Applied Investment Management (AIM) Program

AIM Class of 2022 Equity Fund Reports
Spring 2021

***Report Date**: Friday, January 29th*

Student	Company	Ticker	Fund/Sector	Page
George Wong	Nexstar Media Group, Inc.	NXST	Communication Services	2
Brett Selke	Adyen N.V. ADR	ADYEY	International Financials	5
Garrett Gajewski	Innovative Industrial Properties, Inc.	IIPR	Real Estate Investment Trust	8
Justin Nguyen	Fever-Tree Drinks PLC	FQVTF	International Consumer Discretionary	11

These student presentations are an important element of the applied learning experience in the AIM program. For the time being the live in-person AIM Room Friday afternoon equity pitches will be suspended and Voiceover PowerPoint presentations will be loaded and viewed in D2L. The pdf file of the written equity reports will be distributed in the traditional manner via email and D2L quizzes will be conducted. It is encouraged that students ask questions and provide comments in the D2L Communications/Discussion Forum for the AIM presentations – and that the presenter provide follow-up responses. Buy/sell recommendations will be submitted on Saturday and emailed to AIM students - and voting will be done in the regular manner within D2L. Presenters will then answer live Q&A during class on Friday mornings via Teams.

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Nexstar Media Group, Inc. (NXST)
January 29, 2021

George Wong Communication Services

Nexstar Media Group, Inc. (NASDAQ: NXST) is the United States' largest local television broadcaster with 198 television stations in 116 markets. Along with their commitment to provide communities with local news, NXST wholly owns WGN America and has a 39% stake in the Television Food Network. They derive revenues from 5 segments: Core Advertising (35% Sept. FY'20 YTD), Political Advertising (7%), Distribution Fees (52%), Digital (5%), and Trade & Other (1%). Founded in 1996, NXST went public in 2003, and is headquartered in Irving, TX, USA.

				FY:	2019A	2020E	2021E	2022E
Price ($):	113.84	Beta	1.56	Revenue (mil)	$3,039	$4,483	$4,409	$5,054
Price Target ($):	138.08	M-Term Rev. Gr Rate Est:	17.6%	% Growth	9.85%	47.50%	-1.64%	14.61%
52W Range ($):	43.37 - 130.74	M-Term EPS Gr. Rate Est:	48.9%	Oper Inc	$655	$1,244	$1,151	$1,404
Market Cap ($M):	4,860	Debt/Equity:	4.08	% Growth	-13.55%	89.92%	-7.46%	21.95%
Insider Holdings:	3.72%	Debt/EBITDA:	7.76	Op Margin	21.56%	27.75%	26.11%	27.78%
Avg. Daily Vol (3 Mo):	399,591	WACC:	5.73%	Net Margin	7.58%	14.92%	13.73%	14.77%
Yield (%):	2.1	ROA:	2.19	EPS	$4.80	$14.24	$12.89	$16.73
ESG Rating:	-	ROE:	11.74	P/E (Cal)	8.8	8.0	8.8	6.8
Short Interest (%):	7.90	ROIC:	2.82					

Recommendation

As the United States leader in local broadcasting with a 68% household reach, NXST provides local communities with critical unbiased news. Through strategic M&A, NXST has gone from owning one television station in Scranton, PA, to owning, programming, and providing sales to 198 stations nationwide. Most of its stations are affiliated with the "big four" broadcasters: ABC, CBS, Fox, and NBC. Given that local TV news has and will continue to dominate the number of viewers reached over cable news, NXST has terrific geographic diversity and size to succeed even as the "cord cutting" movement continues. Many of their stations were acquired through recent transactions of Tribune Broadcasting (FY'19) and Media General (FY'17), which emphasizes the company's aggressive M&A strategy. In addition to growing its number of stations, NXST has expanded its digital footprint by operating 122 local websites and 316 local mobile applications. Its apps have the highest number of unique users out of any company in the local news category. With total core advertising expenditures expected to increase at a CAGR of 5% by 2024 and with political ad spending consistently providing strong numbers in election years, NXST's advertising revenue will rise at a similar rate with the industry. In addition to advertising growth, distribution revenue has shown consistent growth due to the company's newly acquired 31% equity stake in the Television Food Network. From FY'19 to FY'24E, distribution revenue is expected to increase at a CAGR of 17%. Additionally, with the Supreme Court likely to loosen local broadcasting ownership rules, NXST will benefit by being able to own more stations in a single market and reduce SG&A. Due to NXST's household reach and seasoned management team, it is recommended that Nexstar Media Group, Inc. (NXST) be added to the AIM Equity Fund with a price target of $138.08, representing a potential upside of 21.29%. NXST pays a dividend that yields 2.10%.

Investment Thesis

- **Industry Leader in Household Reach.** Being the leader in U.S. household reach has given NXST the opportunity to demand fair and favorable distribution and advertising rates. With its large reach, NXST can negotiate advertising agreements with national advertisers like auto manufactures and fast-food restaurants, which is uncommon among local broadcasters. In several markets, NXST has a duopoly and is able to cut the costs of programming and give advertisers more options to target specific groups. With local news witnessing slight increases in viewership, NXST is in a favorable position to capitalize on increased advertising and distribution spending. The anticipated Supreme Court decision in June will likely benefit NXST as they will be able to add more stations in existing markets which will provide opportunities to cut programming costs and increase margins. From FY'19 to FY'24E, NXST's operating margin is expected to increase from 21.56% to 27.99%.

