.5	8.7	6.1	5.4	7.6	8.6	8.9	9.0
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ROE (%)	13.3	13.7	10.0	9.2	14.9	17.4	16.4	15.3
Return on Capital (%)	12.1	16.5	19.5	14.9	21.2	33.5	37.7	43.0
Operating Return on Capital (%)	25.3	24.7	19.5	23.4	43.0	70.6	104.0	135.6
Capex/sales (%)	2.1	2.9	1.8	1.1	0.8	1.9	2.0	2.1
Capex/depreciation (x)	0.0	0.0	0.0	0.4	0.2	0.7	0.7	0.7
Net debt/equity (%)	-6.4	-47.7	-61.2	-26.1	-44.5	-54.7	-63.0	-69.6
Net interest cover (x)	nm	nm	nm	nm	nm	nm	nm	nm









Source: Company data, Deutsche Bank estimates

Investment thesis

Outlook

Boston Beer Company (SAM) signaled its renewed dedication to brand building with a recent increase in ad spending commitment. This was not surprising, given the need for major brewers to turn up ad and promotional spending to combat the spirits threat, particularly among drinkers aged 21-27. However, an additional $3–4 million (we estimate total around $30 million) does not a long-term success make in a mature beer market with spenders in the hundreds of millions. Despite its attractive high-end position, spotty growth in Boston Lager and a petering out of Sam Light growth underscore the company's lack of scale. We believe SAM brands have the potential to compete in the high-end beer market, which includes specialty and high-end imports, and low-carbohydrate beers. But potential doesn't necessarily translate to real long-term growth. SAM's track record since 1998 exemplifies this; only in 2002 when it launched Sam Light did volume growth outperform its target market.

As major brewers push to spend more on-premise, this continuous upping of the ante could prompt a SAM takeout within the next year or two

This shot in the arm of ad spending could spur growth in the short run, but historical growth underperformance begs the question: can SAM leverage its brands as a stand-alone? In our view, not in the long run. Sure, near-term EPS growth could outperform that of its peers over the next three years (forecasted 12% vs. <10% for BUD and RKY), but over 10 years, the need for ever higher ad/promotional spending coupled with gross margin pressure could drive growth to 4% vs. 5% for both BUD and RKY. While SAM could survive alone with no debt and a cash war chest, resisting a mutually beneficial combination with a larger brewer leaves growth currency on the table. SAM simply can't spend enough and can't distribute widely enough, and these things won't change overnight. Meanwhile, the big will continue to get bigger. Share battle at the top is getting heady, with Miller brand resurgence, spirits threat, and slow demand pushing even BUD to spend yet more money on advertising and promotion. As major brewers push to spend more on-premise, this continuous upping of the ante could prompt a SAM takeout within the next year or two.

Valuation

A dip in the stock price to the low $20s or better would interest us

We have introduced our 2004E EPS of $0.83 and 2005E EPS of $0.95. Our $25 price target discounts 10-year EBIT growth of 4%, below our 5% forecast for BUD, and reflects 11x 2005E TEV/EBITDA. We are comfortable with this slight premium to BUD (9.5x) on a multiple basis, given a potential buyout. Based on historical transactions, we don't see a buyer paying above 12x 2005 EBITDA, or $28 in share price. Despite minimal upside, current difficult beer conditions could open a window, as soft beer demand, the threat from spirits, and increased spending could pressure earnings. Ultimately, we believe SAM will find a home with a larger brewer, implying a stock price in the high $20s. A dip in the stock to the low $20s or better would interest us.

Risks

Top-line growth may exceed domestic CAGR of 1%, but SAM will increasingly need to spend more to defend share, so 10-year EBIT growth is unlikely to exceed best in class peers. As a small brewer, SAM could feel negative industry trends more notably than larger peers. Its high-end focus and lack of scale disproportionately exposes it to volume and pricing declines. Cannibalization between Lager and Light remains a risk, and scale issues could cause lower-than-expected growth.

Table of contents

Who is Boston Beer?

Background

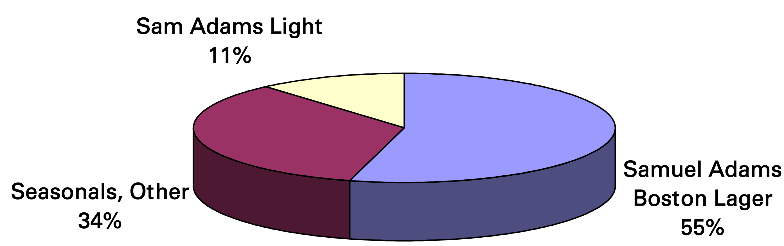
We view Boston Beer as a niche player, catering to drinkers of high-end beer brands

Jim Koch, the company's Chairman, founded The Boston Beer Company (SAM) in 1984, and subsequently grew the company from a Boston startup to the largest specialty brewer in the U.S (sixth-largest overall U.S. brewer). SAM defines itself within the "better beer" category, which includes craft/specialty beers and premium imports. We view Boston Beer as a niche player, catering to drinkers of high-end beer brands. The brand appears distinctive, with a solid consumer base, but we question its ability to grow with the muscle brands in the industry, such as Corona and Heineken.

Products

From a product perspective, Boston Beer's strategy focuses on the Samuel Adams Brand, with the intention of offering a portfolio of traditional beers. The newest product is Sam Adams Light, for which a national rollout was completed in 2002. Boston Beer expects to steer most of its advertising and promotional investment toward Samuel Adams Boston Lager, Sam Adams Light, and Samuel Adams Seasonal Beers.

Figure 1: Estimated product breakdown (2003 barrels)



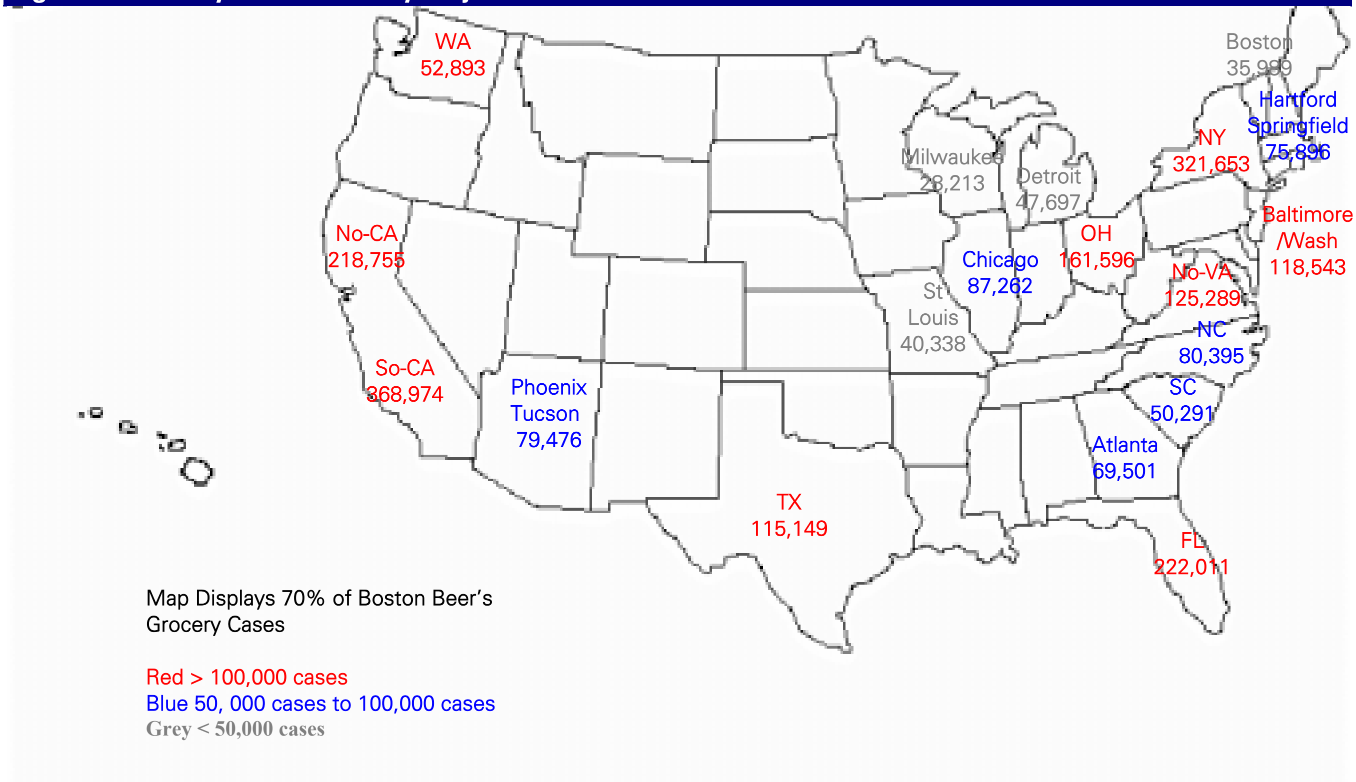
Source: Deutsche Bank, company information

Markets

Channel analysis

Unlike its largest competitors, Boston Beer does not have a strong national presence. Its brews are largely sold in New England, the Mid Atlantic, parts of the Midwest, and the West Coast. Its presence in the Rocky Mountain states and much of the Midwest is relatively small. This partially reflects the specialty nature of the brand, its geographic evolution and the premium status, which appeals more to affluent customers. We estimate the company's geographic exposure using the map below, which displays grocery store cases by major market. This is far from a full representation, but fair based on our conversations with wholesalers.

Figure 2: Grocery store cases by major market



Source: Deutsche Bank, IRI

Grocery. Across all supermarkets, Boston Beer represents only 0.7% of total cases sold. Boston is the company's largest market share city, with 5.1% share of grocery volumes. However, Boston is a relatively small market at only 0.2% of the grocery channel. Boston may represent a larger proportion of on-premise, as this is an urban market with a large number of bars and restaurants.

Figure 3: SAM's top market share cities (grocery, above 1%)

City	Share of Cases
Boston, MA	5.1%
Hartford, CT/Springfield MA	4.5%
Albany, NY	2.4%
Baltimore, MD/Washington DC	2.4%
New York Metro, NY	2.1%
Northern Virginia	1.7%
Philadelphia, PA	1.8%
San Diego, CA	1.6%
Buffalo/Rochester, NY	1.3%
Chicago, IL	1.2%
San Fran/Oakland, CA	1.4%
Syracuse, NY, CA	1.0%
Atlanta, GA	1.2%
Columbus, OH	1.1%
Cleveland, OH	1.0%

Source: Deutsche Bank, IRI

SAM is most popular in grocery in Massachusetts, New York, Maryland, Washington DC, Virginia, Pennsylvania, California, Georgia and Ohio. In our view, narrow breadth reflects the specialty nature of the beer. Most consumers are not taking home Samuel Adams to drink on a daily basis.

SAM's distribution gets a lot of bang for its buck by staying on-premise

On-premise. Boston Beer is at its best in the on-premise channel. This is the only channel where SAM makes the top 10, with a small but material 2% market share. While on-premise accounts for only 25% of beer volume, it represents 48% of beer retail dollar sales. In other words, SAM's distribution may not be very wide, but it gets a lot of bang for its buck by staying on-premise.

Figure 4: Top 10 on-premise beer brands

1	Bud Light	20%
2	Miller Lite	12%
3	Budweiser	12%
4	Coors Light	9%
5	Corona	5%
6	Miller Genuine Draft	3%
7	Heineken	3%
8	Guinness	2%
9	Michelob Light	2%
10	Sam Adams	2%

Source: Deutsche Bank, "Beer is Volume With Profit"

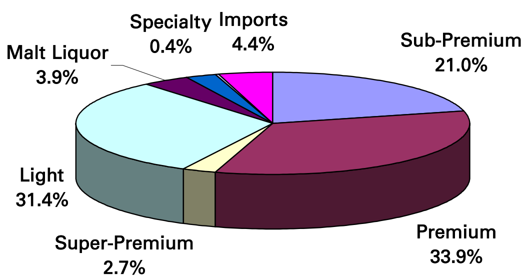
Convenience store. Boston Beer brands have limited space in convenience stores. None made the top 25, implying market share is barely meaningful (less than 0.5%), if at all. Conversely, competitors showed up strongly, with Corona at 1.8% case share and Heineken at 1.3%. Based on conversations with C-Stores, Samuel Adams beers don't turn as quickly as others, and therefore do not command as much space.

