

ALTERNATIVE RESEARCH SERVICES, INC.

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Monster Beverage (MNST) \$58.22

Sell Short:

Energy Drinks and Marketing

Possible Saturation Issues

Beveragedaily.com sees “recent dramatic slowdown for energy drinks”

Market Cap.	\$10.3 bil
Shares Out.	176 mil
Short Interest	3.3m
Days short	.80
Avg. Daily Vol.	2.2m
St. eps est. 2012	\$2.01
St. eps est. 2013	\$2.49
Px/book	8.89x
Px/sales	5.4x
Px/ EBITDA	17.6x

“The popularity of energy drinks among the younger generation is evidenced by 34% of 18 to 24-y-olds being regular energy drink users (O’Brien and others 2008; Mintel 2009). Another report found that about one-half of college students consume at least 1 energy drink per month in the hope to increase their energy level, to compensate for a lack of sleep or to mix with alcohol (Miller 2008).”¹

- This is our third report in as many weeks. The regulatory thesis is a work in progress; however, some of the recent industry news leads us to conclude the energy drink industry could be slowing substantially. We are publishing sooner rather than later just in case the Street picks up on it. In our first 2 reports, we studied the legal and regulatory angles. In this report, we are addressing more marketing related issues. Again, shorter-term, the industry may be slowing. Longer-term, we think it’s possible the FDA/FTC could come under greater pressure from Congress or the state AGs to better regulate the energy drink market. We believe that if a greater percentage of consumers are using energy drinks for mixing with alcohol and are NOT using them for their intended use as dietary supplements, then the authorities may act to limit marketing, especially to underage drinkers. If energy drinks are dietary supplements,

¹ Heckman, M.A. et al. Energy Drinks: An Assessment of Their Market Size, Consumer Demographics, Ingredient Profile, Functionality, and Regulations in the United States. *Comprehensive Reviews in Food Science and Food Safety* (29 April 2010), Vol 9, Issue 3. Retrieved from: <http://onlinelibrary.wiley.com/doi/10.1111/j.1541-4337.2010.00111.x/pdf>

then no added level of disclosure of ingredients is required.² However, if a greater percentage of consumers are using them for mixing with alcohol, then the drinks should be regulated as beverages, and the industry will have to display the levels of caffeine and other miscellaneous mystery ingredients contained in their products. We think sales could fall if regulators restrict marketing to minors and young adults. We also believe the industry is saturated with products, and companies like MNST have nowhere to go but down in terms of market share, even though to date, they've managed to grow faster than the industry. Either their growth will slow to the level of industry growth, or the industry growth will fall, flatten out, taking the big market share holders down with it. The only upside to that is international growth.

US energy drink slowdown due to Red Bull's 'lack of innovation': analyst hints³ (July 2012) -- Indicators of a slow down

- “A recent slowdown in US energy drink growth rates could be due to the lack of innovation from brand leader Red Bull, as it fails to address the needs of ageing millennial consumers, one analyst suggests.”
- “One industry analyst at Euromonitor International noted that energy drinks posted a CAGR of 28.8% in the US from 2001 to 2011, one of only 3 categories to do so. The US energy drink market hit 1.4 billion litres in 2011, despite health and wellness concerns...despite this strong performance, the **recent dramatic slowdown** for energy drinks meant that the category had **reached a saturation point faster than expected**, the author said. While the products have reached a high level of penetration, manufacturers have lacked innovation to attract new customers and keep old ones.” Stifel Nicolaus commented on August 9th that shares of MNST may come under pressure over concerns of slowing sales growth.
- “The author noted that Red Bull with its 43.2% market shares discontinued its Energy Shot and Cola brands in 2011, while Sugar Free and Zero launches were obvious reactions to customer concerns regarding high calorie intake.”
- “Other edgy pop culture energy drink brands, Monster, Rockstar, Full Throttle and AMP were tweaking flavors and brand names to retail their aging fans. Such positioning initially generated interest among the young, but was also polarizing, alienating older and more conservative consumers, the author said. He said, ‘And as these Millennials themselves begin to age, many are seeking ‘healthier’ alternatives such as RTD teas and coffees or organic energy drinks.’”

² According to the company's 2005 10-K only 3% of revenue came from “health food distributors” vs. 65% from full service distributors and 19% from retail, grocery stores

³<http://www.beveragedaily.com/Markets/US-energy-drink-slowdown-due-to-Red-Bull-s-lack-of-innovation-analyst-hints>

- “Given that complete product repositioning risked alienating core consumers, brands such as Monster had tweaked brand names via derivative line extensions to tap new customers.”
- “For instance, Monster Rehab is an energy/hydration beverage available in several tea flavors, while Rockstar Energy’s Recovery line included real fruit juice and tea flavors.”

Energy Drinks Industry Report⁴

- “With incredible growth rates off a low base in the early 2000s, the Energy Drink *industry has slowed down* its pace over the five years to 2011. Yet the industry continues to achieve double-digit growth, according to IBISWorld, the nation’s largest publisher of industry research. As the energy drink market gradually becomes saturated it will grow only slightly in the next five years.”
- “As energy drinks *achieve market saturation*, regulators are cracking down on the marketing of these and other products, according to IBISWorld. In the aftermath of several products like Four Loco and other energy beers being abruptly pulled off of shelves in several states, industry players will be more wary of potential bans or new regulations. According to IBISWorld, this will be especially true when companies deal with non-traditional content combinations like these caffeinated alcoholic drinks, which were banned in 2010.”
- “As companies reclassify products, demand will shift to other industries. Similarly, marketing will be increasingly tricky as health concerns spill into public debate over the five years to 2016.”⁵

Innovations in Energy Drinks Part 1: Shedding the Bad Boy Image (July 26, 2012)⁶

- “...in 2001, with barely more than 110 million litres in retail has grown to almost 1.4 billion litres sold in 2011. However, despite such a meteoric rise, growth has actually slowed tremendously since its zenith in the middle of the last decade and has shown signs of maturity over the last five years...But, despite strong historic performance, the recent dramatic slowing of growth for energy drinks has many analysts feeling that the category has reached a saturation point much quicker than expected. Chief among concerns is that, while the product has reached a high level of penetration, manufacturers have historically lacked innovation to attract new customers – or keep old ones.”
- “The backbone of the energy drink category is undoubtedly the ‘Generation Y’ or ‘Millennial Generation’, which refers to the demographic ranging from consumers born in the early 1980s to the mid-2000s....While such positioning was initially effective in