- **Strategic M&A.** NXST has grown through M&A and at the end of FY'19 it had its largest transaction ever, the merger with Tribune. This deal brought many local news channels to the company, along with equity stakes in the Television Food Network (31%) and WGN America (100%). Through decreases in fixed programming expenses and corporate overhead costs, and increases in distribution revenue, this transaction resulted in operating synergies of $185 million and an expected EPS YoY change of 196% from FY'19 to FY'20. EPS growth is expected to continue at a rate of 12.1% until FY'24 as more operational efficiencies are recognized. NXST's cost of sales is also expected to decrease as a % of total revenue from 44.4% to 40.2%. The additional distribution revenue brought in by the transaction is important in Q1 as it is usually a down period for the broadcasting industry. With this transaction, distribution revenue is estimated to continuously grow at an average YoY rate of 8% until FY'24. Additionally, NXST's smaller transactions throughout the years of buying and disposing of local stations across the country have increased its reach and operational efficiencies.
- **Operational Realignment.** Recently annouced, NXST will consolidate two subsidiaries, Nexstar Digital and Nexstar Broadcasting. This move recognizes the need to have more digital news content and for it to be delievered more efficently and effectivly. As a result of this realignment, NXST believes digital engagment and awareness will increase, which will further increase Nexstar's lead in unique users across the local news app categoy. Its digital revenue has grown over 145% since FY'15 and is expected to grow at a CAGR of 6% until FY'24. This operational realignment will not only maximize NXST's reach and content, but will also result in seven figure direct operating expense savings in FY'21.

Valuation

In order to reach an intrinsic value for NXST, a five year DCF model was constructed. Using a terminal growth rate of 1.25% and a WACC of 5.73%, an intrinsic value of $145.09 was reached. A sensitivity analysis on the terminal growth rate and WACC ranged from $47.26- $465.03. Additioanlly, a Price/Sales mulitple valuation was calculated. Using a blended average multiple of 1.22x, a $114.54 price target was calculated. Finanlly, an EV/EBITDA mulitple valution was calcuated using a blended average multiple of 10.31x, which gave a target price of $140.59. By weighing these three methods 60/20/20, a price target of $138.08 was reached, representing an upside of 21.29%. NXST pays a dividend that yields 2.10%.

Risks

- **Social Media as a News Source.** Social networking services such as Twitter, Facebook, and Reddit are rising as sources of news for many American adults. The rise of social media services providing news to users may impact the number of local news television watchers, which may disrupt revenue.
- **Economic Downturn.** Because advertising spending largely follows the movement of the overall economy, any slowdowns will negatively affect NXST's revenue. With core advertising expected to represent 35% of total revenue in the upcoming years, it would be directly impacted by an economic downturn.
- **Cable Contract Negotiations.** NXST must constantly renew their contracts with the major cable providers which has led to carriage disputes. During these disputes, NXST's networks are "blacked out" for the provider's subscribers. Any dispute after a contract's initial renew date, may cause advertising revenue to decline.

Management

Perry Sook, the founder of NXST, serves as Chairman and CEO, and has 39 years of experience in the broadcasting/television industry. Tom Carter currently serves as the COO and CFO, as he has been since joining the company in 2009. Most of the remaining corporate officers have been with the company for over 10 years and have an extensive amount of experience in the broadcasting/television industry.

Source: FactSet

Peer Fundamentals

Name	Ticker	Revenue ($Mil)	ROA	ROE	Beta	NI (M)
Nexstar Media Group, Inc. Class A	NXST	3,039.3	2.19	11.74	1.56	230.3
Fox Corporation Class A	FOXA	12,303.0	4.84	9.97	0.93	999.0
E. W. Scripps Company Class A	SSP	1,423.8	-0.65	-2.02	1.65	-18.4
Gray Television, Inc.	GTN	2,122.0	3.15	10.84	1.68	179.0
Liberty Media Corporation Series A	LSXMK	7,794.0	1.61	4.64	1.19	494.0
Sinclair Broadcast Group, Inc. Class A	SBGI	4,240.0	0.39	2.99	1.17	47.0
Blended Average		4,488.7	1.32	4.09	1.39	238.4

Weights: 10%, 30%, 20%, 20%, 20% Source: FactSet

Peer Valuation

Name	Ticker	Mkt Cap ($Mil)	P/S	P/E	EV/EBITDA	EV/Sales
Nexstar Media Group, Inc. Class A	NXST	4,859.9	1.21	8.8	8.35	8.35
Fox Corporation Class A	FOXA	18,742.0	1.60	14.3	9.74	2.02
E. W. Scripps Company Class A	SSP	1,055.5	0.60	20.3	9.75	1.53
Gray Television, Inc.	GTN	1,676.4	0.80	10.4	8.60	2.61
Liberty Media Corporation Series A	LSXMK	24,865.0	3.20	29.1	12.39	3.67
Sinclair Broadcast Group, Inc. Class A	SBGI	1,600.7	0.40	39.2	11.08	2.40
Blended Average		7,819.3	1.22	23.3	10.31	2.40