Liquor stores. As with on-premise, Boston Beer brands show up much more in liquor stores; there is more shelf space to be had for beer compared to C-Stores and Supermarkets. Further, consumers often buy beer at liquor stores for special occasion consumption, when Samuel Adams more often fits into the mix. Samuel Adams Boston Lager garners 1.0% liquor store case share.

Market share analysis

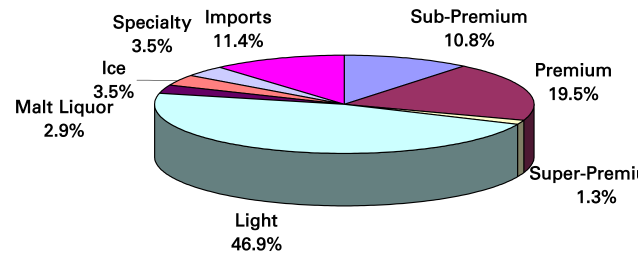
Since 1990, the specialty segment has blossomed from 0.4% to 3.5% of all beer volumes. Stagnant growth since 1999 implies a mature specialty market. Consolidation has occurred, but there are still many small brands and breweries. As a strategic alternative for SAM, combination with another specialty brewer doesn't offer much benefit, as brand supercedes supplier on the front end. We don't believe combining with a smaller brewer makes sense, as SAM already has superior distribution and advertising spending.

Figure 5: Beer segment share 1990



Source: Deutsche Bank, Impact Databank Review & Forecast

Figure 6: Beer segment share 2002



Source: Deutsche Bank, Impact Databank Review & Forecast

Boston Beer is the grandfather of specialty beer, having made up most of the fledgling market in the 1980s. Only in the 1990s did specialty beers become meaningful to the beer industry. New microbreweries and craft brewers entered the marketplace until the market neared saturation in the mid-1990s, demand fizzled, and many smaller brewers threw in the towel. Hence, many top 15 specialty brands gained share, while 'all other' declined from 61.7% in 1990 to 49.5% in 2002. Boston Beer has generally maintained its share through new product introductions to help offset the share decline in Boston Lager.

Figure 7: Top 15 specialty beer brands – 1990 vs. 2002

	1990	2002
Samuel Adams Boston Lager	13.6%	10.4%
George Killians Irish Red	13.4%	8.7%
Sierra Nevada Pale Ale	2.9%	7.5%
Michelob Amber Bock	0.0%	5.9%
Shiner Bock	4.1%	3.4%
Fat Tire Amber Ale	0.0%	3.2%
Redhook E.S.B.	2.0%	2.2%
J.W. Dundee Honey Brown Lager	0.0%	1.9%
Widmer Hefeweizen	1.2%	1.7%
Alaskan Amber	0.3%	1.1%
Weinhard Pale Ale	0.0%	1.1%
Samuel Adams Octoberfest	0.4%	0.9%
Samuel Adams Summer Ale	0.0%	0.9%
Samuel Adams Winter Lager	0.3%	0.8%
Blue Moon Belgium White Ale	0.0%	0.8%
All Other	61.7%	49.5%
Total	100.0%	100.0%

Source: Deutsche Bank, Impact Databank Review & Forecast

Total imports have expanded from 4.4% of the market in 1990 to 11.5% in 2003. Since 1999, the growth in premium and light imports has driven most of the growth in the high-end category. Corona and Heineken clearly dominate the import market, with combined market share of 48%; no other brand boasts more than 5%. This speaks to brand clout most high-end beer brands can't touch.

Figure 8: Import market share

	1990	2002
Corona Extra	**10.8%**	**28.7%**
Heineken	**26.0%**	**19.3%**
Labatt Blue	5.1%	5.0%
Tecate	2.4%	4.2%
Guinness	2.2%	3.4%
Amstel Light	**4.1%**	**3.1%**
Fosters	2.3%	3.0%
Becks	6.8%	2.6%
Bass	2.2%	2.5%
Modelo Especial	0.3%	2.5%
Corona Light	**1.0%**	**2.2%**
Labatt Blue Light	0.9%	1.6%
Newcastle Brown Ale	0.1%	1.4%
Molson Ice	0.0%	1.4%
Pacifico	0.4%	1.1%
All Others	35.2%	17.9%
Total	100.0%	100.0%

Source: Deutsche Bank, Impact Databank Review & Forecast

Our high-end beer category estimate includes specialty beers, premium/super premium imports, and premium lights (light imports and low carb). This estimated category represents approximately 14.9% of the domestic beer industry, up dramatically from 3.6% in 1990. Interestingly, Boston Beer combined held a solid third place position in 2002, but gave up its seat to Michelob Ultra in 2003. These share estimates underscore the vast differences between the Ultra and Sam Light launches.

Figure 9: High-end beer category market share

	1990	2002	2003
Corona Extra	12.9%	24.7%	23.1%
Heineken	31.4%	16.7%	15.0%
Michelob Ultra	0.0%	1.5%	10.1%
Samuel Adams Boston Lager	**1.4%**	**2.7%**	**2.2%**
Seasonals, Other	**0.3%**	**2.2%**	**1.4%**
Sam Adams Light	**0.0%**	**0.4%**	**0.5%**
Amstel Light	5.7%	2.7%	2.4%
Corona Light	1.4%	1.9%	2.0%
Other	46.8%	47.2%	43.2%
High End Market	100.0%	100.0%	100.0%

Source: Deutsche Bank, Impact Databank Review & Forecast

Boston Beer – better beer, not necessarily better growth

Boston Beer, in our view, represents an underdeveloped growth opportunity. Traditionally a specialty beer company, SAM classifies itself in what *it* calls the "better beer" category. But clumping together better beers as such is overly simplistic. For example, the difference in brand strength, distribution clout and market power between Samuel Adams Boston Lager and import leader Corona is dramatic.

SAM's target market is gray, not black and white. For example, the runaway success of A-B's super premium brand Michelob Ultra blurs the line further: taste and brand positioning may be dissimilar between Boston lager and Ultra, but they compete for same consumer – affluent, image-conscious, and of late, health-conscious. We have therefore included low-carb in our proxy for the "high-end" market. Boston Beer targets growth in line with this category – a tough bogey indeed, given the muscle brands it's up against. And its experience in the four years prior to 2002 highlights this challenge. Only the introduction of Sam Adams Light enabled relative outperformance of 350 basis points in 2002, with SAM posting 10.4% vs. 6.9% for the high end. However, Light faltered in 2003 and SAM underperformed, largely overshadowed by Michelob Ultra. The high-end market would have only grown 3% in 2003 excluding the extreme growth in Ultra.

Figure 10: Boston Beer relative growth performance

	1995	1996	1997	1998	1999	2000	2001	2002	2003
High End Market	22.9%	18.6%	9.8%	11.9%	14.4%	7.4%	6.5%	6.9%	12.5%
Boston Beer		26.2%	11.5%	-9.2%	-4.3%	5.7%	-6.1%	10.4%	-4.4%
Relative Growth Performance		7.6%	1.7%	-21.2%	-18.7%	-1.7%	-12.6%	3.5%	-17.0%

Databank Review & Forecast, "Beer is Volume With Profit", Impact Databank Review & Forecast

We applaud Boston Beer for aspiring to bigger and better things. Targeting the high-growth segment seems a logical step toward better pricing, and faster top- and bottom-line growth. But the last few years of performance suggest there is more work to be done, particularly since underperformance persists despite growth initiatives outside of Lager (i.e., Seasonals, Twisted Tea, Light, etc).

Figure 11: SAM growth versus target market versus beer category

	1985-2003	1990-2003	1995-2003	1999-2003
Total Boston Beer		19.5%	3.1%	1.2%
Specialty	26.6%	19.3%	4.7%	0.2%
High End Lights	18.8%	18.3%	31.4%	53.5%
Premium Imports	6.1%	8.0%	9.8%	6.5%
High End Market	10.1%	11.9%	11.0%	8.2%
Total Beer Market	0.5%	0.2%	0.8%	0.5%

Source: Deutsche Bank, Impact Databank Review & Forecast , "Beer is Volume With Profit"
Note: High End Lights Includes Michelob Ultra, Light Imports, Sam Adams Light

Stepping back, SAM has seen growth in Boston Lager slow considerably, as share went to up-start craft brewers in the 1990s and the brand matured. Furthermore, imports have become the darlings of the beer industry, garnering nearly all of the growth since 1998. Boston Lager growth remained above the U.S. beer market at 1.3% between 1995 and 2003 versus 0.8%, but well below specialty beer growth of 4.7% and high-end growth of 11.0%. Total SAM volumes fared better, up 4.2% during the same period, but slower than the target market. Between 1999 and 2003, Lager declined 1.3% annually amid a flat specialty market. Light drove the 1.2% CAGR in total SAM volumes, while the high-end market gained 8.2% annually.

SAM must spend more per barrel to sustain its market position

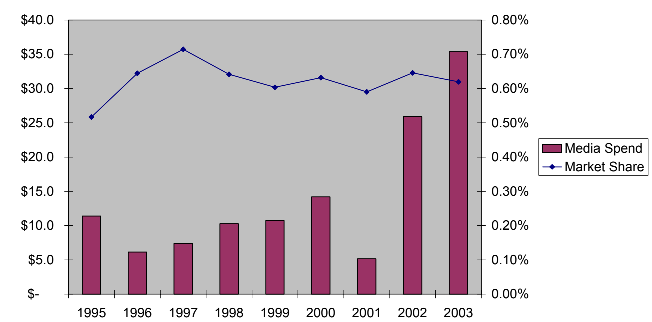
To compete effectively, SAM needs to turn up the heat

Historic performance leads to the question: What can be done to better compete for share and profits? The company' financials are healthy, but not up to potential, in our opinion. Its portfolio has the appeal to compete head to head with leading imports, but not always the "push." Competition often has dominant brand equity, hefty marketing budgets, or both. Therefore, SAM's higher revenue per barrel (i.e., 71% higher than peer group average) does not translate into high relative EBIT (55% below average). Most if not all of this is scale related – SAM must spend more per barrel to sustain its market position.

SAM gets less bang for its media buck

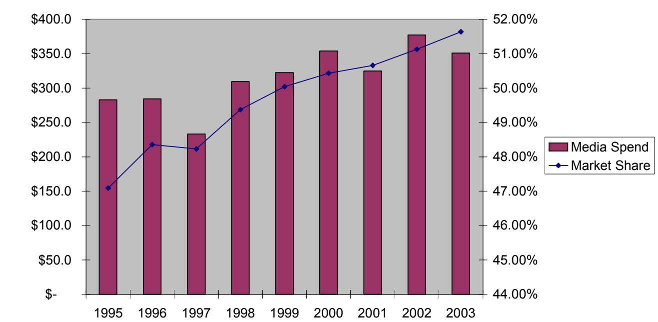
The recent increase in planned spending behind Lager and Light is a first step to pushing market share forward, but we're not confident this will be enough to spur superior growth. Market share directly relates to marketing spend, which directly relates to size and scale. The only way to grow is to brand build. But here's the rub: all marketing dollars are not created equal. Each dollar spent by SAM is unlikely to return the same level of brand recognition as its larger competitors. Consider two extremes – SAM with less than 1% market share and BUD with over 50% share.

Figure 12: SAM media spending versus market share



Source: Deutsche Bank, CMR, Impact Databank Review & Forecast

Figure 13: BUD media spending versus market share



Source: Deutsche Bank, CMR, Impact Databank Review & Forecast

The following equations demonstrate the power of scale, in our view.

BUD: +4.5% share/8 years = 0.6% average share gained per year vs. 2.7% eight-year media spending CAGR

SAM: +0.1% share/8 years = 0.01% average share gained per year vs. 15.2% eight-year media spending CAGR

Overly simplistic? Perhaps, but it illustrates the brand power commanded by a dominant brewer that can to some extent, feed itself, whereas SAM must fight with bigger swords to make up for its size.