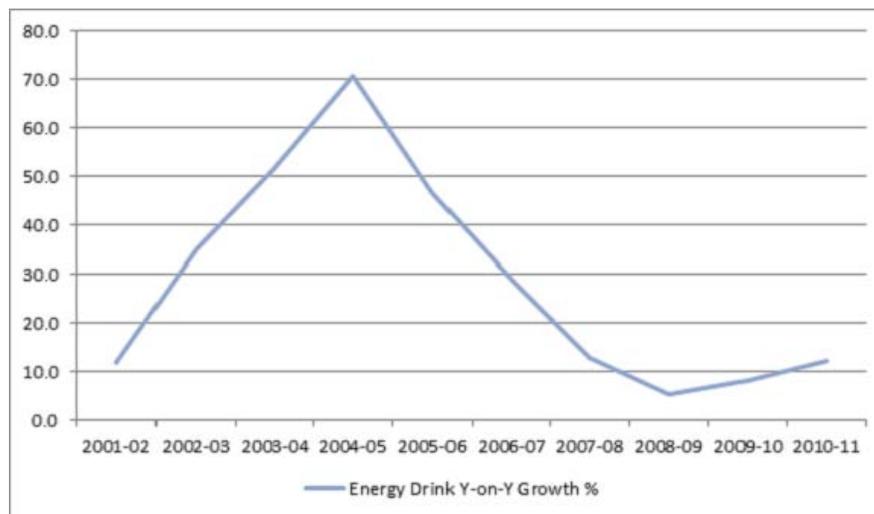
⁴ <http://www.prweb.com/releases/2011/11/prweb8956928.htm> November 11, 2011

⁵ <http://www.cisionwire.com/ibisworld/r/energy-drinks-industry-pushing-innovation-and-new-product-introductions,c9188067>

⁶ <http://blog.euromonitor.com/2012/07/innovations-in-energy-drinks-part-1-shedding-the-bad-boy-image.html>

generating interest amongst the very important youth culture, the branding was also polarising – alienating older and more conservative consumers. And as these Millennials themselves begin to age, many are seeking ‘healthier’ alternatives...With this in mind, many manufacturers have instead launched new flavours under the same or slightly tweaked brand names. In particular, Monster Energy, the number 2 energy drink manufacturer in terms of volume, launched Monster Rehab – an energy/hydration beverage available in various tea flavours.”

Energy Drinks Year-on-Year % Growth 2001-2011



Market Research

- *Energy Drinks: An Assessment of Their Market Size...*⁷ – “Energy drinks in particular have experienced impressive growth of more than 240% in the United States, as well as abroad, from 2004 to 2009 (Mintel 2009). In 2008, the functional beverage industry reached global sales of \$26.9 billion with a compound annual growth rate (CAGR) of 8.6% from 2004–2008. The United States contributed significantly to the functional beverage industry’s total accounting for \$7.6 billion in revenue and a CAGR of 20.6%.”
- “The numbers indicate that energy drinks will see their strongest growth between the years 2007 and 2012 (GMID 2008). This increased growth can be attributed to more private label initiatives, larger container sizes, multi-pack options, sugar-free versions, and juice hybrids that have a more palatable flavor (GMID 2008; Canadean 2009). Currently, there are more than 300 varieties of energy drinks representing more than

⁷ Heckman, M.A. et al. Energy Drinks: An Assessment of Their Market Size, Consumer Demographics, Ingredient Profile, Functionality, and Regulations in the United States. *Comprehensive Reviews in Food Science and Food Safety* (29 April 2010), Vol 9, Issue 3. Retrieved from: <http://onlinelibrary.wiley.com/doi/10.1111/j.1541-4337.2010.00111.x/pdf>

200 brands in the United States alone, all purporting to increase energy, longevity, and vitality in some form or another (Energyfiend 2009). Although there is an abundance of energy drinks to choose from...the majority of the market share comprises only a handful of varieties, with Red Bull accounting for 42% of the market share (Beverage Spectrum 2008).”

- “The popularity of energy drinks among the younger generation is evidenced by *34% of 18 to 24-y-olds being regular energy drink users* (O’Brien and others 2008; Mintel 2009). Another report found that about *one-half of college students* consume at least 1 energy drink per month in the hope to increase their energy level, to compensate for a lack of sleep or to mix with alcohol (Miller 2008). The marketing and branding of many energy drinks reflects the market to which these companies are targeting. A review presented at the 2007 IFE (Intl. Franchise Expo) Americas Food and Beverage Show confirmed that *energy drink companies’ primary target market was adolescents and young adults.*”⁸
- “Their appraisal stated that many of the energy drink companies were using cross-promotional tactics to reach their consumer base by integrating their product with extreme sporting events, such as the X-games or NASCAR, as well as advertising their products in connection with popular music icons (Agriculture and Agri-Food Canada 2008).”
- “On the other hand, an association between consumption of energy drinks and occurrence of cardiovascular events has recently been questioned, although the supporting data are limited. Regardless of the evidence, this association has brought about concerns that have impacted consumer perception and have resulted in bans on the sale of energy drinks in several European countries including Denmark and Norway (Ragsdale and others 2009).”
- “Another common practice, especially among college students, is to mix alcohol with energy drinks (O’Brien and others 2008). *It was found that almost 25% of all drinker college students mix alcohol with energy drinks* (O’Brien and others 2008). The concept of alcoholic energy drinks has been a very controversial issue in which the alcohol industry has received much criticism due to the dangers that have been associated with this trend. There have been several studies that have shown that the consumption of energy drinks in combination with alcohol have resulted in a decreased level of perceived intoxication, which could result in an increased number of driving accidents or other alcohol related incidents (Ferreira and others 2006; Marcziński and Fillmore 2006).”
- *Alcoholic Energy Drink Consumption Increases Risk Taking by College Students*⁹ – “More than 60 percent of subjects were younger than age 21 in a [study](#) that found college students who consume alcohol-laced energy drinks were more likely to engage in ...forms of risk-taking,” according to the study’s [author](#), Kathleen E. Miller, Ph.D., at the University at Buffalo. *Two thirds of 795 undergraduate consumers of energy drinks*