Weights: 10%, 30%, 20%, 20%, 20% Source: FactSet

Adyen N.V. ADR (ADYEY)
January 29, 2021

Brett Selke | International Financials

Adyen N.V. ADR (OTC:ADYEY) is a global leader in the fintech industry that provides technology to businesses allowing them to integrate and accept e-commerce, point-of-sale, and mobile payments. Adyen drives revenue through four segments: Settlement (89.3% of revenue), Processing (6.6%), Goods (0.6%), and Other (3.5%). Adyen's geographic revenue mix is United States (25.8%), Germany (7.1%), France (5.5%), and the United Kingdom (5.5%). Adyen currently operates with offices in 23 countries and has over 3,500 customers including eBay, Uber, Netflix, Nike, and Microsoft. Adyen was founded in 2006 and is headquartered in Amsterdam, the Netherlands.

				FY: Dec	2019A	2020E	2021E	2022E
Price ($):	45.17	Beta:	1.02	Revenues (MM)	2,656.77	3,566.11	5,349.17	7,488.84
Price Target ($):	60.05	M-Term Rev. Gr Rate Est (%):	29.62	Growth (%)	60.73	34.23	50.00	40.00
52WK L-H ($):	14.79-47.99	M-Term EPS Gr Rate Est (%):	66.06	Operating Inc. (MM)	257.00	402.19	609.81	1,025.97
Market Cap (mil):	68,325	Debt to Equity (%):	0.14	Growth (%)	48.37	56.50	51.62	68.25
Insider Holdings (%):	NA	Debt to EBITDA (%):	0.48	Net Margin (%)	0.10	0.09	0.09	0.11
Avg. Daily Vol :	331525.33	WACC (%):	6.80	EPS ($)	0.17	0.22	0.31	0.53
Yield (%):	0.00	ROA (%):	3.64	EPS Growth (%)	0.61	0.26	0.43	0.70
ESG Rating	BB	ROE (%):	11.94	PEG Ratio	4.31	7.80	3.41	1.21
Short Interest (%):	1.00	ROIC (%)	10.52					

($USD in Millions)

Recommendation

Adyen completed their IPO in Amsterdam in 2018 and have since become a dominant player and disrupter in the payment industry. Adyen has experienced strong growth, highlighted by a 43% net revenue increase and operating income growth of 48.% in 2019. COVID-19 has accelerated the worldwide shift from cash to digital payments and resulted in a huge disruption in the payments industry. The firm's product technology reduces fraud, as well as simplifies and integrates point-of-sale, mobile, and digital payments. Traditionally the payment process has involved multiple intermediaries between the merchant and the financial institutions, which can consist of companies such as Visa and Alipay. Different companies would typically handle the gateway, risk management, and processing of the payments; however, with Adyen's product technology many of these players are not needed. Moreover, many payment companies do not have the global capacity to conduct payments in foreign countries and, as a result, this has created the need for even more partners. This trend has led to large merchant companies like Nike having over 30 different payment venders and partners to accept payment around the globe. Adyen's platform can remove all the nonessential partners by providing an omnichannel platform that can be used worldwide. Adyen's competitors include companies such as: PayPal, Square, Visa, StoneCo, and PagSeguro. The global payments processing industry is currently valued at $74.4 billion and is expected to grow at a CAGR of 10.2% to reach $120.7 billion by 2025. Due to its favorable pricing strategy Adyen has an average transaction volume growth rate of 67% compared to its competitors Square and PayPal's growth rates of 32% and 26% respectively. With COVID's acceleration of e-commerce, network token optimization, and merchant expansion it is recommended that Adyen be added to the AIM International Equity Fund with a price target of $60.05, representing a potential upside of 32.9%.

Investment Thesis

- **COVID's Acceleration of e-Commerce.** The COVID-19 pandemic and subsequent quarantine orders worldwide over the past year have led to record high 5.6 billion online and digital payments around the world, an increase of 15.7% versus 2019. Prior to the pandemic, e-commerce made up just 8% of all retail sales; however, it is estimated that by 2030 over 50% of retail sales in developed markets will be from e-commerce. With the pandemic still lingering in 2021, this consumer trend is likely to remain and potentially accelerate even after the effects of COVID-19 have passed. Adyen's product's omnichannel capabilities are lucrative to merchants who are seeking to expand their e-commerce revenues. The rise in e-commerce will lead to more merchants looking to partner with Adyen to take advantage of this trend and will allow Adyen to grow net revenues for a CAGR of 34%.