Awareness not enough

While consumers seem aware of the Samuel Adams brands, they don't choose them nearly as often as Corona and/or Heineken. Distributors largely believe SAM puts good support behind its brands. So perhaps it isn't quality of advertising but the number of consumers actually reached and affected; a $30–35 million advertising budget can't hope to achieve the consumer reach of a larger brand (i.e., Heineken, at $80 million). Given the powerful brand recognition for Corona and Heineken, the ability of a smaller, competing brand to gain attention could be crippled without a compelling message and effective, widespread delivery of that message. SAM recently indicated a more efficient use of its media dollars, with greater reach, frequency and GRPs, but without spending the big bucks on network. But again, it comes back to the money issue; Corona and Heineken don't need to spend as much per barrel because they have reached a critical mass that SAM doesn't have.

Figure 14: Peer growth comparison

	1985-2003	1990-2003	1995-2003	1999-2003
Corona Extra	17.1%	16.9%	20.9%	9.9%
Heineken	3.0%	5.6%	7.5%	6.9%
Boston Beer	NA	19.5%	3.1%	1.2%

Source: Deutsche Bank, Impact Databank Review & Forecast

Good for a craft, not so much as a lead brand

As demonstrated in Figure 14, SAM brand started within the specialty beer category and grew swiftly until upstart craft/microbrewers entered the market in the 1990s. Boston Lager has achieved wider appeal and distribution than many of the remaining craft brands. But we are not so sure it can be a worthy competitor of Corona or Heineken from an image standpoint. For instance, while both Corona Extra and Boston Lager sold under 1 million barrels in 1990, Corona has grown consistently at double digits to 6.5 million barrels in 2002 while Boston Lager slowed and has yet to surpass the 1 million barrel mark as a brand. It is now lagging its peers, with growth in the low single digits. We would also point out the continued popularity of Corona recently despite a high-single-digit price increase, whereas we have been told that SAM is trying to raise prices but has encountered some resistance. Brand loyalty for SAM just doesn't appear as widespread as for its top peers.

SAM is a price follower

As a much smaller player, even in the larger high-end market, SAM follows its dominant peers on price. Corona's recent price increase bodes well for the near term and Heineken has indicated it will follow. While SAM makes pricing decisions this fall to implement in January or February, it will monitor Corona and Heineken to determine its moves. 70% of the business is priced on a yearly basis in this manner, meaning there is only one chance to price the business right for the year. SAM therefore leaves much of its pricing fate in the hands of the market leaders, which is fine when prices are going up, but leaves it disadvantaged in a discounting environment, given its size and higher overall costs per barrel.

Distribution and market presence

SAM faces an uphill battle

Most of the company's market share resides on the coasts and in major metropolitan markets, especially New England, and a few major Midwestern cities. Across the vast stretch of Middle America, SAM brands are not popular. SAM misses out on growth potential between the coasts given limited distribution and brand clout; these two factors are interdependent. For instance, some of the larger brewers with greater brand power have been successful at negotiating exclusivity with distributors. BUD is the best example, where 67% of its distributors carry only BUD brands. The power of these dominant brands gives them leverage to dominate the distribution channel. As an increasing amount of market share goes to the top brewers, this will only become more marked, meaning less space for SAM. Furthermore, the U.S. distributing network continues to consolidate, making it more difficult for smaller brewers to make headway. This brings us back around to the core issues – spending and scale. In order to defend its position with distributors, SAM faces an uphill battle.

SAM's marketing spending is not producing a commensurate amount of growth

The proof is in the numbers – per barrel media study

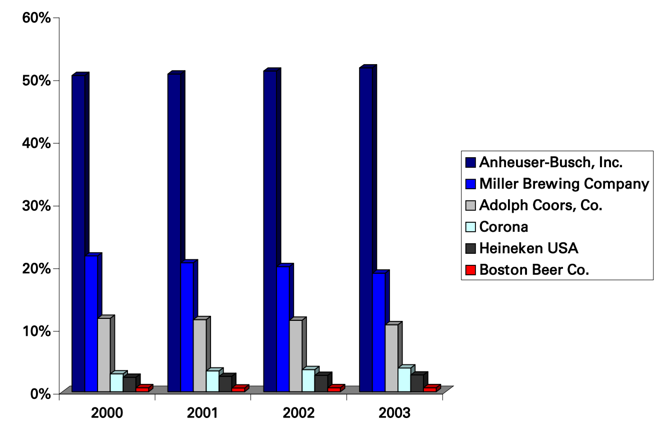
The study below tells us a few key facts about the relationship between marketing spending and share. As a company gains scale, its marketing dollars work exponentially harder. Notice that as SAM has stepped up its growth strategy with Sam Adams Light, media spending per barrel has skyrocketed to twice that of the next closest major peer, Heineken. In other words, the spending is not producing a commensurate amount of growth.

Figure 15: Media spending

	2000	2001	2002	2003
Media Spend				
Anheuser-Busch, Inc.	$ 345.5	$ 309.9	$ 389.0	$ 340.7
Miller Brewing Company	$ 208.3	$ 264.4	$ 279.4	$ 256.2
Adolph Coors, Co.	$ 210.9	$ 214.2	$ 206.0	$ 167.2
Heineken USA	$ 57.4	$ 70.0	$ 71.5	$ 79.1
Boston Beer Co.	$ 14.2	$ 5.2	$ 26.1	$ 35.4
Corona	$ 35.3	$ 33.9	$ 30.9	$ 33.5
Media Spend per Barrel				
Anheuser-Busch, Inc.	$ 3.5	$ 3.1	$ 3.8	$ 3.3
Miller Brewing Company	$ 4.9	$ 6.5	$ 7.0	$ 6.8
Adolph Coors, Co.	$ 9.2	$ 9.4	$ 9.1	$ 7.9
Heineken USA	$ 12.8	$ 14.6	$ 13.8	$ 14.9
Boston Beer Co.	$ 11.4	$ 4.4	$ 20.3	$ 28.8
Corona	$ 6.3	$ 5.2	$ 4.4	$ 4.5

Source: Deutsche Bank, Impact Databank Review & Forecast, CMR

Figure 16: Market share



Source: Deutsche Bank, Impact Databank Review & Forecast, CMR

Granted, any product launch takes a significant injection of media spending. Our concern is that this level of spending cannot abate without risking share loss for SAM brands. Sam Adams Light seems to have already hit a shakeout point, where growth is likely to slow. Point is, a far higher media spend per barrel is not likely to abate for SAM as there is just not enough scale or brand power to elevate volumes at a rapid rate.

We believe this issue explains a core difference between SAM and its peers. SAM boasts far superior revenue per barrel and gross profit per barrel, yet its operating margins are at least 10 percentage points below the market leader – Anheuser-Busch – and more in line with Coors (whose efforts to improve operating margins present perhaps the best opportunity for profit growth among domestic brewers). Similarly, EBIT per barrel falls below both BUD and RKY.

Figure 17: Per barrel financial analysis

	Revenue/Barrel	Gross Profit/Barrel	EBIT/Barrel
Anheuser-Busch, Inc.	$ 107.1	$ 51.4	$ 28.8
Adolph Coors, Co.	$ 107.7	$ 63.2	$ 13.6
Boston Beer Co.	$ 168.2	$ 100.2	$ 12.8

Source: Deutsche Bank, Company information

Keep in mind that freight costs are included in SG&A, which skews gross profit to the upside. SAM also outsources 50% of its brewing capacity, thereby reducing operating leverage as fewer costs are fixed. Media spending per barrel explains a lot of the discrepancy between gross profit per barrel and EBIT per barrel. The key constraint on the SAM franchise is lack of scale in advertising spending, which inhibits its ability to gain share with distributors and consumers. Given continued consolidation among brewers and distributors, this is likely to become more pronounced over time.

The SAM value proposition

Constructively, the SAM portfolio presents a unique franchise domestically – a high-end portfolio, well-established brand identity, and a 'must have' tap on-premise with Boston Lager. Additionally, revenue and gross margin per barrel are very attractive, and the company brings with it an entrepreneurial culture.

High-end, niche products with growth potential
Samuel Adams Boston Lager has stagnated, but could offer better growth if better leveraged. The Sam Adams Light growth potential would appear quite encouraging, as the high end light beers have collectively grown at a CAGR of 15% since 1995. Even in 2003, a tough year by all accounts, less-mature brand Corona Light grew 17%, while Amstel Light grew 2%. But the stall-out of SAM in late 2003 and 2004 concerns us. Brand clout and support may not be strong enough to support consistent growth. Distributors report this is a good product and consumers took to it well during the launch phase, but the brand lost momentum and remains slow.

The pros
Consumers who like a meatier light beer could favor it, especially those who wanted a lighter version of Boston Lager. Our contacts praise the SAM sales force as one of the best in the industry, which could present a valuable asset to an acquisitive partner.

Cons
Cannibalization appears to be a problem – Boston Lager faltered after Sam Light hit the market. Further, the product isn't as light as other lights, especially some of the newer low-carb brands that are rapidly taking market share. It isn't even as light as some of the traditional light beers, with 124 calories, compared its direct comp, Amstel Light, at 98 calories.

The growth onus is on Sam Adams Light
Sam Light has established a niche in the high-end light market, with opportunity to grow as (1) the super-premium light beer market gains share of the category and (2) because it presents a viable option among the few super premium lights available. In our view, consumer loyalties may not be quite as strong among the high-end lights as they are for traditional Corona and Heineken. If Sam Light is a good product and can compete on quality and taste, one would expect it to continue gaining share.

We expect the high-end beer market to grow in the mid-single digits for the next few years, with high-end lights generating even higher growth, compared to ongoing total beer growth of around 0.5%-1%. If we assume that Sam Light grows between 3% and 5% over the next five years as a base case, below high-end lights but generally in step with high end, it could contribute 0.5%-1.1% in total company EPS growth, compared to our forecasted ten-year EPS CAGR of 5%. However, the potential for cannibalization of Lager could dilute overall growth. Furthermore, Light's initial fall-off in volumes could indicate stunted growth. Our bear-case scenario assumes growth below the high end, which would lead to virtually no contribution to EPS growth after 2006. On the other hand, if media spending continues to rise, and SAM brand builds effectively, 5-10% volume growth, right in line with other high-end lights, could generate 0.8-1.7% EPS growth contribution.

Figure 18: Sam Light growth scenarios and contribution to total EPS growth

	2005	2006	2007	2008	2009	2010
Base Case Barrels (millions)	0.13	0.14	0.14	0.15	0.15	0.16
% Growth	5.0%	5.0%	4.0%	4.0%	3.0%	3.0%
Bull Case Barrels (millions)	0.14	0.15	0.16	0.18	0.19	0.20
% Growth	10.0%	10.0%	8.0%	7.0%	6.0%	5.0%
Bear Case Barrels (millions)	0.13	0.13	0.14	0.14	0.14	0.14
% Growth	3.0%	3.0%	2.0%	2.0%	1.0%	0.0%
Net Revenue per Barrel	$172.30	$ 175.26	$177.54	$179.85	$182.19	$184.55
Base Net Revenue	$22.8	$24.3	$25.6	$27.0	$28.2	$29.4
Bull Net Revenue	$23.9	$26.7	$29.2	$31.7	$34.0	$36.2
Bear Net Revenue	$22.4	$23.4	$24.2	$25.0	$25.6	$25.9
Operating Margin	8.9%	9.0%	9.5%	9.7%	9.7%	9.7%
Base Operating Income	2.0	2.2	2.4	2.6	2.7	2.9
Bull Operating Income	2.1	2.4	2.8	3.1	3.3	3.5
Bear Operating Income	2.0	2.1	2.3	2.4	2.5	2.5
Base Sam Light EPS	$ 0.09	$ 0.10	$ 0.11	$ 0.12	$ 0.12	$ 0.13
Bull Sam Light EPS	$ 0.09	$ 0.11	$ 0.12	$ 0.14	$ 0.15	$ 0.15
Bear Sam Light EPS	$ 0.09	$ 0.09	$ 0.10	$ 0.11	$ 0.11	$ 0.11
Base % Growth vs. SAM EPS	1.1%	0.8%	1.1%	0.7%	0.4%	0.4%
Bull % Growth vs. SAM EPS	1.7%	1.3%	1.6%	1.2%	0.9%	0.8%
Bear % Growth vs. SAM EPSd	0.9%	0.5%	0.8%	0.5%	0.2%	0.1%

Source: Deutsche Bank, company information, Company Information

Must-have tap

Samuel Adams has emerged as a "must-have" tap in a lot of high-end on premise locations

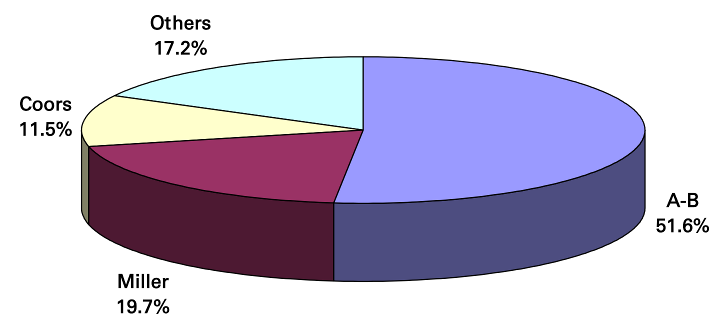
On-premise is by far SAM's strength, with well over 2% market share in this channel as opposed to less than 1% nationally. Based on our on-premise research over the past several years, Samuel Adams has emerged as a "must-have" tap in a lot of high-end on premise locations. Furthermore, the brand has dug a niche in the chain business as both a high end and craft beer. Keep in mind that while 25% of all beer volume is consumed on premise, 48% of retail sales dollars are generated on-premise. At retail, the average gross margin (on-premise is around 82.0% versus 19.2% for convenience stores and 18.7% for Supermarkets. This is the most attractive channel for distributors and retailers, and SAM's focus here helps offset the lack of scale; many distributors want to carry the brand if they can sell it, as they make a larger margin on it than some of the lower end domestic brands. But top domestic brewers are picking up the slack on advertising and promotional spending on-premise to compete with spirits. We believe SAM will need to pick up the pace as well, but its position as a high-end (more profitable) brand could give it leverage with on-premise retailers.