⁸ <http://freedownload.is/pdf/energy-drinks-an-assessment-of-their-market-size-consumer-1809980.html>

⁹ <https://www.stopalcoholabuse.gov/inthenews.aspx>

*in Dr. Miller's study had used energy drinks as mixers with alcoholic beverages. The results of Dr. Miller's work, conducted with support from the National Institute on Drug Abuse, are reported in an [article](#) in the June 2012 issue of the *Journal of Caffeine Research*."*

- "In a separate *Journal of American College Health* [article](#), Dr. Miller reported that her study also linked heavy consumption of energy drinks with what she termed a 'toxic' jock identity among college athletes. Such an identity emphasizes hyper-masculinity and a willingness to take excessive risks...One danger posed by these beverages is that caffeine—a stimulant—may make drinkers less aware of their level of intoxication, possibly leading them to drink more."
- "According to a [Centers for Disease Control and Prevention fact sheet on CABs](#), 31 percent of 12- to 17-year-olds and 34 percent of 18- to 24-year-olds report regular consumption of energy drinks." While this article documented the increased hospital visits due to CABs, we think that's just the tip of the iceberg; that in fact, many more underage drinkers are overdosing on caffeine.
- *France Asks Consumers to Report Energy Drink Adverse Events*¹⁰ – August 17, 2012 – MAISONS-ALFORT, France—"After recording several adverse event reports through its nutritional vigilance program, the [French Agency for Food, Environmental and Occupational Health and Safety](#) (ANSES) is asking consumers to notify their doctor or other health professional of any adverse effects associated with energy drink use. Among the adverse reports ANSES has fielded were two fatalities. Citing its own study, which is still in progress and due out in Fall 2013, the agency reported a marked rise in consumption of energy drinks during sporting activities, noting *'27% of consumers under [age] 35 consume energy drinks in conjunction with alcohol at least occasionally.'*"

The Underage Drinking Epidemic June 12, 2011¹¹

- "We're seeing kids coming in with blood alcohol levels in the mid-.3s, even .4, which is four to five times the legal limit for driving. That's the level at which 50% of people die,' says Dr. Mary Claire O'Brien, an emergency medicine physician and associate professor at Wake Forest University School of Medicine in North Carolina who specializes in alcohol-related research. "Ten years ago, we saw those levels only in chronic alcoholics."
- "Their goal is not to sit around enjoying a glass or two of wine over the course of an evening. Rather, for many teens, the point is to get as drunk as possible, as quickly and cheaply as possible, in part to reduce the social anxiety rife at that age. Unfortunately, there are now more—and more dangerous—ways to accomplish this than ever before. The practice of mixing alcohol with super-caffeinated energy drinks..."^{12,13}

¹⁰ <http://www.foodproductdesign.com/news/2012/08/france-asks-consumers-to-report-energy-drink-adve.aspx>

¹¹ <http://www.parade.com/health/2011/06/12-teen-drinking-epidemic.html>

¹² "Teen alcohol use kills about 6000 people each year, more than all illegal drugs combined. In 2010, 10,228 people died in drunk driving crashes...In fatal crashes in 2010, the highest percentage of drunk drivers was for drivers ages 21 to 24 (34%) – <http://www.madd.org/statistics/>

- “According to the CDC, about 90% of all teen alcohol consumption occurs in the form of binge drinking, which, experts say, peaks at age 19. Forty-one percent of 12th graders report having had a drink in the previous 30 days, and by the time kids are in college, that number climbs to 72%. Approximately 200,000 adolescents visit emergency rooms each year because of drinking-related incidents...‘[t]he caffeine blocks the part of alcohol that makes you sleepy and might otherwise cause you to pass out. This enables you to drink far more than you might have. By the time many of these kids get to the hospital, they have to be put temporarily on respirators because of depressed breathing.”
- “Disturbed by what they were seeing, Dr. O’Brien and her colleagues conducted a survey that year of 4,271 students from more than 10 universities in North Carolina. ‘*We found that about a quarter of the kids who’d had a drink in the past 30 days said they were mixing alcohol with energy drinks.*”
- “In 2011 in answer to the question, ‘About how many [energy drinks] do you drink per day on average?’ The proportions indicating any recent use were 35% of 8th graders and 29% of both 10th and 12th graders. Use of one or more drinks per day was 18%, 11%, and 10% for 8th, 10th and 12th grades.”¹⁴

“Alcohol, Energy Drinks, and Youth: A Dangerous Mix”¹⁵

- “Creating Brand Confusion with Nonalcoholic Energy Drinks – Alcohol producers promote the close association of their products with energy drinks by mimicking their containers, including size, shape, and graphics. These similarities create the potential for confusion among consumers, retailers, parents, law enforcement officers, and others regarding which products contain alcohol and which do not. One product that stands out in this respect is Rockstar. There are several versions of the nonalcoholic variety, including Rockstar Original, Sugar-Free Rockstar, Rockstar Zero Carb, Rockstar Juiced Plus Guava, and Rockstar Juiced Plus Juice. The drink’s tagline is ‘Party Like a Rock Star.’ The alcoholic version is called Rockstar 21, and lining up the cans it is nearly impossible to tell them apart. Rockstar is the No. 3 brand of on alcoholic energy drinks, *doubling its sales from 2004 to 2006. Coca-Cola started distributing nonalcoholic Rockstar products in 2005; sales grew from \$1 million in 2001 to \$77 million in 2006.*”
- “In addition, marketing messages used for alcoholic energy drinks frequently mirror those used by their nonalcoholic cousins: images of rocket ships and exploding nuclear

¹³ “According to self-report surveys, energy drinks are consumed by 30% to 50% of adolescents and young adults. Of the 5,448 US caffeine overdoses reported in 2007, 46% occurred in those younger than 19 –years-old...” – Seifert, Sara M., et al. Health Effects of Energy Drinks on Children, Adolescents, and Young Adults. *Pediatrics*. 2011 March; 127(3): 511–528. Retrieved on Sept 7th, 2012 from :

<http://www.ncbi.nlm.nih.gov/pmc/articles/PMC3065144/>

¹⁴<http://ns.umich.edu/new/multimedia/9-videos/20124-marijuana-use-continues-to-rise-among-us-teens-while-alcohol-use-hits-historic-lows>

¹⁵<http://alcoholjustice.org/images/stories/EnergyDrinkReport.pdf> by Marin Institute: Alcohol Industry Watchdog 2007

reactors; images and slogans referencing risk taking, sports, and all-night partying. Explicit sexual imagery or messages are often included, suggesting that the products can lead to sexual success for males, particularly in party situations. The messages are communicated primarily through the same channels used by energy drink marketers, with emphasis on nontraditional media: Internet sites, chat rooms, sporting event sponsorships, and the like.”