- **Merchant Expansion.** Throughout the COVID-19 pandemic Adyen has continued to add new clients. Michael Hill, Foot Locker, and Hungry Jacks are merchants that have recently chosen Adyen as their main transaction processor. These new partnerships highlight the switch over to Adyen's platform from the traditional ones, and this expansion will continue to drive revenue growth by approximately 50% in 2021. In 2018, Adyen signed a contract with eBay to become its main processor instead of its main competitor, PayPal and as of 2021, eBay is expected to make up 9% of Adyen's total payment volume. Of the 2020 revenue growth, 80% of it was attributed to existing merchants thereby indicating tremendous future growth potential in the acquisition of new merchants. Securing the eBay contract sent a message to the industry that Adyen has become a dominant transactions platform.
- **Network Token Optimization.** The firm launched Adyen Network Token Optimization with Microsoft in 2020. This platform allows Microsoft and other e-commerce merchants to accept tokenized payments among different schemes and to use tokens to optimize their authorization rates. Tokenization replaces cards account numbers with a token during payment, increasing merchant security, reducing Payment Card Industry compliance costs, and driving higher conversion rates at checkout for customers by enabling one-click payment. This token offering will improve quality-of-life for merchant's customers and increase authorization rates which will increase Adyen's revenues over the next several years.

Valuation

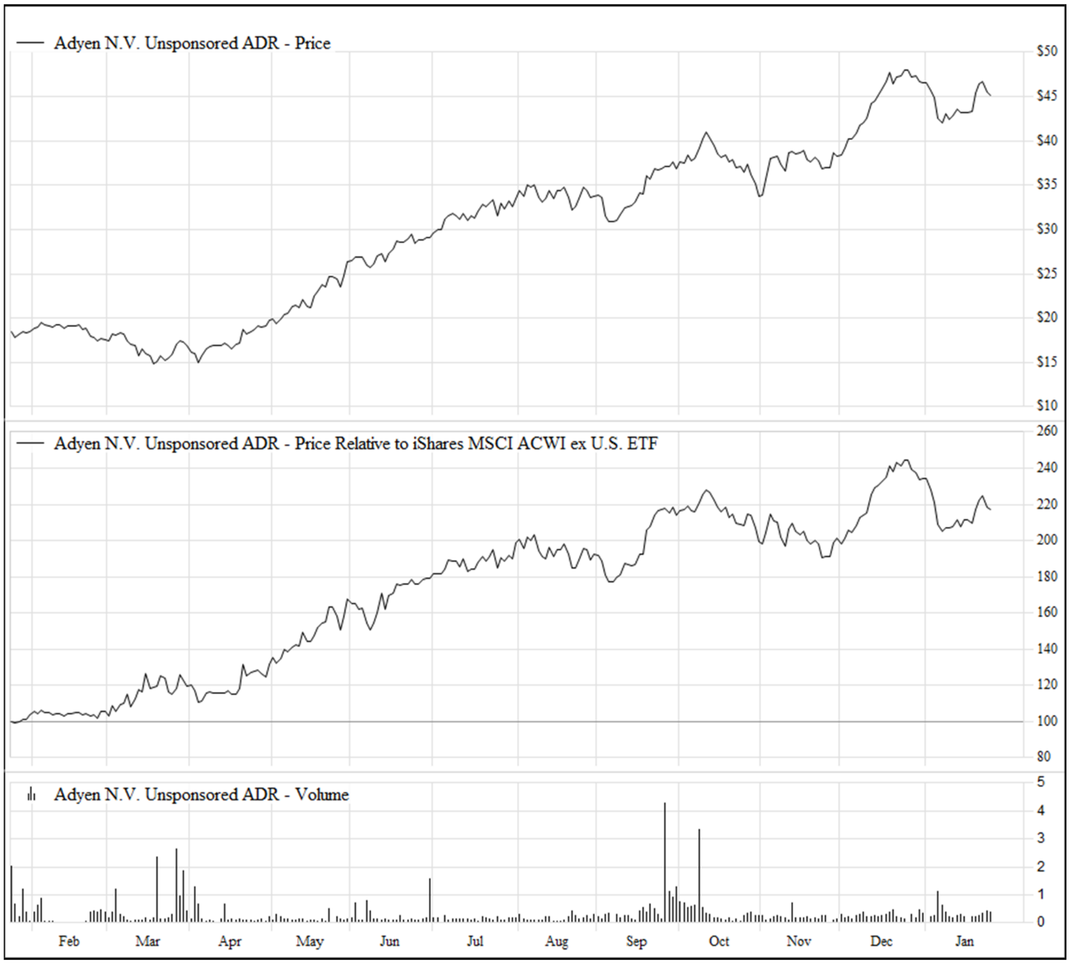
In order to reach an intrinsic value for Adyen, a five-year DCF model was constructed. Using a terminal growth rate of 2.25% and a WACC of 6.80%, an intrinsic value of $55.05 was reached. A sensitivity analysis of +/- 50bps on the terminal growth rate and the WACC ranged from $49.36-$62.17. Furthermore, a P/S valuation was calculated, resulting in a relative value of $65.15. Finally, a 2022 PEG valuation was calculated, resulting in an intrinsic value of $71.53. By weighing the three models 60/25/15 respectively, a price target of $60.05 was reached, representing an 32.94% upside. ADYEY currently does not pay a dividend.