Piecing the puzzle together

SAM is most apt to flourish under the wing of a larger player that can put more effective advertising and market muscle behind the brands

The juxtaposition of SAM's constraints and its strengths brings us to an inevitable conclusion... SAM is most apt to flourish under the wing of a larger player that can put more effective advertising and market muscle behind the brands. In spite of the compelling aspects of the SAM franchise, its brands don't seem to get a fair chance in the market, overshadowed by brands that are married up with deep pockets. We believe SAM needs greater support to take on a mature beer market over the long run. On the domestic front, the top three brewers command 82.8% of the U.S. beer market versus SAM's 0.6% share.

Figure 19: U.S. beer market – leading brewer market share



Source: Deutsche Bank, Beverage Marketing "Beer in the US"

...but a question remains

Who makes sense as a partner for SAM and how likely is it to occur near-term?

Consolidation is still taking place on a global scale and among the craft brewers. The most recent example for the U.S. market is the proposed Coors-Molson combination.

SAM has survived on its own for almost 20 years, but its position as a high-growth craft brewer has shifted to a more mature standing in the industry. Any combination would need to strike a balance of synergies: greater marketing power with brand identity preservation. Founder Jim Koch – whose maverick style was predicated from day one on heritage and uniqueness of the brand – is unlikely to compromise brand equity, and he retains super-voting rights. However, a merger with a large brewer in need of a high-quality, niche product makes sense, where the combined marketing spending could benefit both companies, and SAM could utilize unused capacity.

The number of possible buyers is not large, but a mid-level player looking for ammunition against BUD might make sense

Take the SAB purchase of Miller as an example. This combination took a struggling brand and enacted a comeback for Miller Lite. Miller Lite has retained its brand recognition, but SAB ratcheted up the marketing campaign and boosted growth. What could a larger brewer do for the SAM brands? We believe there is ample evidence that SAM might thrive with a bigger parent to support its brands. The number of possible buyers is not large, but a mid-level player looking for ammunition against BUD might make sense. Both would gain scale on the cost side, the buyer would gain share, and SAM would gain more marketing muscle and wider distribution capabilities.

A combination with a player other than BUD is most suitable
With far superior financials and returns, BUD has little need or incentive to add SAM to its already diverse, brand-dominant portfolio – and let's face it, after years of not-so-playful mud-slinging by its founder, there's no love lost here. However, for a smaller albeit still large player, there are clear synergies; diversification into the high-end beer market, combined ad spending, greater overall pull with distributors, and capacity utilization.

There may be other more suitable matches for SAM in terms of size and scale synergies. Potential combinations could yield mutual benefits in media spending and brewing strategies.

Don't rule out an international suitor
Global consolidation is alive and well. Nine brewing transactions have been announced this year, as large brewers search for growth and scale in a broadly mature market. Combinations are taking place across countries; Coors and Molson announced a merger, BUD and SABMiller are pushing into China, and Interbrew and Ambev will form the world's largest brewer, among others. Against an active M&A backdrop, SAM seems even more like a sitting duck. SAM could represent a viable segue into the U.S. market for an international player. Though distribution isn't as good as the top three, SAM may be a good starting point from which to build a presence. SAM would gain access to deeper pockets, and better leverage potential for the brand.

Risk-reward not compelling

$25 price target offers minimal upside

Our outlook remains constrained by long-term concerns

SAM is a healthy stand-alone brewer with intriguing growth potential, but valuation coupled with scale concerns inhibits a constructive view of the shares. Fundamentals are sound – a clean balance sheet, steady cash flow and flexibility with its use, and generally above average EPS growth outlook for the near-term – but performance has not been stellar enough for us to assign valuation multiples much higher than current levels, and our outlook remains constrained by long-term concerns. We would point to the clear signs within the company – share repurchases have stopped, and insider selling has picked up. At $24.25, this stock is at the high end of a reasonable range and offers only modest 3% upside; we're not buying here.

Our $25 price target discounts 10-year EBIT growth of 4%, below our 5% forecast for BUD, and reflects 11x 2005 TEV/EBITDA. We are comfortable with this premium to BUD (9.5x) on a multiple basis, given a potential buyout. Based on historical transactions (see Valuation section), we don't see a buyer paying above 12x 2005 EBITDA or $28 in share price, but growth potential and debt-free, cash-rich balance sheet warrant a premium to the 10x average, in our opinion. A likely range on current fundamentals is between $25 and $28 per share in a takeout scenario.

Risks
As a small brewer, SAM faces greater risk than its peers. If any or all the winds turned against the beer industry – spirits demand accelerated, the economy slowed again, the next diet craze discriminated against beer, or pricing strategies took a turn for the worse – we believe SAM could end up in a pickle. Its high-end focus and lack of scale disproportionately exposes it to volume and pricing declines. BUD can withstand a tough market given diverse brands and cash abundance. However, SAM could decline more than the industry, pushing it to defend its already defensive position with discounts. One recent example is 1Q03, when SAM

reported an EPS loss of $0.01, reflecting a tough economy, global unrest, sluggish beer demand, and increased spending on advertising. Granted, it was a seasonally slow quarter, but it demonstrates the risk. Multiple quarters like this could risk SAM's healthy balance and drive lower valuation multiples.

SAM is spending more to grow more, but cannibalization related to Sam Adams Light has been an issue in the past, and remains a risk. Furthermore, we believe there is risk that the entire brand portfolio can't grow faster than the high-end market due to the scale issues we've discussed. Or, growth could come at the expense of profits and financial health, as SAM will need to commit higher levels of spending to achieve growth. All these issues imply downward pressure on current valuation.

Ultimately, we believe SAM will find a home with a larger brewer, implying a stock price in the mid to high $20s

Ownership of SAM at current valuation doesn't make sense, unless . . .

Current difficult beer conditions could open a window, as soft beer demand, increased spending, and higher commodity and freight costs could pressure industry earnings. Ultimately, we believe SAM will find a home with a larger brewer, implying a stock price in the mid to high $20s. Considering this and stand-alone fundamentals, a price in the low $20s or better would snag our interest.

Financial performance

Turning up the heat on spending pressures EPS

SAM's higher ad spending implies awareness of the need to further support the brands in order to achieve growth

SAM recently announced higher projected advertising spending for 2004 of $3 to $4 million, bringing advertising spending closer to $30 million, by our estimation. The company indicated EPS guidance of $0.82 to $0.90 for 2004, still in line with double-digit growth previously targeted, but below previous Street estimates. The higher spending is a silver lining in the earnings downtick, as it implies awareness of the need to further support the brands in order to achieve growth. Numbers may still be at risk given some bumpy weather in the beer industry of late, but we believe much of the downside has been considered. It may take a quarter, but the new spending and fresh ad campaign could provide a short-term shot in the arm to volumes, and SAM has not ruled out raising spending again in 2005. Further, the new ad campaign attempts to further define Sam Light's position in the marketplace. The risk is that while SAM is spending a lot more money, industry volumes could continue to flounder and cannibalization between Lager and Light could become an issue again. However, we have been pleased to hear from wholesalers that September volumes rebounded versus August's dismal trends.

Short-term outlook

Summer 2004 has been less than memorable, as beer demand turned sluggish July 4th weekend and floundered until early September. For SAM, trends appear to be stabilizing. Channel checks indicate declines in STRs for the last few months, but trends are improving relative to earlier this year. On-premise is outperforming off-premise, as Lager volumes have improved, and SAM is making headway into chains such as Chili's, Red Lobster and Fridays. Most Light sales are off-premise, where numbers are weakest. Distributors say it's too early to measure the effectiveness of the new ad campaign, but 21-27 year olds don't seem to identify with SAM enough to pay the high price. The shift to kegs (strong Lager, weak Light volumes) has skewed revenue per barrel downward, but prices are still up.

When stacked up against its bigger competitors, SAM growth and margin trends for 2003 and 2004E don't strike us as particularly outstanding. A smaller base, lower penetration and a trend toward high-end beers would imply superior prospects at face value. However, the track record corroborates our belief that scale is the missing link.

Figure 20: Growth and margin comparison

	Revenue Growth		Gross Margin		EBIT Margin	
	2003	2004E	2003	2004E	2003	2004E
Boston Beer	-3.5%	5.0%	59.6%	59.5%	7.6%	8.8%
Anheuser-Busch	4.3%	5.5%	40.3%	40.7%	22.6%	23.1%
Coors	5.7%	6.7%	35.4%	36.3%	7.6%	8.0%

Source: Deutsche Bank, company information

Notice that Boston Beer's operating margins are not nearly as fat as BUD's, and closer to Coors', a struggling player in the industry. One of the main issues for Coors has been the inability to gain traction in the market given less scale compared to its two larger peers. Boston Beer faces many of the same disadvantages. Coors Light was once one of the faster-growing brands, but as it matured and larger brewers dominated the market with competing products and better marketing strategies, Coors has seen its performance deteriorate on a relative basis.

We also point out that Coors is highly dependent on one brand – Coors Light – and with less money to spend per brand, the company must choose its innovation strategies carefully. Boston Beer is in a similar position with Samuel Adams Boston Lager. This brand matured over the years, leading SAM to its latest innovation strategy with the Light brand. We view Coors' introduction of Aspen Edge as a parallel type of move – not first to market, less marketing spending behind it than Michelob Ultra, and resulting difficulty in gaining market share. Sam Adams Light performed well in the trial phase and on initial rollout, but this brand is competing with brands that have been in the market for years and trendy low-carb brands. SAM will need to spend even more to get its message into the marketplace and convince consumers to change their habits. As long as the big keep getting bigger, it will be an uphill battle for SAM on marketing spend and effectiveness.

Figure 21: Returns comparison

	ROIC		MACC	
	2003	2004E	2003	2004E
Boston Beer	16.0%	14.4%	9.2%	9.2%
Anheuser-Busch	18.2%	18.4%	7.8%	7.5%
Coors	9.8%	8.3%	9.1%	9.2%

Source: Deutsche Bank Securities Inc. estimates and company information

We must give SAM credit for solid returns on investment. It outshines Coors, reflecting its partially outsourced brewing operation and low capital intensity. However, SAM's ROIC is still several points shy of the market leader, BUD. Note the decline in returns we are forecasting for 2004. We expect another decline in 2005 to 14.6%, reflecting our belief that the high level of advertising spend will need to continue in order to support growth.