- “As this analysis suggests, alcoholic energy drinks are closely linked through their branding, ingredients, containers, and marketing tactics to their nonalcoholic cousins. With energy drink sales expanding rapidly....[t]his raises troubling questions, given the dramatic rise in popularity of nonalcoholic energy drinks with children as young as age 12 and the potential risks associated with mixing alcohol and caffeine...”
- “With the rising popularity of energy drinks and with *more young people ingesting high levels of caffeine*, more serious health problems are now being reported in the nation’s poison centers. One three-year study by a Chicago poison center found more than 250 cases of caffeine overdose, with 12 percent of those requiring hospitalization. Nearly two thirds of the hospitalizations involved the intensive care unit. Symptoms included insomnia, palpitations, tremors, sweating, nausea, vomiting, diarrhea, chest pains, and neurological symptoms. *The average age of patients was 21.*”
- “Recently, a nonalcoholic energy drink called Spike Shooter, containing 300 mg of caffeine per serving, caused an uproar in Colorado Springs. In just one week, 18 high school students there reported becoming sick after drinking this product. The principal of the high school became so alarmed that she banned the drink on campus and convinced the nearby convenience store to stop selling it.”
- “The product’s label warns that those under 18 and anyone with health concerns should not use it. Despite the warning, 14-year-old Rachel Woodrow, a diabetic, drank one can and started shaking. Two days later, she was hospitalized for a seizure. Rachel’s parents say doctors told them the drink increased her metabolism and may have triggered the seizure. Rachel admits she didn’t read the label. Rachel says, ‘I thought it would make me feel hyper and everything, but I didn’t think I would have a seizure.’ Another student wanted to ‘get a little hyper’ by drinking ‘spike shooter.’ Instead, Chris Weir says, ‘My stomach started to cramp up. I had a headache and I started vomiting.’”
- In another article, “In 2007, there were a reported 5,448 caffeine overdoses in the United States, and fully 46 per cent occurred in people under 19....[r]ecently, the University of New Hampshire considered banning energy drinks from their campus. When UNH announced the possible ban, the assistant vice president for business affairs said in a statement that although the products are legal, they could become unsafe when over-consumed or mixed with alcohol.”¹⁶ The article had no citation.
- *Energy drinks linked to risky behavior among teens*¹⁷ – “Super-caffeinated energy drinks, with names like Red Bull, Monster, Full Throttle and Amp, have surged in

¹⁶ <http://foodworksblog.wordpress.com/2011/09>

¹⁷ <http://www.chicagotribune.com/news/nationworld/chi-052708-energy-drinks-may28,0,2191663.story>

popularity in the past decade. *About a third of 12- to 24-year-olds say they regularly down energy drinks, which account for more than \$3 billion in annual sales in the United States.*”

Research: Teens, energy drinks don't mix (September 6, 2012)^{18,19}

- “Scientists fear that those sales numbers are propped up by teenagers who have come to rely on a burst of energy that comes in a can.”
- “Dr. Michael Bergeron, of Stanford University, is researching how energy drinks affect teenagers. ‘A lot of kids are using the caffeine energy drinks to stay awake, more alert in school, probably very few to enhance athletic performance,’ he said. In this month’s journal of the Academy of Pediatrics, he offers his preliminary conclusion.”
- “In fact, a 16-ounce can may contain up to 14 teaspoons of sugar and 200 milligrams of caffeine. That combination can elevate blood pressure, increase heart rate even slow brain function. Bergeron said if they are using energy drinks for these purposes, ‘There’s clearly a problem.’ In Central Florida, the Lake County School District has banned energy drinks altogether. They can’t be sold on campus or brought there from home. Orange, Seminole, Volusia and Osceola school districts don’t sell the drinks on campus but don’t prevent students from bringing them to school. Brevard County doesn’t have an energy drink policy.”

There is a Solution -- The FTC 30% Rule

- Regulating marketing energy drinks to minors could follow the advertising of alcoholic beverages to minors. This is relevant since energy drinks are mixed with hard alcohol.
- It’s not perfect, but it’s a start. In a Johns Hopkins’ study²⁰, “[y]outh exposure to alcohol advertising on U.S. television increased 71 percent between 2001 and 2009, more than the exposure of either adults ages 21 and above or young adults ages 21 to 34... Driving this increase was the rise of distilled spirits advertising on cable television. Youth exposure to all distilled spirits TV advertising was 30 times larger in 2009 than in 2001, with significant growth occurring in distilled spirits ads on cable... By 2009, the majority of youth exposure to advertising for all alcoholic beverages on cable was occurring during programming that youth ages 12 to 20 were more likely to be watching than adults 21 and above.”
- Distilled spirits advertising increased from \$5 million in 2001 to \$121 million in 2009 for a total of \$668M (according to the Johns Hopkins report). MNST doesn’t disclose its marketing expense, however, we believe it to be in the range of \$400M.