Risks

- **Competition.** The payment industry in recent years has become a very lucrative but competitive environment. Adyen competes against a number of peers that have more experience, business relationships and financial resources than Adyen.
- **Merchant Concentration.** Adyen derives a substantial amount of revenue from a select few large merchant customers. A negative impact on the company's brand image, business relationships or a termination of the business contract could have a material negative effect on future financial performance.
- **Macroeconomic Trends.** The firm is economically sensitive to consumers consumption habits, a decrease or slowing of personal expenditures would negatively impact Adyen's transaction volumes and revenues. Brexit and its subsequent aftermath, and trade conditions between the US and China, as well as other countries, could impact its revenues as well.

Management

Peter van der Does is the co-founder and CEO of Adyen since inception. Peter van der Does has over 15 years of experience in the payments industry. Prior to Adyen he was the CCO and founder of another payment company called Bibit Global Payment Services which was sold in 2004. Alexander Matthey was newly appointed the CTO at the start of this year, after the former CTO and co-founder Arnout Schuijff stepped down. Prior to Adyen, Alexander Matthey was the CTO of Glossybox.



Peer Valuation

Name	Ticker	Market Cap (mil)	2022E PEG	EV/S	P/S
Adyen	ADYEY	68325.05	1.21	20.74	20.44
PayPal Holdings Inc	PYPL	297156.78	1.90	14.70	14.90
Square, Inc. Class A	SQ	100500	2.5	15.1	14.2
Visa Inc. Class A	V	467750	2.30	18.30	18.70
StoneCo Ltd Class A	STNE	24389	1.30	83.90	80.90
PagSeguro Digital	PAGS	18790.12	1.60	18.40	18.70
Peer Averages		**181,717.18**	**1.92**	**30.08**	**29.48**

Source: Factset

Peer Fundamentals

Name	Ticker	Revenues (Mil)	Net Income	Net Margin (%)	ROE (%)	ROA (%)
Adyen	ADYEY	3118.61	249.26	9.94	11.94	3.98
PayPal	PYPL	19015.00	2583.00	13.58	15.29	4.63
Square, Inc. Class A	SQ	5884.60	302.97	5.15	19.48	4.86
Visa Inc. Class A	V	22882.00	11331.00	49.50	32.10	15.30
StoneCo Ltd Class A	STNE	279.80	171.10	61.17	13.26	4.37
PagSeguro Digital	PAGS	1133.80	316.30	27.90	18.33	8.69
Peer Averages		**9,839.04**	**2,940.87**	**31.46**	**19.69**	**7.57**

Source: Factset

Innovative Industrial Properties, Inc. (IIPR)

January 29, 2021

Garrett Gajewski Industrial REIT

Innovative Industrial Properties, Inc. (NYSE: IIPR) is a real estate investment trust (REIT) based out of San Diego, CA. IIPR was founded in December 2016, and was the first publicly listed company to focus on providing specialty real estate for the medical-use cannabis industry. The company currently holds 66 properties located in 16 states and Washington D.C. These properties make up more than 5 million square feet of leasable space, of which 98.9% presently is leased. In the United States, 36 states have legalized cannabis for medical use, and this number could increase to all 50 states if the Biden Administration decriminalizes or legalizes cannabis across the country, as is anticipated.

Price ($):	$194.38	Beta:	1.31	FY: Dec	TTM:	2021E	2022E	2023E
Price Target ($):	281.67	M-Term Rev. Gr Rate Est (%):	30	Revenue (mil)	97.48	170.58	255.87	358.22
52 WK L-H ($):	40.21-199.50	M-Term FFO Gr Rate Est (%):	40	% Growth	118.22	75.00	50.00	40.00
Market Cap (mil):	4,680	Total Debt/FFO:	1.36	FFO (mil)	79.08	145.80	222.82	314.91
Insider Holdings (%):	2.11	Interest Coverage (x):	6.76	% Growth	143.24	84.38	52.83	41.33
Avg. Daily Volume:	512,810	WACC (%):	8.59%	FFO/Share ($)	3.48	4.80	5.43	5.69
Yield (%):	2.52	Occupancy Rate (%):	98.9	% Growth	-	37.89	13.21	4.78
ESG Rating:	-	FFO/Interest Expense:	10.67	P/FFO	2.52	1.34	0.87	0.61
Short Interest (%):	8.5	Total Debt/Equity (%):	0.08	P/NAV	1.91	1.28	1.14	1.10