Figure 22: Returns comparison

	ROA			Net Margin			Asset Turnover	
	2003	2004E		2003	2004E		2003	2004E
Boston Beer	12.1%	11.8%		5.1%	5.5%		2.4	2.1
Anheuser-Busch	14.1%	14.4%	=	14.7%	14.8%	x	1.0	1.0
Coors	3.9%	4.2%		4.3%	4.3%		0.9	0.9

Source: Deutsche Bank Securities Inc. estimates and company information

A different but illuminating study shows the components of return on assets. ROA trends and differences are similar between the three brewers. However, the makeup is vastly different. A-B drives superior ROA with superior net margins, whereas SAM achieves high returns with high asset turnover, a reflection of fewer relative assets needed for its 50% externally brewed franchise. Coors combines inferior scale and high asset intensity to achieve the lowest returns of the three. Mutual benefits between SAM and RKY seem most obvious in this study – bigger scale, better asset utilization (turnover).

Earnings forecasts

Through 2Q04, trends between Lager and Sam Adams Light remain divergent, as Lager is bouncing on new advertising push, and Light remains up against tough rollout comparisons. 2Q reflected an inventory build at distributors for the high summer season, which SAM cited as a normal, but given the slow trends across beverages in July and August, we are concerned that 3Q will come in short on the shipment side. 2Q depletions increased 2% compared to a 1.8% decline in 2Q, and comparisons get easier in 2H04, but slow demand could hinder improvement. Pricing news is stable, as SAM expects normal price increases in January/February, and is hearing more about Heineken raising prices. However, we did hear from a distributor that SAM raised prices to follow Corona, but this tactic might have been too aggressive as it hurt sales.

Further, SAM has committed to spending more money on advertising to more effectively deliver its message on both Sam Adams Light and Samuel Adams Boston Lager. SAM aims to increase the usage frequency of the occasional Sam Light drinker. This could mean that Lager drinkers more often choose Light over Lager, resulting in cannibalization. However, we are pleased to see the company focusing on support for both Lager and Light. Now the trick is in targeting the right audience with the right message.

Our 2004 EPS estimate of $0.83 reflects volume growth of 2.8%, net revenue per barrel growth of 1.2%, and net sales growth of 3.9%. Our gross margin forecast of 59.3% is slightly below comparable year-ago results, reflecting higher raw materials costs, and our operating margin forecast of 8.6% exceeds last year by 100bp on higher prices, positive mix change, and lower advertising and promotional costs.

We have introduced our 2005 EPS estimate of $0.95, reflecting volume growth of 3.5%, net revenue per barrel growth of 1.4% and net sales growth of 5.0%. Our growth assumptions are conservative, given our concerns that growth may not live up to the company's or the market's expectations. We believe volume growth will exceed the likely 1% growth for the beer category, but we are not ready to forecast import-caliber growth, which is likely to fall in the mid-single digit range. Gross margin forecast of 59.6% slightly above 2004, and operating margin forecast of 8.9% exceeds 2004 by 30bp, reflecting higher volumes and pricing. We have given only slight credit to pricing and volume leverage, as we expect advertising and promotional spend coupled with high commodities costs to dampen margin improvement.

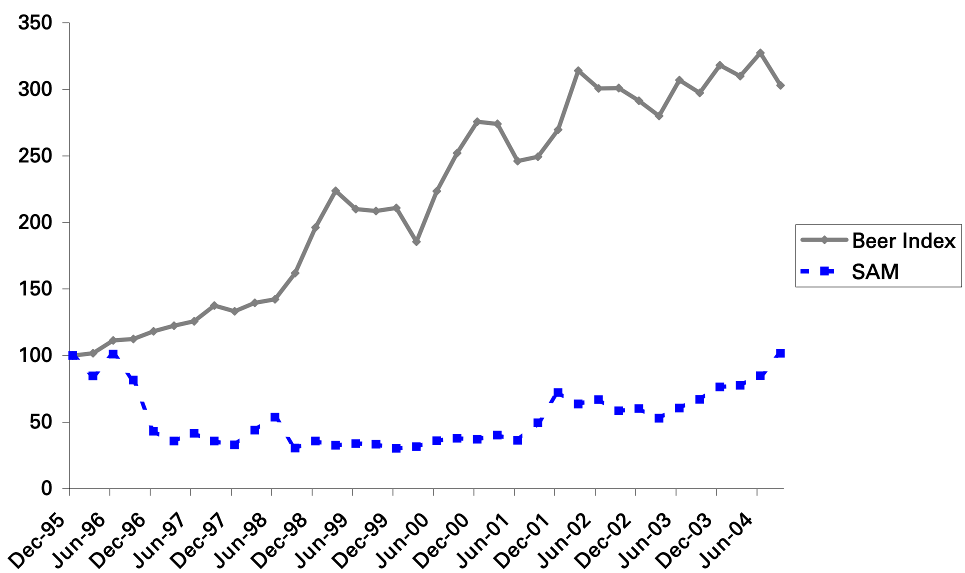
Of note is a recent decision to terminate a brewing contract with High Falls Brewery on November 30, 2004, which could result in a loss of $1.6 million owed to SAM by High Falls. Although the company expects to be paid, this could generate a one-time charge at the end of 2004, or sometime in 2005.

Valuation

Historic catalyst for the shares

SAM underperformed its beer competitors for five years following its 1995 initial public offering. The stock was offered at $20 in November 1995 amid a flurry of microbrewery public offerings, soared to the mid-$30s, then fell to the high single digits throughout the late 1990s as earnings faltered. Other microbreweries that went public around the same time include Mendocino Brewing Company, Rock Bottom, RedHook, and Pete's Brewing, among others. Only RedHook and Mendocino are still publicly traded, but their stock prices have fallen dramatically since the heyday of craft brewery stocks. Rock Bottom went private and PBC Holdings, an affiliate of Gambrinus, acquired Pete's Brewing. Boston Beer is a survivor of sorts, but one can't ignore the potential for SAM as a takeover target.

Figure 23: SAM stock performance versus DB beer index



Source: Deutsche Bank, Factset

On an absolute basis, Sam picked up momentum in late 2001 as Samuel Adams Light was performing well in test markets, and the company made plans for a national launch in 2002. However, as Boston Lager faltered due to some cannibalization from Light, a general beer slowdown due to low-carb dieting and a negative impact from a weak economy on high-end beer, the stock pulled back in 2002 and into 2003. New ads for Lager helped stem the declines and despite a slowdown in Light, SAM has advanced steadily since spring 2003. On a relative basis, SAM has performed noticeably better than its peer group stocks for almost two consecutive years now. After seeing its core brand mature for the past seven years, the introduction of Sam Adams Light represents the most meaningful boost to growth prospects at SAM in many years. Whether these prospects are enough to justify current valuation is another story.

Figure 24: Relative stock performance – SAM vs. beer index

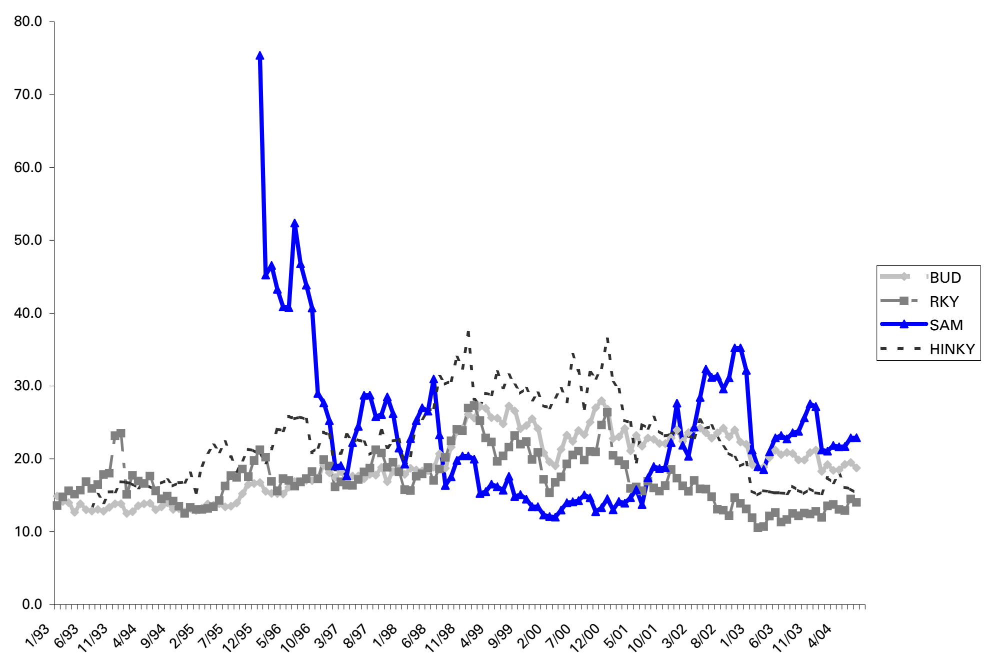
	Beer Index	SAM	Relative
1996	16.4%	-56.8%	-73.2%
1997	12.3%	-23.8%	-36.1%
1998	46.9%	8.8%	-38.1%
1999	7.4%	-15.4%	-22.8%
2000	30.7%	22.6%	-8.1%
2001	-1.9%	94.6%	96.5%
2002	8.0%	-16.6%	-24.6%
2003	9.2%	26.9%	17.6%
YTD	-4.4%	33.7%	38.1%

Source: Deutsche Bank, Factset

Historical forward price to earnings multiples

SAM's valuation progression has been a bumpy ride, and in our opinion has reflected not only SAM's performance but also the trends within the overall beer industry and the specialty beer segment. In the mid-'90s, while microbrewer stocks were the flavors of choice, valuation surged ahead of its larger competitor stocks until mid-1998. Until 1998, the specialty beer market was consistently growing faster than the overall beer market, growing at a 41% CAGR between 1985 and 1997 compared to overall beer growth of 0.3% in the same time period.

Figure 25: Peer group forward one-year P/E multiples



Source: Deutsche Bank, Factset

However, the specialty beer industry reached saturation in the late 1990s, and smaller breweries began to exit the market. From 1998 until late 2001, SAM traded below its peer group. From a broad standpoint, volume growth at SAM trailed both its specialty segment and the overall beer market during that time, with a CAGR of –1.7% versus 3.7% and 1.1%, respectively.

SAM made a meaningful surge ahead of its peers in mid-2002 and has since traded at a premium on a P/E basis. We attribute this trade up to the launch of Sam Adams Light, which is the largest growth effort executed by SAM since the launch of its traditional lager. However, since the brand slowed down and Boston Lager suffered as focus shifted to Light, valuation has come down closer to BUD levels, but still trades at a premium. We question whether this is deserved, as the growth outlook for Sam Adams Light now appears only slightly better than that of Boston Lager, and we are concerned that scale may inhibit growth over the long-term.

The right multiple

SAM trades at a vast premium on a P/E basis, but the comparisons appear more meaningful for EV/EBITDA. The stock trades above BUD, RKY and Heineken on 2005 fundamentals. One could argue that valuation should not exceed best-in-breed BUD. However, given near-term superior EPS growth outlook for SAM versus a slowdown in growth on BUD's horizon, this premium is likely to persist. However, a significantly larger premium can only be justified in a takeout scenario.

Figure 26: Valuation comparables

	P/E		EV/EBITDA	
	2004E	2005E	2004E	2005E
Boston Beer	29.1	25.3	12.7	10.7
Anheuser-Busch	18.1	16.6	10.2	9.5
Adolph Coors	13.8	12.3	5.9	5.0
Heineken	15.8	14.4	7.7	7.1

Source: Deutsche Bank, Reuters, Reuters

Deal chatter unlikely to ebb

We believe the ultimate answer to SAM's shortcomings is a combination with a larger brewer. Historical brewing deals have transacted for TEV/EBITDA multiples between 8x and 12x, with an average of 10x. As a high end, niche player, and with potential for growth through better brand leveraging, we believe SAM would sell on the high end of the spectrum. A combination with SAM could bring both scale and cost synergies, particularly through more effective media spending, sales costs, distribution, and capacity filling. Earnings risk is present, and could pressure valuation. However even in a 10% downside EPS risk scenario, takeout multiple of 12x 2005 EBITDA still implies a stock price of $25 to $26; a pullback to low $20s or better could present a buying opportunity.