¹⁸ <http://www.clickorlando.com/news/Study-shows-energy-drinks-not-for-everyone/-/1637132/16492410/-/39d7xmz/-/index.html>

¹⁹ http://bigcountryhomepage.com/fulltext?nxd_id=527982

²⁰ [http://www.camy.org/research/Youth Exposure to Alcohol Ads on TV Growing Faster Than Adults/index.html](http://www.camy.org/research/Youth%20Exposure%20to%20Alcohol%20Ads%20on%20TV%20Growing%20Faster%20Than%20Adults/index.html)

- One question we are faced with is how the energy drink industry could be regulated, limiting their ability to advertise energy drinks to underage drinkers: “Under pressure from the Federal Trade Commission to reduce youth exposure to alcohol marketing, in 2003 trade associations representing beer and distilled spirits companies joined wine marketers in committing to advertise only when the underage audience composition is less than 30 percent. This threshold has been ineffective in reducing youth exposure on television, either in absolute or in relative terms.” While enforcement is an issue, it is doable.
- “The Federal Trade Commission (FTC) has emphasized repeatedly the importance of avoiding marketing alcoholic beverages to young people, and has encouraged alcohol companies to use self-regulatory standards to do so. By 2003, trade associations for the three major segments of the alcohol producers (i.e., the wine, beer and liquor industries) agreed to stop advertising in media venues, including on television programs in which persons under the age of 21 made up more than 30 percent of the audience....[a]s mentioned previously, both the Institute of Medicine and state attorneys general have proposed a 15 percent standard, which would be proportionate to the presence of youth ages 12 to 20 in the population age 12 and above (they are roughly 13 percent of the population age 2 and above measured by The Nielsen Company for television audiences).”²¹

**Alcohol Ads Violating Industry Rules More Likely in Magazines Popular With Teens
Aug. 9, 2012²²**

- “‘The finding that violations of the alcohol industry’s advertising standards were most common in magazines with the most youthful audiences tells us self-regulated voluntary codes are failing,’ said study co-author David Jernigan, PhD. ‘It’s time to seriously consider stronger limits on youth exposure to alcohol advertising.’”
- “‘As at least 14 studies have found that the more young people are exposed to alcohol advertising and marketing, the more likely they are to drink, or if already drinking, to drink more, this report should serve as a wake-up call to parents and everyone else concerned about the health of young people.’”
- “‘The American Beverage Association says its members don’t market energy drinks to teenagers. ‘The intended audience is adults,’ said Craig Stevens, a spokesman. He says the marketing is meant for ‘people who can actually afford the two or three bucks to buy the products.’”²³

²¹http://www.camy.org/research/Youth_Exposure_to_Alcohol_Ads_on_TV_Growing_Faster_Than_Adults_includes/TVReport01-09_Revised_7-12.pdf

²²<http://www.drugfree.org/join-together/alcohol/alcohol-ads-violating-industry-rules-more-likely-in-magazines-popular-with-teens>

²³<http://www.chicagotribune.com/news/nationworld/chi-052708-energy-drinks-may28,0,2191663.story>

Starbucks Refreshers energy drinks make global debut ²⁴ – July 10, 2012

- “Starbucks Coffee Company this week joined the estimated \$8 billion energy drink business with the rollout of new *caffeinated juices* in three versions: instant mixes, ready-to-drink cans and handcrafted drinks in coffeehouse locations. The Seattle-based coffeehouse chain said in March that it planned to debut [a line of energy drinks called Starbucks Refreshers](#), one of a growing number of ‘billion dollar’ business lines the company has designed for cross-channel development. The drinks are made with coffee extract from unroasted arabica beans, which gives the natural boost of caffeine in a juice-based drink. Ready-to-drink canned versions of the drink have been slowly appearing in grocery and retail channels for several months, but this week two new flavors — Very Berry Hibiscus and Cool Lime — are available in participating Starbucks units in the U.S. and Canada, and soon will be in 15 international markets.”
- “The two new flavors will also be available in the *form of powder* that can be mixed with water as part of the VIA instant beverage line. VIA Refreshers will be available in U.S. coffeehouse locations for \$5.95 per five-pack. Coffeehouse locations, as well as various grocery and retail outlets, will also carry the ready-to-drink version of Refreshers, available in flavors that include lightly sparkling Raspberry Pomegranate, Strawberry Lemonade and Orange Melon.”



Starbucks' new Handcrafted Refreshers include Cool Lime, at left, and Very Berry Hibiscus, at right.

- “Starbucks is also continuing to aggressively grow its channel development division with packaged coffees such as the new Blonde roast that debuted in January, single-brew K-Cups and the instant coffee version of VIA Ready Brew — all of which are available both in Starbucks locations and grocery and retail outlets. At the end of its April-ended second quarter, Starbucks had 12,570 locations in the U.S., Canada and Latin America, among about 17,420 units worldwide.”
- *The Next Generation of Energy* ²⁵– “To begin with, [Starbucks recently entered the retail energy drink market on a national level](#) with its sparkling Refreshers line—and this is

²⁴ <http://nrn.com/article/starbucks-refreshers-energy-drinks-make-global-debut> By Lisa Jennings

²⁵ <http://www.foodproductdesign.com/blogs/doug/2012/07/the-next-generation-of-energy.aspx>

not an energy drink necessarily skewed toward the teen market. They combine juices with green coffee extract (made from unroasted coffee beans—an ingredient that is currently trending forward) and tout their ‘natural energy’ on packaging...”

JMBA Joins the Fray^{26,27}

- “Back in March of this year, Jamba Juice took control of its energy-based retail line from Nestlé USA (its previous formulation partner) and is expanding distribution of the drinks nationally. The ‘all natural’ energy drinks differentiate themselves in the market by remaining very juice-centric. They contain 70% juice in three flavors, strawberry-banana, apple, and pomegranate-blueberry, and get their energy boost from caffeine. These products complement Jamba Juice’s other retail offerings, including smoothie kits and superfruit shots, as well as assorted food items. The company had previously only licensed out its retail offerings, but is now taking the reins as it delves into more CPG development.”
- JMBA had \$226M of revenue in 2011. JMBA has 783 stores, roughly half of which were franchise locations. Comp stores sales were up 5.7% in the last quarter.
- “The caffeine content is on par with that of red bull, but Jamba lacks B vitamins or Taurine. However, many report that green tea based beverages make them feel more alert than others. Blueberry Pomegranate Apple juice, pomegranate juice, lemon juice, water, blueberry puree, natural flavor, caffeine, green tea extract, stevia, carbonation.”²⁸

MNST’s Growth & Competitors

- From MNST 2Q12 Earnings Call (August 8, 2012): “While the beverage industry in general experienced softness in second quarter sales volumes in North America and Europe, the energy category in our principal market being the United States grew in the high-teens in the second quarter, slightly lower than the growth rates of the energy category in the United States in the first quarter. Overall the company had a good second quarter with record gross sales up 28.7% to \$678.9 million, net sales up 28.2% to \$592.6 million, and operating income up 28.1% to \$169.8 million. Diluted earnings per share increased 31% from \$0.45 per share in the second quarter of 2011 to \$0.59 per share.”
- “According to the Nielsen reports for the 13 weeks through July 21, 2012, for all outlets combined, namely: convenience, grocery, drug and mass merchandisers on the expanded basis I just described, including Walmart, Dollar Stores, DeCA Military stores and Club Stores, but excluding Costco. Sales in dollars in the energy drink category, including shots increased 16.5% versus the same period a year ago. Sales at Monster grew 24.9% in