Recommendation

Innovative Industrial Properties, Inc. completed their IPO in 2016 at a price of $20 per share and the stock has seen an amazing run. The price is currently sitting around $194, which represents an annual growth rate of 77% since their IPO. This performance is partially the result of IIPR being the first REIT to invest in cannabis-focused real estate properties. Presently, they are the only cannabis-focused REIT; however, others are soon expected to IPO, including AFC Gamma. IIPR is the 9th largest US industrial REIT with a market cap of $4.71B, and it was also the best performing REIT in 2020 with a market return of 147%. Beyond the fantastic stock performance, the firm offers a solid dividend yield of 2.52%, which has increased nine times since 2016. Their properties are large specialty industrial buildings that are used for cultivation, processing, and distribution of cannabis. Almost all of IIPR's leases are triple net and have an average remaining lease of 16.6 years. The company has a strong ESG commitment, which increases the demand for mutual funds to hold the stock. IIPR has a high priority in protecting their assets, environment, and the communities in which their facilities are located, and they were rated as a top 100 cannabis company by the Green Entrepreneur. It is believed that the Biden Administration, not only has plans to decriminalize marijuana, but also intends to raise the current corporate tax rate from 21% to 28%. Since REITs do not pay taxes if they distribute more than 90% of their profits, this special tax status could add to the appreciation of the stock. Due to the stability and future growth outlook of the cannabis real estate industry, along with the early leader status of the company, it is recommended that Innovative Industrial Properties be added to the AIM Equity Fund with a price target of $281.67, representing a potential 44% upside.

Investment Thesis

- **Strong Dividend Yield and Good Fundamentals.** IIPR sports an attractive dividend yield which is higher than most comparable REITs. The dividend should remain strong due to the company's relatively high profit margins. IIPR's last quarterly report in September stated that sales had tripled to $79.8 million from the previous year, and they reported FFO per diluted share of $1.22 and declared a quarterly dividend of $1.24 per share. Additionally, the company had a Q3 YoY EPS growth rate of 59%.
- **Cannabis Decriminalization or Legalization.** President Biden has shared his thoughts on marijuana multiple times and has expressed an interest in decriminalizing marijuana. He could also use his federal power to make the drug legal nationwide. In November 2020, five more states chose to move forward with cannabis reform, including Arizona, Montana, Mississippi, New Jersey, and

South Dakota. As more states legalize the use of cannabis, this will continue to open immense opportunities for IIPR to expand to all areas of the country and possibly lease their industrial cultivation, processing, and distribution properties to companies for not only medical cannabis growing, but also recreational use. According to The ArcView Group, the cannabis industry will expand at a CAGR of 22% through 2024 and grow from a $12.4B industry to over $34B over this time. From 2017 to 2020, IIPR's sales grew at a CAGR of 147.6% and FFO grew at 214% annually. Of important note is management's statement that recreational legalization could boost sales by over 200%.

- **Great Tenants and Big Incentives.** IIPR operates in a somewhat monopolistic manner because operators are required by the government to go through a licensing process. IIPR benefits from this process because states are incentivized with faster tax revenues if they license to an already existing operator. IIPR has been supportive of helping their current tenants expand their business because it allows IIPR to receive longer lease terms and roughly 13% yields in exchange for capital. Additionally, strong rent collections are a huge reason why they continue to help their current tenants expand. The company's rent collection for Q320 was 100%, which cannot be said for many other REITs. Due to the current federal regulation and with marijuana classified as a Schedule 1 Drug, banks presently are unable to provide a line of credit or loan directly to cannabis companies, which provides an advantage for IIPR.

Valuation

In order to reach an intrinsic value for IIPR, a model was constructed that offered a weak, base, and best case scenario. For the base case scenario, a five-year DCF was created using a terminal growth rate of 3% and a WACC of 8.59%. This produced an intrinsic value of $433.57. Furthermore, an equity to AFFO multiple was calculated and produced an intrinsic value of $426.89. A sensitivity analysis of +/- 50bps on the terminal growth rate and +/- 100bps on the WACC ranged from $340.73-$583.10. Additionally, a NAV valuation was conducted, and it presented an intrinsic value of $151.85 for the year end of 2021. Finally, a DDM model was constructed using a forward estimated yearly dividend of $8.35 and a growth rate of 0.444. This resulted in an intrinsic value of $104.99. By weighing the three models 50/30/20, a base price target of $281.67 was reached, resulting in a 44% potential upside. Lastly, the weak case resulted in a price target of $147.77 representing a 25% downside and the best case resulted in a price target of $436.37 representing a 124% upside. The current dividend yield is 2.52%.

Risks

- **Legislative or Regulatory Action.** With banks currently not being able to lend to cannabis companies due to the drugs classification, this has been a strong driver; however, if cannabis is federally legalized, these companies would be able to legally obtain financing from a chartered bank.
- **More Competition Entering the Space.** Currently, IIPR remains the only REIT focused on investing in cannabis growing facilities, however, AFC Gamma is expected to IPO soon and become the second pure play cannabis REIT. Additionally, other REITs are seeing the potential of the cannabis industry and slowly diversifying their real estate holdings into that space.
- **Share-based Dilution.** Since IIPR's inception, the REIT has had multiple secondary offerings to raise money and purchase new properties. Being that they are still a young company and in the aggressive growth stage, it would not be surprising if more offerings were in their near future.

Management

Paul Smithers has been the President and CEO of Innovative Industrial Properties since 2016. Prior to working for IIPR, Smithers served as co-founder and Chief Legal Officer of Iso Nano International, LLC, a manufacturer of advanced materials for aerospace, consumer goods, and electronics. Catherine Hastings has been the CFO and Treasurer of IIPR since 2017 and she has an extensive career in audit services.