Discounted cash flow analysis

Our DCF analysis discounts 10-year EBIT growth of 4%, and long-term growth of 3%, both of which are below our expectations for BUD, the industry leader both in market share and fundamentals. Required return of 8% is well above BUD's 5% rate, and closer to RKY's 7%, which we believe accurately reflect relative risk levels. This analysis implies a price target of $25, or 3% upside potential, which justifies our Hold rating on the shares.

Figure 27: SAM DCF

	2002	2003	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
EBIT*(1-t)	7.08	9.87	11.52	12.56	13.35	13.88	14.44	15.01	15.62	16.24	16.89	17.57	18.27
D&A	6.15	7.106	5.81	6.81	7.15	7.44	7.74	8.05	8.37	8.70	9.05	9.41	9.79
EBIATDA	13.23	16.98	17.33	19.37	20.50	21.32	22.17	23.06	23.98	24.94	25.94	26.98	28.06
Chgs in Oper. WC	2.15	3.03	(1.83)	(0.19)	(0.22)	(0.50)	(0.50)	(0.50)	(0.50)	(0.50)	(0.50)	(0.50)	(0.50)
Capex	13.40	1.729	4.00	4.50	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
FCF	1.98	18.28	11.50	14.68	15.28	15.82	16.67	17.56	18.48	19.44	20.44	21.48	22.56
Discount Rate	8%												$222.04
PV of FCF, 2004-2014	$128.56												
PV of Terminal Value	$222.04												
Corporate Value	$350.61												
Less: Debt, net	0												
Equity Value	$350.61												
Share Count (Millions)	14.31												
Equity Value/Share	$25												

2004 Valuation	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Year	0	1	2	3	4	5	6	7	8	9	10
Factor	1.00	1.08	1.17	1.27	1.37	1.49	1.61	1.75	1.89	2.05	2.22
PV of FCF	$11.50	$13.56	$13.03	$12.46	$12.13	$11.80	$11.47	$11.14	$10.81	$10.49	$10.18
Cumulative	$11.50	$25.06	$38.09	$50.55	$62.68	$74.47	$85.94	$97.08	$107.89	$118.39	$128.56

Cost of Debt	0
Required Return on Equi	8.3%
Net Debt / Net Capital	0%
Tax Rate	37.8%
Required Return on Inves	8.3%
LT Growth Rate	3.7%
FCF Multiple	21.8

Source: Deutsche Bank, Company information

Models

Figure 28: Boston Beer income statement

	2000	2001	2002	1Q03	2Q03	3Q03	4Q03	2003	1Q04	2Q04	3Q04E	4Q04E	2004E	2005E	2006E
Operating Sales	**212.1**	**207.2**	**238.3**	50.1	62.2	61.6	56.2	**230.1**	49.3	68.5	62.4	58.7	**239.0**	**251.1**	**263.8**
Excise taxes on products	**21.6**	**20.4**	**23.0**	4.8	5.8	6.0	5.5	**22.2**	4.7	6.5	6.0	5.6	**22.8**	**24.1**	**25.3**
Net Sales	**190.6**	**186.8**	**215.4**	45.3	56.3	55.5	50.8	**207.9**	44.7	62.0	56.4	53.1	**216.2**	**227.0**	**238.4**
Cost of Goods Sold	**84.1**	**81.7**	**88.4**	18.8	22.0	22.9	20.5	**84.1**	18.1	24.5	23.7	21.8	**88.1**	**91.7**	**95.9**
Gross Income	**106.5**	**105.1**	**127.0**	26.5	34.4	32.7	30.2	**123.8**	26.6	37.5	32.7	31.3	**128.2**	**135.3**	**142.6**
SG&A Expenses	**89.9**	**93.6**	**115.3**	27.1	29.7	26.6	23.9	**107.3**	24.7	28.8	27.7	28.4	**109.6**	**115.1**	**121.1**
Special Charges							0.7	**0.7**							
Operating Income	**16.6**	**11.5**	**11.7**	(0.6)	4.7	6.1	5.7	**15.9**	1.9	8.7	5.1	2.9	**18.5**	**20.2**	**21.5**
Oper. Inc. Excl. Charges							6.3								
Other Expense, Net	**(0.5)**	**(0.3)**	**(1.3)**	0.0	(0.0)	(0.0)	(0.0)	**(0.0)**	0.0	0.2	0.0	0.0	**0.2**	**0.0**	**0.0**
Interest Expense/(Income) net	**(2.0)**	**(1.5)**	**(1.1)**	(0.4)	(0.3)	(0.3)	(0.1)	**(1.1)**	(0.2)	(0.2)	(0.2)	(0.2)	**(0.8)**	**(1.3)**	**(1.4)**
Pretax Income	**19.1**	**13.2**	**14.1**	(0.2)	4.9	6.4	5.8	**17.0**	2.0	8.6	5.3	3.1	**19.1**	**21.5**	**22.8**
Taxes	**7.8**	**5.4**	**5.5**	(0.1)	1.9	2.4	2.2	**6.4**	0.8	3.3	2.0	1.2	**7.2**	**8.1**	**8.6**
Net Income	**11.2**	**7.8**	**8.6**	(0.1)	3.1	4.0	3.6	**10.6**	1.3	5.4	3.3	1.9	**11.9**	**13.4**	**14.2**
Net Income (Excl. Charges)							4.0	**11.0**							
Average Shares Outstanding, Basic	**18.1**	**16.4**	**16.1**	15.7	15.1	14.2	13.9	**14.7**	13.9	14.1	14.1	14.1	**16.1**	**16.1**	**16.1**
Basic EPS	**0.62**	**0.48**	**0.53**	(0.01)	0.20	0.28	0.26	**0.72**	0.09	0.38	0.23	0.14	**0.74**	**0.83**	**0.88**
Average Shares Outstanding, Diluted	**18.1**	**16.6**	**16.4**	16.0	15.3	14.5	14.2	**15.0**	14.2	14.5	14.4	14.2	**14.3**	**14.0**	**13.8**
Diluted EPS	**0.62**	**0.47**	**0.52**	(0.01)	0.20	0.28	0.25	**0.70**	0.09	0.37	0.23	0.14	**0.83**	**0.95**	**1.03**
Average Shares Outstanding, Diluted							14.2	**15.0**							
Diluted EPS (Excl. Charges)							$ 0.28	**0.73**							
Dividend Payout															

Margin Structure*	2000	2001	2002	1Q03	2Q03	3Q03	4Q03	2003	1Q04	2Q04	3Q04E	4Q04E	2004E	2005E	2006E
Excise Taxes/Operating Sales	**10.2%**	**9.9%**	**9.6%**	9.6%	9.4%	9.8%	9.7%	**9.6%**	9.4%	9.5%	9.6%	9.6%	**9.5%**	**9.6%**	**9.6%**
Gross Margin	**55.9%**	**56.3%**	**59.0%**	58.6%	61.0%	58.9%	59.6%	**59.6%**	59.5%	60.5%	58.0%	59.0%	**59.3%**	**59.6%**	**59.8%**
SG&A Expenses	**47.2%**	**50.1%**	**53.5%**	59.8%	52.7%	47.9%	47.1%	**51.6%**	55.4%	46.5%	49.0%	53.5%	**50.7%**	**50.7%**	**50.8%**
Operating Margin	**8.7%**	**6.1%**	**5.4%**	-1.2%	8.3%	11.0%	11.1%	**7.6%**	4.1%	14.0%	9.0%	5.5%	**8.6%**	**8.9%**	**9.0%**
EBITDA Margin	**12.1%**	**9.7%**	**8.3%**	1.8%	10.8%	13.6%	16.8%	**11.1%**	6.9%	16.0%	12.0%	8.5%	**11.3%**	**11.9%**	**12.0%**
Tax Rate	**41.0%**	**40.7%**	**39.3%**	39.4%	38.1%	37.6%	37.8%	**37.8%**	37.8%	37.8%	37.8%	37.8%	**37.8%**	**37.8%**	**37.8%**
Net Margin	**5.9%**	**4.2%**	**4.0%**	-0.2%	5.4%	7.2%	7.1%	**5.1%**	2.8%	8.6%	5.8%	3.7%	**5.5%**	**5.9%**	**6.0%**

Growth Leverage*	2000	2001	2002	1Q03	2Q03	3Q03	4Q03	2003	1Q04	2Q04	3Q04E	4Q04E	2004E	2005E	2006E
Operating Sales	**7.5%**	**-2.3%**	**15.0%**	-0.7%	-4.7%	-1.6%	-6.3%	**-3.5%**	-1.6%	10.2%	1.4%	4.4%	**3.9%**	**5.1%**	**5.1%**
Excise Taxes on Products	**5.0%**	**-5.2%**	**12.5%**	-0.3%	-7.9%	-0.1%	-5.2%	**-3.6%**	-3.2%	11.3%	-0.7%	3.0%	**2.8%**	**5.8%**	**5.1%**
Net Sales	**7.8%**	**-2.0%**	**15.3%**	-0.7%	-4.3%	-1.8%	-6.5%	**-3.4%**	-1.5%	10.1%	1.6%	4.6%	**4.0%**	**5.0%**	**5.1%**
Cost of Goods Sold	**7.2%**	**-2.8%**	**8.2%**	1.4%	-6.0%	-3.1%	-10.5%	**-4.8%**	-3.7%	11.6%	3.8%	6.1%	**4.7%**	**4.1%**	**4.5%**
Gross Income	**8.2%**	**-1.3%**	**20.8%**	-2.2%	-3.2%	-0.9%	-3.5%	**-2.5%**	0.1%	9.2%	0.1%	3.6%	**3.5%**	**5.6%**	**5.4%**
SG&A Expenses	**10.3%**	**4.1%**	**23.2%**	8.0%	3.2%	-18.9%	-16.7%	**-7.0%**	-8.8%	-2.8%	4.0%	18.7%	**2.2%**	**5.0%**	**5.3%**
Operating Income	**-1.7%**	**-30.7%**	**1.6%**	-127.7%	-30.8%	2590.7%	114.2%	**36.0%**	427.0%	85.2%	-16.8%	-48.3%	**16.7%**	**9.1%**	**6.2%**
EBITDA	**1.1%**	**-21.2%**	**-1.8%**	-76.1%	-26.4%	309.3%	98.6%	**29.0%**	279.7%	63.4%	-10.3%	-47.1%	**5.9%**	**11.0%**	**5.9%**
Net Income	**1.4%**	**-30.3%**	**9.2%**	-108.3%	-36.2%	1002.5%	74.9%	**23.5%**	1066.1%	75.1%	-17.7%	-46.3%	**12.3%**	**12.7%**	**6.3%**
Diluted EPS	**14.6%**	**-23.9%**	**10.4%**	-108.6%	-30.5%	1132.8%	97.4%	**35.1%**	NM	85.3%	-17.3%	-51.6%	**17.7%**	**15.2%**	**7.9%**

Cashflow Points	2000	2001	2002	1Q03	2Q03	3Q03	4Q03	2003	1Q04	2Q04	3Q04E	4Q04E	2004E	2005E	2006E
Operating Income	**16.6**	**11.5**	**11.7**	(0.6)	4.7	6.1	5.7	**15.9**	1.9	8.7	5.1	2.9	**18.5**	**20.2**	**21.5**
Depreciation & Amortization	**6.4**	**6.7**	**6.2**	1.4	1.4	1.4	2.9	**7.1**	1.3	1.3	1.7	1.6	**5.8**	**6.8**	**7.2**
EBITDA	**23.0**	**18.1**	**17.8**	0.8	6.1	7.6	8.5	**23.0**	3.1	9.9	6.8	4.5	**24.3**	**27.0**	**28.6**
Net Cash	**17.2**	**14.2**	**13.4**	1.3	4.5	5.4	6.5	**17.6**	2.5	6.9	5.0	3.5	**17.9**	**20.2**	**21.4**
Capex	**5.6**	**3.3**	**2.3**	0.6	0.6	0.3	0.2	**1.7**	0.9	1.2	1.2	0.8	**4.0**	**4.5**	**5.0**
Dividends															
Free Cash Flow	**11.6**	**11.0**	**11.1**	0.7	3.8	5.2	6.2	**15.9**	1.7	5.7	3.8	2.8	**13.9**	**15.7**	**16.4**

