

PEP/MNST - Has the Big Bang Yet to Happen?

Sentiment Indicator : neutral

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This morning PepsiCo announced that it has entered into a definitive agreement to acquire Rockstar Energy Beverages for \$3.85B. Recall that PepsiCo had an exclusive agreement with Rockstar (which precluded the company from doing anything else in the energy category). Importantly, we still believe PepsiCo will expand its energy drink portfolio further through a potential distribution agreement with Bang Energy (see [here](#)).

PepsiCo moving forward to addressing a big portfolio gap: It is no secret that PepsiCo has lagged its peers in participating in one of the fastest growing segments of the beverage industry - Energy. The company's arrangement with Rockstar clearly wasn't working - Rockstar consistently lost share over the past several years. According to IRI in 2019 alone Rockstar volumes were down 7.9% and the brand lost -180 bps of share (volume -5.9% YTD 2020).

Just step #1? Importantly, PepsiCo is now free to become more aggressive in the energy drink category as it no longer has any restrictions to expand its energy drink strategy (the prior agreement with Rockstar precluded the company from doing anything in energy outside of Rockstar). **We believe today's announcement to acquire Rockstar clears the path for PepsiCo to perhaps create a distribution agreement with Bang** - as the company looks to get involved in the emerging "performance energy" segment. We point out that in an interview with Beverage Digest today, PEP CFO Hugh Johnston said this deal with Rockstar "opens the door for potential further energy partnerships."

What would this mean for MNST: While we acknowledge PepsiCo's acquisition of Rockstar may spook some investors, we make the following points: 1) Rockstar has been a chronic share loser despite its alliance with PepsiCo. 2) We believe PepsiCo's challenges with Mountain Dew have been due to the brand pivoting too quickly from a brand heavily skewed to older/white males in the Midwest to a more urban/younger target. Acquiring Rockstar doesn't really change this dynamic. 3) If PepsiCo does go into a distribution deal with Bang there would likely be disruption as Bang moves from the beer distributors to Pepsi bottlers. Additionally, since PepsiCo owns c.80% of its distribution, we continue to believe a refranchised Coke system will be able to out execute the Pepsi system (similar to what we see in CSDs). **Importantly, we do not believe the deal with Rockstar or a potential deal with Bang would change KO's stance on owning MNST outright.**

Company Name	Exchange	Ticker	Rating	Risk Qualifier	Price Target	Currency	Price	Price Date
PepsiCo, Inc.	NASDAQ	PEP US	Sector Perform	Not Assigned	115.00	US Dollar	131.82	11 Mar 2020 10:15:09 ET
Monster Beverage Corporation	NASDAQ	MNST US	Outperform	Not Assigned	75.00	US Dollar	63.08	11 Mar 2020 10:15:09 ET

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Click here for conflict of interest and other disclosures relating to [PepsiCo, Inc.](#), [Monster Beverage Corporation](#), [Nik Modi](#) These disclosures are also available by sending a written request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7 or an email to rbcsinsight@rbccm.com

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