Peer Fundamentals

Name	Ticker	Market Cap (mil)	Rev (mil)	ROIC (%)	Occupancy Rates (%)	Dividend Yield (%)
Innovative Industrial Properties	IIPR	5,134.8	44.66	4.9	98.9	2.52
STAG Industrial	STAG	4,777.7	405.95	1.4	96.3	4.7
EastGroup Properties	EGP	5,478.6	331.39	5.8	96.4	2.3
Terreno Realty	TRNO	3,896.7	171.02	3.0	97.3	2
First Industrial Realty Trust	FR	5,631.5	425.98	7.8	96.3	2.4
Peer Weighted Averages		4,983.9	275.8	4.6	97.0	2.8

Based on most recently available data

Source: FactSet

Peer Valuation

Name	Ticker	P/FFO (LTM)	P/NAV (x)	EV/EBITDA	Total Debt/Equity (%)	FFO/Share ($)
Innovative Industrial Properties	IIPR	38.9	1.85	56.4	24.80	3.48
STAG Industrial	STAG	16.5	0.99	18.7	72.09	1.87
EastGroup Properties	EGP	25.8	1.10	28.5	99.69	5.36
Terreno Realty	TRNO	38.8	1.12	40.4	32.4	1.46
First Industrial Realty Trust	FR	22.9	0.98	23.8	96.3	1.84
Peer Weighted Averages		28.6	1.21	33.6	65.1	2.8

Based on most recently available data

Source FactSet

Fever-Tree Drinks PLC (FQVTF)
January 29, 2021

Justin Nguyen International Consumer Discretionary

Fever-Tree Drinks PLC (OTCMKTS: FQVTF) is a United Kingdom-based producer that engages in the manufacturing of premium carbonated mixers. The company operates as a single business segment with a wide range of products including tonic water, ginger beer, ginger ale, lemonade, and spring soda water. Their products are sold through two channels: on-trade (bars and restaurants) and off-trade (retail stores). They derive the majority of their revenues from the United Kingdom (50.9% of FY19 revenues), United States (18.3%), Germany (5.1%) and France (3.6%). Fever-Tree was founded in 2004 and was listed on the London Stock Exchange in 2014.

Price ($):	31.65	Beta:	1.03	FY: March	2019A	2020E	2021E	2022E
Price Target ($):	36.90	L-Term Rev. Gr Rate Est:	15.94%	Revenue (Mil)	345.11	331.18	449.67	509.53
52WK H-L ($):	35.00-10.30	L-Term EPS Gr Rate Est:	18.30%	% Growth	9.71%	-7.00%	28.00%	25.00%
Market Cap (mil):	3,723	Debt/Equity:	1.52%	Oper Inc (Mil)	95.65	79.48	135.48	153.17
Insider Holdings:	11.94%	Debt/EBITDA:	0.02	% Growth	-4.19%	-19.47%	60.69%	24.72%
Avg. Daily Vol (3M):	660	WACC:	7.81%	Op Margin	27.72%	24.00%	30.13%	30.06%
Yield:	0.70%	ROA:	20.36%	EPS ($)	0.67	0.55	0.94	1.07
Short Interest:	N/A	ROE:	23.84%	P/E (Cal)	56.40	57.29	33.57	29.69
ESG Rating:	N/A	ROIC:	24.61%	EV/EBITDA	37.72	58.71	36.82	29.52

Recommendation

While mixers may not receive as much attention compared to the spirits within an alcoholic drink, they play a critical role in defining the quality that consumers experience. Fever-Tree Drinks, ever since its founding, has embraced this mindset and produced some of the world's best premium mixers. With 40% of market share in the UK mixers category, compared to just under 10% five years prior, Fever-Tree's product quality has been appreciated. The company launched its first product in 2005 with the signature Premium Indian tonic water, marking the start of a journey to overtake the best-selling brands in this category. Their tonic product line extension includes Elderflower tonic water, Mediterranean tonic water, and Refreshing Light tonic water, along with other flavors, has solidified their position in the home market of Great Britain. In North America, Fever-Tree has successfully captured the taste of the American consumers through its tonic water. Additionally, its ginger beer is the top seller product thanks to the popularity of the Moscow Mule drink. FQVTF's products generated a sales growth of 10% in FY19 and recorded a historical 5-year CAGR of 45%. The company's brand is well established across Europe, the US, and the rest of the world with double digit growth rates recorded over the most recent years. With the flexible outsourced business model that allows it to scale up quickly, and in addition to their strong financials with low debt and high EBITDA margin, FQVTF is well-positioned to capitalize on the growing trend of premiumization of the alcoholic beverages industry. Therefore, with expansion into new markets and continued brand strength, it is recommended that Fever-Tree be added to the AIM International Equity Fund at a target price of $36.90, representing a potential upside of 16.58%.