Source: Deutsche Bank, company information

Figure 29: Boston Beer revenue assumptions

Revenues	2000	2001	2002	1Q03	2Q03	3Q03	4Q03	2003	1Q04	2Q04	3Q04E	4Q04E	2004E	2005E	2006E
Gross Revenue	**212.11**	**207.22**	**238.34**	50.12	62.16	61.58	56.24	**230.10**	49.31	68.52	62.44	58.73	**239.00**	**251.08**	**263.76**
Gross Revenue Growth	**7.5%**	**-2.3%**	**15.0%**	-0.7%	-4.7%	-1.6%	-6.3%	**-3.5%**	-1.6%	10.2%	1.4%	4.4%	**3.9%**	**5.1%**	**5.1%**
Excise Taxes	**$21.55**	**$20.44**	**$22.98**	4.80	5.84	6.04	5.47	**$22.16**	4.65	6.50	5.99	5.64	**$22.79**	**24.10**	**25.32**
Revenue Growth	**5.0%**	**-5.2%**	**12.5%**	-0.3%	-7.9%	-0.1%	-5.2%	**-3.6%**	-3.2%	11.3%	-0.7%	3.0%	**2.8%**	**5.8%**	**5.1%**
Net Revenue	**$190.55**	**$186.78**	**$215.36**	45.32	56.32	55.55	50.76	**$207.95**	44.66	62.02	56.45	53.09	**$216.22**	**226.98**	**238.44**
Revenue Growth	**7.8%**	**-2.0%**	**15.3%**	-0.7%	-4.3%	-1.8%	-6.5%	**-3.4%**	-1.5%	10.1%	1.6%	4.6%	**4.0%**	**5.0%**	**5.1%**

Volume (Millions of Barrels)	2000	2001	2002	1Q03	2Q03	3Q03	4Q03	2003	1Q04	2Q04	3Q04E	4Q04E	2004E	2005E	2006E
Core Brands(Total Boston Beer Brands)	**1.19**	**1.14**	**1.28**	0.27	0.33	0.33	0.30	**1.23**	0.26						
Non-Core Brands (3rd Party Contract Br	**0.05**	**0.03**	**0.01**	0.00	0.00	0.00	0.00	**0.01**	0.00						
Total	**1.24**	**1.17**	**1.29**	0.27	0.33	0.33	0.30	**1.24**	0.26	0.36	0.33	0.31	**1.27**	**1.31**	**1.36**
Y/Y Change	***5.7%***	***-6.1%***	***10.4%***	*-1.8%*	*-6.5%*	*-0.9%*	*-6.5%*	***-3.9%***	*-2.6%*	*10.0%*	*0.0%*	*3.0%*	***2.8%***	***3.5%***	***3.5%***

Revenue Per Barrel	2000	2001	2002	1Q03	2Q03	3Q03	4Q03	2003	1Q04	2Q04E	3Q04E	4Q04E	2004E	2005E	2006E
Revenue Per Barrel	**$ 170.91**	**$ 177.87**	**$ 185.33**	$ 185.64	$ 188.37	$ 184.94	$ 186.21	**$ 186.17**	$ 187.48	$ 188.76	$ 187.53	$ 188.82	**$ 188.18**	**$ 191.01**	**$ 193.87**
Y/Y Change	**1.7%**	**4.1%**	**4.2%**	1.1%	2.0%	-0.7%	0.2%	**0.5%**	1.0%	0.2%	1.4%	1.4%	**1.1%**	**1.5%**	**1.5%**
Excise Taxes	**$ 17.37**	**$ 17.54**	**$ 17.87**	$ 17.79	$ 17.70	$ 18.14	$ 18.12	**$ 17.93**	$ 17.69	$ 17.91	$ 18.00	$ 18.13	**$ 17.94**	**$ 18.34**	**$ 18.61**
	-0.7%	**1.0%**	**1.9%**	1.6%	-1.5%	0.8%	1.4%	**0.3%**	-0.6%	1.2%	-0.7%	0.0%	**0.1%**	**2.2%**	**1.5%**
Net Revenue Per Barrel	**$ 153.55**	**$ 160.33**	**$ 167.46**	$ 167.85	$ 170.66	$ 166.80	$ 168.09	**$ 168.24**	$ 169.79	$ 170.85	$ 169.52	$ 170.69	**$ 170.24**	**$ 172.67**	**$ 175.26**
Y/Y Change	**2.0%**	**4.4%**	**4.4%**	1.1%	2.3%	-0.9%	0.1%	**0.5%**	1.2%	0.1%	1.6%	1.5%	**1.2%**	**1.4%**	**1.5%**

Source: Deutsche Bank, company information

Figure 30: Boston Beer balance sheet

	2000	2001	2002	1Q03	2Q03	3Q03	4Q03	2003	1Q04	2Q04	2004E	2005E	2006E
Cash/Marketable Securities	**6.3**	**45.8**	**20.6**	11.6	1.1	19.6	27.8	**27.8**	24.7	52.1	**41.7**	**54.7**	**68.6**
Short-Term Marketable Investments	**28.9**	**2.0**	**32.0**	35.2	30.9	15.1	15.1	**15.1**	21.2	3.0	**21.2**	**21.2**	**21.2**
Receiveables	**12.6**	**19.2**	**17.8**	18.0	23.0	14.5	10.4	**10.4**	9.6	15.3	**10.8**	**11.3**	**11.9**
Inventory	**15.7**	**9.3**	**8.3**	10.7	10.6	11.2	9.9	**9.9**	10.5	9.2	**10.6**	**11.0**	**11.5**
Prepaid expenses	**1.6**	**0.9**	**1.3**	1.3	1.2	1.0	1.1	**1.1**	1.4	1.0	**1.1**	**1.1**	**1.2**
Deferred income taxes	**2.4**	**2.3**	**2.0**	2.0	1.9	1.5	1.2	**1.2**	1.3	1.1	**1.3**	**1.4**	**1.4**
Other Current Assets	**0.9**	**0.8**	**1.5**	1.5	2.3	2.0	2.3	**2.3**	1.0	0.4	**2.2**	**2.3**	**2.4**
Total Current Assets	**68.4**	**80.5**	**83.5**	80.3	71.0	65.0	67.8	**67.8**	69.8	82.1	**88.9**	**103.0**	**118.2**
Property, Plant, & Equipment, Net	**27.0**	**23.9**	**20.2**	19.7	19.0	18.1	17.1	**17.1**	16.9	17.0	**15.1**	**28.5**	**42.7**
Goodwill	**1.5**	**1.4**	**1.4**	1.4	1.4	1.4	1.4	**1.4**	1.4	1.4	**2.2**	**2.3**	**2.4**
Other Intangibles													
Long-Term Marketable Investments													
Other Assets	**1.7**	**1.8**	**1.7**	1.5	1.3	2.5	1.1	**1.1**	1.2	1.1	**(5.4)**	**(21.2)**	**(37.8)**
Total Assets	**98.6**	**107.5**	**106.8**	102.8	92.6	87.0	87.4	**87.4**	89.2	102	**100.7**	**112.6**	**125.5**
Accounts Payable	**6.5**	**11.2**	**9.0**	11.9	10.9	9.6	6.4	**6.4**	6.3	8.2	**6.2**	**6.4**	**6.7**
Accrued Expenses & Other	**13.9**	**13.2**	**15.9**	13.6	14.3	16.9	15.5	**15.5**	14.6	18.8	**15.1**	**15.9**	**16.7**
Current Portion of Long-Term Debt													
Total Current Liabilities	**20.4**	**24.4**	**24.9**	25.5	25.2	26.5	21.9	**21.9**	20.9	26.9	**21.3**	**22.3**	**23.4**
Long-Term Debt													
Deferred Tax	**1.8**	**3.6**	**2.4**	2.4	1.6	2.1	2.2	**2.2**	2.1	2.2	**2.4**	**2.5**	**2.6**
Other Long-Term Liabilities	**2.6**	**1.3**	**0.7**	0.7	0.7	0.7	0.7	**0.7**	0.7	0.7	**0.9**	**0.9**	**1.0**
Total Liabilities	**24.9**	**29.3**	**28.0**	28.6	27.4	29.3	24.8	**24.8**	23.7	29.8	**24.5**	**25.7**	**27.0**
Common Stock, Class A	**0.2**	**0.2**	**0.2**	0.2	0.2	0.2	0.2	**0.2**	0.2	0.2	**0.2**	**0.2**	**0.2**
Common Stock, Class B	**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**
Additional Paid-in Capital	**56.9**	**57.6**	**59.1**	59.9	60.1	60.7	62.5	**62.5**	64.4	65.5	**64.4**	**64.4**	**64.4**
Retained Earnings	**47.8**	**55.6**	**64.2**	64.1	67.2	71.1	74.8	**74.8**	76.0	81.4	**86.6**	**100.0**	**114.2**
Unearned compensation	**(0.2)**	**(0.2)**	**(0.2)**	(0.3)	(0.3)	(0.3)	(0.2)	**(0.2)**	(0.4)	(0.3)	**(0.4)**	**(0.4)**	**(0.4)**
Accumulated Other Comprehensive Loss		**-**	**0.4**	0.3	0.4	0.1	0.0	**0.0**	0.0	(0.1)	**0.1**	**0.1**	**0.1**
Unrealized gain on short-term investments													
Shareholders' Equity Pre Treasury S	**104.7**	**113.3**	**123.8**	124.1	127.5	131.9	137.3	**137.3**	140.3	146.6	**151.0**	**164.3**	**178.5**
Treasury Stock	**31.0**	**35.1**	**44.9**	49.9	62.3	74.2	74.8	**74.8**	74.8	74.8	**74.8**	**77.5**	**80.0**
Total Shareholders' Equity	**73.7**	**78.2**	**78.8**	74.2	65.2	57.7	62.5	**62.5**	65.5	71.9	**76.2**	**86.8**	**98.6**
Liabilities & Shareholders' Equity	**98.6**	**107.5**	**106.8**	102.8	92.6	87.0	87.4	**87.4**	89.2	101.7	**100.7**	**112.6**	**125.5**

Select Ratios	2000	2001	2002	2003	2004E	2005E	2006E
Receivables/Sales	7%	10%	8%	5%	5%	5%	5%
Receivables Turnover	15.13	9.72	12.08	19.93	20.00	20.00	20.00
Days Receivables	24.12	37.56	30.22	18.31	18.25	18.25	18.25
Inventory/COGS	19%	11%	9%	12%	12%	12%	12%
Inventory Turnover	5.34	8.76	10.59	8.50	8.33	8.33	8.33
Days Inventories	68.34	41.65	34.46	42.92	43.80	43.80	43.80
Pre Paid Expenses/Sales	0.8%	0.5%	0.6%	0.5%	0.5%	0.5%	0.5%
Def. Inc. Taxes/Sales	1.3%	1.2%	0.9%	0.6%	0.6%	0.6%	0.6%
Other Current Assets/Sales	0%	0%	1%	1%	1%	1%	1%
Current Ratio	3.35	3.30	3.36	3.10	4.17	4.62	5.05
Goodwill/Sales	1%	1%	1%	1%	1%	1%	1%
Other Intangibles/Sales	-	-	-	-	-	-	-
Long-Term Marketable Investments/Sa	-	-	-	-	-	-	-
Other Assets/Sales	1%	1%	1%	1%	-2%	-9%	-16%
Fixed Asset Turnover	7.05	7.82	10.66	12.19	14.34	7.98	5.59
Asset Turnover	1.93	1.74	2.02	2.38	2.15	2.02	1.90
Return on Assets	11.4%	7.3%	8.0%	12.1%	11.8%	11.9%	11.3%
Acct. Payables/Cost of Goods Sold	8%	14%	10%	8%	7%	7%	7%
Accounts Payable Turnover	12.93	6.72	9.71	13.39	14.40	14.35	14.36
Days in Accounts Payable	28.22	54.31	37.58	27.25	25.36	25.43	25.42
Accrued Expenses & Other/Sales	7%	7%	7%	7%	7%	7%	7%
Deferred Tax/Sales	1.0%	1.9%	1.1%	1.1%	1.1%	1.1%	1.1%
Other Long-Term Liabilities/Sales	1.4%	0.7%	0.3%	0.4%	0.4%	0.4%	0.4%
Total Debt/Capital	-	-	-	-	-	-	-
EBIT/Interest Coverage							
EBITDA/Interest Coverage							
Return on Equity	15.3%	10.0%	10.8%	16.9%	15.6%	15.4%	14.4%