²⁶ <http://nrm.com/article/jamba-splits-nestl%C3%A9-targets-consumer-products>

²⁷ <http://www.energyfiend.com/caffeine-content/jamba-juice-energy-drink>

²⁸ <http://www.energyfiend.com/caffeine-content/jamba-juice-energy-drink>

the 13 week period, while sales of Red Bull increased by 19.3%. Sales of Rockstar increased by 7.2% and sales of 5-Hour increased by 4.2%. Sales of Amp were down 2.4%, NOS increased 13.8% off a low base, and sales of Full Throttle increased 6.5%. For comparative purposes, according to the Nielsen reports for the 13 weeks through July 21, 2012, on the previously reported basis for all outlets combined, namely: convenience, grocery, drug and mass merchandisers excluding Walmart, sales in dollars in the energy drink category, including shots increased 16.4% versus the same period a year.”

Competition

- From EnergyFiend.com entry on Monster’s Caffeine Content²⁹: “Monster Energy Drink and associated brands has become the number 2 top selling energy drink world-wide and can now be found in many countries. The complete Monster Energy Drink line comes in over 25 different varieties and varies according to location. Many of the Monster drinks have the same caffeine content *per ounce*, but some are slightly higher due to the same energy blend being used in drinks with less volume. The caffeine content is less per ounce in countries with stricter caffeine laws such as Australia and New Zealand.”
- “Bevnet have published their annual review of the energy drink industry....For some reason 2009 results weren’t published in Bevnet as they usually do. If we find them, we’ll be sure to include those as well...”³⁰

Drink	Share of Energy Drink Market (% dollar sales) - 2006	Drink	Share of Energy Drink Market (% dollar sales) - 2007	Drink	Share of Energy Drink Market (% dollar sales) - 2008	Drink	Sales (\$B) - 2010
Red Bull	42.6%	Red Bull	35.2%	Red Bull	40.0%	Red Bull	2.2
Monster	14.4%	Monster	27.3%	Monster	23.0%	Monster	1.5
Rockstar	11.4%	Rockstar	11.1%	Rockstar	12.3%	Rockstar	0.4
Full Throttle	6.9%	Full Throttle	6.6%	AMP	8.0%	NOS	0.2
No Fear	5.4%	Amp	5.1%	Full Throttle	4.0%	Doubleshot	0.18
Amp	3.6%	No Fear	2.7%	Doubleshot	2.0%	Amp	0.14
Sobe Adrenaline Rush	2.9%	NOS	2.1%	NOS	1.5%	Full Throttle	0.11
Tab Energy	2.3%	Adrenaline	2.1%	No Fear	1.4%		
Monster XXL	0.9%	Sobe	0.6%	Private Label	1.0%		
Private Label	0.9%	BOOKOO	0.6%	SOBE Adrenaline	0.7%		
Rip It	0.8%	Arizona	0.5%	Vitamin Energy	0.5%		
Sobe Lean	0.7%	Lost	0.5%	SOBE Lean	0.5%		
BooKoo	0.5%	Rip It	0.5%	Venom	0.4%		
Sobe Superman	0.4%	Vitamin Energy	0.5%	Jolt	0.4%		
Von Dutch	0.4%	Jeff Gordon 24	0.5%	Go Girl	0.4%		

Rockstar: 2011 Ended with a \$1 Billion Bang ³¹ – February 2012

²⁹ <http://www.energyfiend.com/caffeine-content/monster>

³⁰ <http://www.energyfiend.com/the-15-top-energy-drink-brands>

³¹ <http://www.bevnet.com/news/2012/rockstar-2011-ended-with-a-1-billion-bang>

- “Joey Cannata, the EVP of sales and distribution for the company, the third of the ‘big three’ energy drink independents that also include Red Bull and Monster, told BevNET today that he believed the brand had likely passed the \$1 billion retail number over a 12-month period trailing the middle of 2011, but offered numbers to back up his assertion that for the entire year. Rockstar retail volume was at about \$759 million for the full year of 2011, according to Symphony/IRI numbers offered by Cannata — which covers mass, drug, grocery and convenience chains excluding Wal-Mart and many independents. Those accounts are more than enough to push Rockstar into ten figures, however, Cannata said.”
- “Last week, PepsiCo introduced three new \$1 billion beverage brands as well. ‘Wal-Mart is our number-one large format mass account,’ he said. Without that giant account, as well as many small independent grocery and convenience stores, and the company’s military sales, among others, he said, the IRI numbers represent less than 70 percent of Rockstar’s overall retail sales volume.”
- “The latest Nielsen Co. report, shared by Wells Fargo and Co. analyst Bonnie Herzog also showed that Rockstar ended the year burning brighter than the competition. Rockstar saw solid huge dollar sales increase for the 52-week period ending on Jan. 21 — up nearly 18 percent over the previous year. The increase was second only to red-hot Monster Beverage Corp., which was up nearly 22 percent, but left Red Bull in the dust — the bull was up 14 percent year-over-year. It should be noted that all three major independent brands outpaced the energy category’s overall growth — which was still a *very impressive 12.2 percent overall*.”
- “Rockstar is largely distributed by PepsiCo, Inc., while rival Monster goes mostly through the Coca-Cola Co. Inc. but also through a network of Anheuser-Busch/InBev distributors. Both companies saw gains that had to cheer their distribution partners, whose own energy portfolios remain in free-fall, both down about 14 percent.”
- UBS: Monster, Red Bull Rolling Behind Line Extensions ³² - June 29 2012 – “*Line extensions are driving major growth* for energy drinks in convenience stores, according to analysis of A.C. Nielsen convenience store retailing data provided by UBS analyst Kaumil Gajrawala. Monster Rehab and Absolutely Zero both hit all-time highs of \$21.4 million and \$12.9 million over the last 12 weeks, while the addition of Red Bull Total Zero to that brand family was the most likely source of a 30 percent increase in Red Bull sales in the four-week period ending June 9. The period, which includes all-important Memorial Day weekend, was a reflection of the strength of energy drinks in C-stores, and shows the strong impact of flanker brands on the Monster portfolio in particular. According to Gajrawala, Absolutely Zero and Rehab are almost 20 percent of Monster’s convenience sales. Overall, the energy drink business was up nearly 24 percent in the convenience channel, according to Gajrawala.”