Investment Thesis

- **The Great Resurgence Back Home.** While the UK is where Fever-Tree saw a strong growth of revenue (53% growth through FY18), things have not been positive for the past two years. Economic and political unrest in FY19 affected the consumers' confidence which led to a decline of 1% in growth, and COVID-19 also added salt to the wound as on-trade sales went down 61% YoY in the first half (H1) of FY20. However, as vaccines are being distributed and lockdown orders expected to be lifted in mid-2021, FQVTF's on-trade sales are likely to boom in the second half of the year by 30%, recovering an estimated half of sales lost during the year prior. Additionally, the company can capitalize on the off-trade sales growth momentum of 24% during the pandemic, as well as their premium soda product launch, to generate an overall sales growth of 25% in the UK.

This will help the company get back to the sales level they generated in FY19 and to produce momentum for another solid growth period at home.

- **Beyond the Borders Establishment.** Despite the numbers being down across regions during the pandemic, FQVTF has experienced tremendous growth in the US market as off-trade channel reached 98% and 96% YoY growth rate during April and May. The reason behind this was their decision to invest and take control of their own network in the US in 2018, establishing Fever-Tree USA. The company is implementing the same strategy within their Europe market with the acquisition of Global Drinks Partnership, a German beverage distributor and sales agent that will contribute an estimated $12 million of brand revenue annually. Overall, FQVTF is well-positioned to explore the estimated global premium spirits market worth of $107.7 billion with the projected expansion at 10.3% CAGR through 2027. The quickly growing brand and high quality product of FQVTF will give them an edge against competitors in growing market share and eventually revenue.
- **New Drinks, New Fun.** Fever-Tree has been highly successful in launching new products to adapt to market trends. Its recent release of Sparkling Pink Grapefruit, tailored to expand into the $6 billion tequila market, has been a huge success that has helped contribute to the 39% sales growth. It is expected that the drink will thrive even further under better economic conditions in the upcoming years. Additional formats of this product are also planned to be launched in 2021. With the gross margin at 50%, FQVTF will generate an estimated $9 million in operating income from these products annually if sales increase by 5%. This strategy will allow the company to scale up quickly as few capital expenditures are required and this should result in margin expansion.

Valuation

In order to reach an intrinsic value for Fever-Tree, a ten-year DCF model was constructed. Using a terminal growth rate of 2.0% and a WACC of 7.81%, an intrinsic value of $39.39 was reached. A sensitivity analysis of +/- 50bps on the terminal growth rate and the WACC ranged from $34.20-$46.65. Furthermore, a P/E valuation was completed using a peer multiple of 62.00x that gave a relative value of $34.79. Lastly, an EV/EBITDA multiple valuation was constructed using a multiple of 32.63x, resulting in a relative value of $27.38. By weighing the three models 70/15/15, a price target of $36.90 was reached, representing a 16.58% upside. Fever-Tree pays a dividend yielding 0.7%.

Risks

- **Competition Risk.** Fever-Tree faces rising competition from other mixers brands that can produce their mixers at cheaper prices, thus may affect the company’s market share and expected growth.
- **Outsourced Production Disruption.** The company is dependent on many outsourced production and bottling partners, suppliers, warehousing services, and distribution agents, any of which may affect the pace of production.
- **Foreign Currency Exposure.** Fever-Tree has a strong international presence, with half of its revenue is generated outside of the UK. The company, thus, is likely to experience unfavorable currency exchange movements that affect its revenues.

Management

Both co-founders Charles Rolls and Tim Warrillow are on the board of directors, with Mr. Rolls serves as non-executive Deputy Chairman and Mr. Warrillow as the Chief Executive Officer. Bill Ronald is the Chairman of Fever-Tree and he has been in this position since 2013, while Andrew Branchflower serves as the company’s Chief Financial Officer.

Source: FactSet

Peer Valuation

Name	Ticker	Market Cap (Mil)	P/S	P/E	EV/EBITDA	P/B
FeverTree Drinks PLC	FQVTF	3,722	11.90	56.40	38.19	12.80
Diageo PLC	DEO	92,945	11.62	48.35	21.77	13.84
Boston Beer A	SAM	11,388	7.30	66.44	37.05	12.30
Remy Cointreau	RCO	8,921	8.20	82.90	39.33	5.00
Kweichow Moutai A	600519-CN	403,357	32.70	59.20	41.00	17.80
Coca Cola	KO	208,383	6.30	25.12	20.27	11.20
Peer Averages		170,246	11.09	62.00	32.63	10.94

Peer Weights: 25%, 25%, 30%, 10%, 10% Source: FactSet

Peer Fundamentals

Name	Ticker	Revenues (Mil)	ROE(%)	ROA(%)	D/E (%)	Dividend Yield (%)
FeverTree Drinks PLC	FQVTF	345	23.84	20.36	1.52	0.7
Diageo PLC	DEO	15,329	18.6	4.4	254.8	2.4
Boston Beer A	SAM	1,250	18.40	13.90	8.3	0
Remy Cointreau	RCO	1,163	7.6	4	51.3	0.7
Kweichow Moutai A	600519-CN	12,514	33.1	24	8.1	0.8
Coca Cola	KO	37,280	49.6	10.5	232.6	3.4
Peer Averages		9,473	19.80	9.23	105.24	1.23

Peer Weights: 25%, 25%, 30%, 10%, 10% Source: FactSet