Source: Deutsche Bank, company information

Figure 31: Boston Beer EVA analysis

NOPAT	1999	2000	2001	2002	2003	2004E	2005E	2006E	Average '99-'06	'01-'06 Change
Income for Common	**11.08**	**11.24**	**7.83**	**8.55**	**10.56**	**11.86**	**13.37**	**14.21**		
Increase in Deferred Taxes		1.74	1.87	(0.85)	0.57	0.07	0.05	0.06		
Goodwill Amortization										
Special Charges										
Increase in LIFO Reserve										
Advertising Expenses										
R&D Expense										
Increase in Equity Equivalents	**-**	**1.74**	**1.87**	**(0.85)**	**0.57**	**0.07**	**0.05**	**0.06**		
Adjusted Income for Common	**11.08**	**12.98**	**9.71**	**7.71**	**11.13**	**11.93**	**13.42**	**14.27**		
Interest Expense	(2.11)	(2.00)	(1.47)	(1.12)	(1.09)	(0.79)	(1.30)	(1.40)		
Interest Expense on Non-Cap. Leases										
Adjusted Interest Expense	(2.11)	(2.00)	(1.47)	(1.12)	(1.09)	(0.79)	(1.30)	(1.40)		
Tax Benefit of Interest Expenses	1.22	1.18	0.87	0.68	0.67	0.49	0.81	0.87		
Tax Shield	(0.89)	(0.82)	(0.60)	(0.44)	(0.41)	(0.30)	(0.49)	(0.53)		
NOPAT	**10.19**	**12.16**	**9.11**	**7.27**	**10.72**	**11.63**	**12.93**	**13.74**		
Capital										
Current Portion of Long-Term Debt	-	-	-	-	-	-	-	-		
Senior Long-Term Debt	-	-	-	-	-	-	-	-		
PV of Non-Cap. Leases				5.67	3.60	3.7	3.8	3.9		
Total Debt & Leases	-	-	-	5.67	3.60	3.70	3.80	3.90		
Common Equity	83.45	73.69	78.18	78.83	62.52	76.18	86.84	98.56		
Deferred Income Tax	(2.32)	(0.58)	1.29	0.45	1.01	1.08	1.13	1.19		
LIFO Reserve										
Accumulated Goodwill Amortization										
Capitalized Advertising										
Capitalized R&D										
Capitalized Special Charges										
Equity Equivalents	**(2.32)**	**(0.58)**	**1.29**	**0.45**	**1.01**	**1.08**	**1.13**	**1.19**		
Adjusted Common Equity	**81.13**	**73.11**	**79.47**	**79.28**	**63.54**	**77.26**	**87.98**	**99.75**		
Capital	**81.1**	**73.1**	**79.5**	**85.0**	**67.1**	**81.0**	**91.8**	**103.6**		
					77%					
ROIC	**12.6%**	**16.6%**	**11.5%**	**8.6%**	**16.0%**	**14.4%**	**14.1%**	**13.3%**		
MACC - Mkt. Adjusted Cost of Capital									**Average '99-'06**	**'01-'06 Change**
Required Rate of Return	9.4%	9.4%	9.4%	9.4%	9.4%	9.4%	9.4%	9.4%		
Cost of Debt	0.0%	0.0%	0.0%	6.0%	6.0%	6.0%	6.0%	6.0%		
Forward Relative P/E										
% Debt	0.0%	0.0%	0.0%	6.7%	5.4%	4.6%	4.1%	3.8%		
% Equity	100.0%	100.0%	100.0%	93.3%	94.6%	95.4%	95.9%	96.2%		
Weighted Cost of Debt	0.0%	0.0%	0.0%	0.4%	0.3%	0.3%	0.2%	0.2%	0.2%	0.2%
Weighted Cost of Equity	9.4%	9.4%	9.4%	8.8%	8.9%	9.0%	9.0%	9.0%	9.1%	-0.4%
Market Adjusted Cost of Cap	**9.4%**	**9.4%**	**9.4%**	**9.2%**	**9.2%**	**9.2%**	**9.2%**	**9.3%**	**9.3%**	**-0.1%**
Spread										
ROIC	12.6%	16.6%	11.5%	8.6%	16.0%	14.4%	14.1%	13.3%	13.4%	1.8%
MACC	9.4%	9.4%	9.4%	9.2%	9.2%	9.2%	9.2%	9.3%	9.3%	-0.1%
Spread	**3.2%**	**7.2%**	**2.1%**	**-0.6%**	**6.8%**	**5.1%**	**4.8%**	**4.0%**	**4.1%**	**1.9%**

Source: Deutsche Bank, company information

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist			
Company	**Ticker**	**Recent price**	**Disclosure**
Boston Beer Company, Inc. (The)	SAM	$24.25	13
Anheuser-Busch Companies, Inc.	BUD	$50.44	6,13,14,15
Adolph Coors Company	RKY	$66.75	6,7,8,9,11,13,14,15
Heineken	HEIN.AS	$24.38	13,14,15

1. Within the past year, Deutsche Bank and/or its affiliate(s) has managed or co-managed a public offering for this company, for which it received fees.
2. Deutsche Bank and/or its affiliate(s) makes a market in securities issued by this company.
3. Deutsche Bank and/or its affiliate(s) acts as a corporate broker or sponsor to this company.
4. The research analyst(s) or an individual who assisted in the preparation of this report (or a member of his/her household) has a direct ownership position in securities issued by this company or derivatives thereof.
5. The research analyst (or, in the US, a member of his/her household) is an officer, director, or advisory board member of this company.
6. Deutsche Bank and/or its affiliate(s) owns one percent or more of any class of common equity securities of this company.
7. Deutsche Bank and/or its affiliate(s) has received compensation from this company for the provision of investment banking or financial advisory services within the past year.
8. Deutsche Bank and/or its affiliate(s) expects to receive or intends to seek compensation for investment banking services from this company in the next three months.
9. Deutsche Bank and/or its affiliate(s) was a member of a syndicate which has underwritten, within the last five years, the last offering of this company.
10. Deutsche Bank and/or its affiliate(s) holds one percent or more of the share capital of the company whose securities are subject of the research, calculated under computational methods required by German law (data as of the last trading day of the past month).
11. See footnote headed Special Disclosures for any other relevant disclosures.
12. Deutsche Bank and/or its affiliate(s) holds a net short position of 1% or more of the share capital of the company whose securities are subject of the research, calculated by methods required by German law as of the last trading day of the past month.
13. Deutsche Bank and/or its affiliate(s) holds a trading position, as that term is defined by German law, in shares of the company whose securities are subject of the research.
14. Deutsche Bank and/or its affiliates(s) has received non-investment banking related compensation from this company within the past year.
15. This company has been a client of Deutsche Bank Securities Inc. within the past year, during which time it received non-investment banking securities-related services.

For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at http://equities.research.db.com.

Special Disclosures

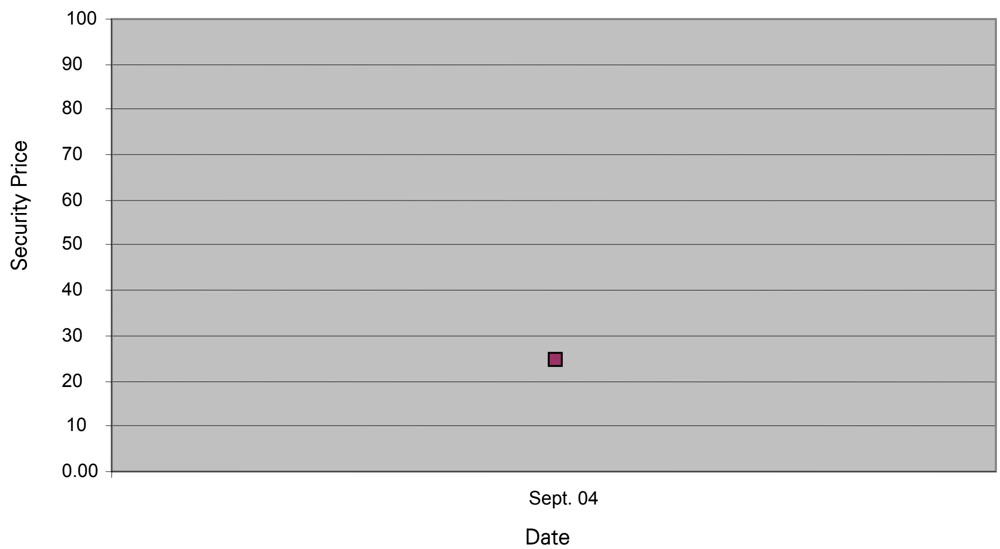
Deutsche Bank Securities Inc. is financial advisor to Adolph Coors Company regarding its pending merger with Molson Inc.

Analyst Certifications

The views expressed in this report accurately reflect the personal views of the undersigned lead analyst(s) about the subject issuer and the securities of the issuer. In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. Laurie Hahn, Marc Greenberg

Historical recommendations and target price: Boston Beer Company, Inc. (The) (SAM)

(as of 09/29/2004)



Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure as of September 9, 2002

1. 09/29/2004: Rating Initiated Hold. Target Price US$25.00	2.

Rating key

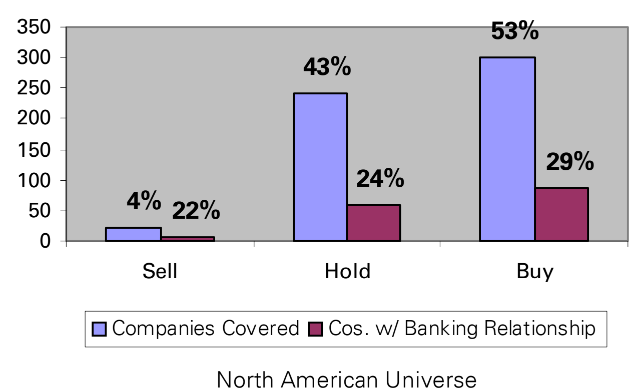
Buy: Total return expected to appreciate 10% or more over a 12-month period

Hold: Total return expected to be between 10% to –10% over a 12-month period

Sell: Total return expected to depreciate 10% or more over a 12-month period

The target prices of shares mentioned in the accompanying text are based on the assumed investment horizon of 12 months. If company notes are published on these shares in the future, the target prices mentioned in the subsequent notes will have priority.

Rating dispersion and banking relationships



Deutsche Bank Securities, Inc.

North American locations

Deutsche Bank Securities Inc.
60 Wall Street
New York, NY 10005
(212) 250 2500

Deutsche Bank Securities Inc.
225 Franklin Street
25th Floor
Boston, MA 02110
(617) 988 8600

Deutsche Bank Securities Inc.
222 West Adams Street
Suite 1900
Chicago, IL 60606
(312) 424 6000

Deutsche Bank Securities Inc.
3033 East First Avenue
Suite 303, Third Floor
Denver, CO 80206
(303) 394 6800

Deutsche Bank Securities Inc.
1735 Market Street
24th Floor
Philadelphia, PA 19103
(215) 854 1546

Deutsche Bank Securities Inc.
101 California Street
46th Floor
San Francisco, CA 94111
(415) 617 2800

International locations

Deutsche Bank Securities Inc.
60 Wall Street
New York, NY 10005
United States of America
Tel: (1) 212 250 2500

Deutsche Bank AG London
1 Great Winchester Street
London EC2N 2EQ
United Kingdom
Tel: (44) 20 7545 8000
Fax: (44) 20 7545 6155

Deutsche Bank AG
Große Gallusstraße 10-14
60272 Frankfurt am Main
Germany
Tel: (49) 69 910 41339

Deutsche Bank AG
Level 18, Grosvenor Place
225 George Street
Sydney, NSW 2000
Australia
Tel: (61) 2 9258 1555
Fax: (61) 2 9258 1550

Deutsche Bank AG
Level 55
Cheung Kong Center
2 Queen's Road Central
Hong Kong
Tel: (852) 2203 8888
Fax: (852) 2203 6921

Deutsche Securities Limited
Tokyo Branch
Level 20, 2-11-1 Nagatacho
Sanno Park Tower
Chiyoda-ku, Tokyo 100-6171
Japan
Tel: (81) 3 5156 6701
Fax: (81) 3 5156 6700