³² <http://www.bevnet.com/news/2012/ubs-monster-red-bull-rolling-behind-line-extensions>

- *Energy Drink Companies Too Hot to Buy, Sez NY Post*³³ - May 3, 2012 – “Monday’s speculation that the Coca-Cola Co., Inc., was possibly taking a swing at acquiring Monster Energy sent *The New York Post* off in search of further energy drink company speculation. What it came away with was something else entirely, however — an analysis that both Monster and its fierce competitor, Rockstar, might be too racy to be purchased by any of the big beverage companies. Citing an unnamed beverage company source, the *Post* said that Rockstar’s image was one that the executive wouldn’t want to get into bed with. Rockstar has employed Goldman Sachs as a financial adviser since last year; Monster remains only a speculative acquisition target but that hasn’t stopped many investment banks from running the numbers on a possible Coke or Anheuser-Busch/Inbev tie-up.”
- “...[m]arketing tie-ups with Playboy, tabs on its website for potential models to apply and scantily clad women at its events have left Rockstar, after a year of looking for someone to hook up with, alone at the altar, according to sources. Both Coca-Cola and PepsiCo passed on a deal because they were uncomfortable with Rockstar’s image, sources close to the situation said. PepsiCo handles almost all of Rockstar’s US distribution. Rockstar’s US market share grew 1.7 percentage points last year to 18.7, percent, taking customers from Monster and Red Bull, Beverage Digest said.”
- “The top three US energy drink makers are growing so quickly — *US volume grew 17 percent last year* — they are trading at, or seeking, purchase multiples higher than their beverage kin. “My gut is until the category slows down none of them will be purchased,” [Michael Bellas, founder of consultant Beverage Marketing Corp.] said. Still Stifel, Nicolaus analyst Mark Astrachan said in a report this week Coke would find an \$85-a-share purchase of Monster a suitable one because of savings it would capture from handling all the US distribution. Now it handles about half the distribution. Monster, with a \$12 billion market capitalization, closed yesterday at \$68.67.”

\$560 Million Energy Shot Market Pumps Up Flattening Energy Drink Sales³⁴ (9/1/09)

- “With growth statistics in the triple digits and market sales of approximately \$560 million in 2008, according to *Nutrition Business Journal* estimates, the future looks bright for these little chasers, which have captured the attention of energy seekers in retail channels ranging from drug stores to truck stops.”
- “The emergence of the shot market was so fast that the products seemingly came out of nowhere, at a time when the typically strong [energy drink market](#) began showing signs of maturation and softening sales due to the slowing economy. The growth of shots is all the more remarkable because these 2- to 3-ounce beverages also sport a premium price tag, costing up to \$3.00 a bottle.”

³³ <http://www.bevnet.com/news/2012/energy-drink-companies-too-hot-to-buy-sez-ny-post>. The article refers to the following *New York Post* article, first published online on May 2, 2012:

http://www.nypost.com/p/news/business/too_hot_to_touch_h1OJVLmEcXRcnRVS2bKcK

³⁴ <http://newhope360.com/beverage/560-million-energy-shot-market-pumps-flattening-energy-drink-sales>

The Truth about Energy Drinks (Dr. Robert O. Young)³⁵

- “So remember as you're sipping -- you are literally drinking an acid drink not an energy drink that is stealing the life right out of you. ALL of these so called energy drinks have a pH of around 2.5 to 3.5 with a proton saturation that runs in the positive 350mV to 450mV. This means with every sip you are causing the body to use its stored energy to ionize the acidic energy drink which results in an energy loss not an energy gain,’ states Dr. Robert O. Young, of the pH Miracle Living Research Center. The following are some important things to remember if you decide to drink an acidic energy drink: 1) Don't drink any acidic energy beverages while exercising. It can lead to severe fatigue, lethargy and dehydration. 2) Don't ever mix these acidic energy drinks with alcohol -- it's popular -- but doing so can not only mask on how intoxicated you really are, it again can be extremely fatiguing and dehydrating. 3) Don't drink acidic energy drinks for energy because they only stimulate the body to buffer the acidic ingredients giving you the illusion of more energy when in reality you are losing energy. This can lead to extreme fatigue, lethargy and dehydration. 4) If the energy drink does not contain the acid caffeine it will surely contain some form of acidic sugar. Sugar in any form is a strong acid that robs the body of energy and should never be ingested. This would include all sugars that end in ‘ose’ such as sucrose, glucose, fructose, maltose, or dextrose or that end in ‘ol’ such as sorbitol or xylitol. Sugar in all forms is an acidic contributor to all sickness, dis-ease and disease. 5) There are currently no energy drinks on the market that will give you any sustainable energy. What they give you is a quick release of electrical energy designed for releasing alkaline buffers to neutralize the poisonous acids in the so-called energy drink. When you drink a so-called energy drink, all you prove is you can ingest a certain amount of poison and still manage to get through the day functioning.”

Lame Answer from the Industry

- We have already been asked by some investors how, exactly, marketing caffeinated drinks could be restricted or limited to prevent underage drinking and energy drink mixing. Here's one way: *Alcohol producers to ban underage marketing exposure on Twitter?*³⁶ (17 July 2012) –“Adweek.com writes about the launch of a free tool designed to help alcohol brands market only to people of legal drinking age on Twitter. Companies Jim Beam, Jack Daniels and MillerCoors have tested the tool for a month and now the service is open to other brands as well. Alcohol producers describe this twitter age-gate as the holy grail of responsible marketing, but will this really stop minors from exposure to their ads? The new feature, developed by Buddy Media, works

³⁵ <http://www.our-healing-hub.com/the-truth-about-energy-drinks.html>

³⁶ <http://www.eucam.info/eucam/home/news.html/1881/1858/alcohol-producers-to-ban-underage-marketing-exposure-on-twitter>

as follows: When someone attempts an alcohol brand on Twitter, they will automatically receive a direct message on Twitter from the company, directing them to an age screening page. When the user gives an age that meets the requirement of their local drinking law, the consumers will be able to follow alcohol brands. In the article on Adweek.com, an executive officer of Jim Beam reacts relieved that her company can now use Twitter ‘without worrying as much about attracting underage drinkers.’ Because earlier her team ‘had to manually tweet to new followers to verify their age.’”

S. Korea eyes law prohibiting sale of energy drinks in school zones³⁷ (Aug 31, 2012)

- We get it that international revenue growth is extremely strong at \$153M vs. \$102M last quarter, or 23% vs. 19% of revenue. However, we would point out that other countries may assume a more restrictive posture toward energy drinks in the not too distant future vs. the US: “The South Korean market for energy drinks which contain large amounts of caffeine has grown remarkably over the past two years, but is expected to face regulations due to health risks.”
- ““The bill calls for applying on the so-called energy drinks, or high-caffeine beverages, the same level of restrictions against high-calorie, low-nutrition foods which ban sales within 200 metres from schools and their television commercials during children’s primetime,’ an aide to Rep. Choi told The Korea Herald....[c]ountries like France, Denmark, Norway and *Argentina have banned sales of energy drinks*, and the state of New York has launched an investigation into whether the makers of energy drinks are misleading consumers about the amount of caffeine they contain or the health risks they could pose.”
- ““The World Health Organization continues to assess the toxicity of caffeine, which is categorized as an additive, but its harmfulness has not officially been proven yet,’ Hwang said. ‘But since high doses of caffeine can cause shakes or other side effects in people with weak immune systems, the ‘high-caffeine’ labeling and the warning will be mandatory under the new rule. We are monitoring developments related to energy drinks around the world, and will take necessary steps once caffeine is confirmed to be harmful.”
- “Sales of energy drinks in Korea jumped over 960 percent from a year ago to 39 billion won (US\$34.4 million) in the first seven months of this year....“[e]nergy drinks which contain high levels of caffeine as well as taurine are bad for teenagers’ health and can cause them to feel anxious, overly sensitive or emotionally disturbed,” said Huh Hye-yeon, a staff member of Green Consumer Network in Korea.”
- Several countries and states have debated or restricted their sales and advertising. Denmark, Turkey and Uruguay have banned them; Norway prohibits sales to children under 15.³⁸

³⁷ <http://www.asianewsnet.net/home/news.php?id=35819>

³⁸ <http://www.newschannel5.com/story/18373154/energy-crisis-dangerous-drinks>

Comparison of Ingredients in Energy Beverages³⁹

TABLE 1. Comparison of Ingredients in Energy Beverages^a

	Red Bull	Rockstar	Monster	Full Throttle
Calories	220	280	200	220
Carbohydrates	54 g Sucrose, glucose	62 g Sucrose, glucose	54 g Sucrose, glucose, sucralose, maltodextrin	57 g High-fructose corn syrup, sucrose
Sodium	Only listed as sodium citrate	80 mg sodium citrate	360 mg 16% RDA Sodium citrate, sodium chloride	160 mg Sodium citrate
Caffeine	160 mg	160 mg Part of a 1.35-g "energy blend"	Only listed as part of a 5000-mg "energy blend"	141 mg Part of a 3000-mg "energy blend"
Taurine	2000 mg	2000 mg Part of a 1.35-g "energy blend"	2000 mg Part of a 5000-mg "energy blend"	Only listed as part of a 3000-mg "energy blend"
Glucuronolactone	Only listed (1200 mg) ^b	None listed	Only listed as part of a 5000-mg "energy blend"	None listed
Niacin (B ₃)	200% RDA Niacinamide (40 mg) ^b	40 mg 200% RDA Niacinamide	40 mg 200% RDA Niacinamide	100% RDA Niacinamide
Inositol (B ₈)	Only listed	50 mg Part of a 1.35-g "energy blend"	Only listed as part of a 5000-mg "energy blend"	None listed
Pyridoxine hydrochloride (B ₆)	500% RDA (10 mg) ^b	4 mg 200% RDA	4 mg 200% RDA	200% RDA
Cyanocobalamin (B ₁₂)	160% RDA Listed as vitamin B ₁₂ (10 µg) ^b	12 µg 200% RDA	12 µg 200% RDA	200% RDA
Riboflavin (B ₂)	None listed	6.8 mg 400% RDA	3.4 mg 200% RDA	None listed
Pantothenic acid (B ₅)	100% RDA Calcium pantothenate (10 mg) ^b	20 mg 200% RDA Calcium pantothenate	None listed	None listed
Ginseng extract	None listed	50 mg Part of a 1.35-g "energy blend"	400 mg	Only listed as part of a 3000-mg "energy blend"
Guarana extract	None listed	50 mg Part of a 1.35-g "energy blend"	Only listed as part of a 5000-mg "energy blend"	Only listed as part of a 3000-mg "energy blend"
Ginkgo biloba leaf extract	None listed	300 mg Part of a 1.35-g "energy blend"	None listed	None listed
Milk thistle extract	None listed	40 mg Part of a 1.35-g "energy blend"	None listed	None listed
L-carnitine	None listed	50 mg Part of a 1.35-g "energy blend"	Only listed as part of a 5000-mg "energy blend"	Only listed as part of a 3000-mg "energy blend" Carnitine fumarate
Sorbic acid	None listed	Yes	Yes	No
Sodium benzoate	None listed	Yes Benzoic acid	Yes Benzoic acid	Yes
Citric acid	None listed	Yes	Yes	Yes
Natural flavors	Yes	Yes	Yes	Yes
Artificial flavors	Yes	Yes	None listed	None listed
Coloring	"Colors"	"Caramel"	"Color added"	Blue 1, Red 40

^a As listed on 16-oz can unless otherwise noted. RDA = recommended daily allowance.

^b This amount is not listed on the can; the corporate office was called and this was all the information given.

³⁹ Higgins, John P., Troy D. Tuttle, and Christopher L. Higgins. "Energy Beverages: Content and Safety". *Mayo Clin Proc.* 2010 November; 85(11): 1033-1041. Retrieved online at: <http://www.ncbi.nlm.nih.gov/pmc/articles/PMC2966367/>

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