

CPG Specialist

https://www.cpgspecialist.com/c/3618654/464454?referrer_module=searchSubFromCPGS&highlight=marcum

Monster Beverage Set to 'Crest' the Hill, With Supply-Chain Issues Behind It and Higher Margins Ahead

The energy drink giant has two new operational suppliers in the U.S., which are decreasing the CPG's reliance on imported cans.

By [Lauren Elkies Schram](#) | May 25, 2022

Monster Beverage has been facing serious headwinds, but one sell-side research and brokerage firm is bullish on the energy drink company and thinks the worst is behind it.

“Over the past 12 months, Monster has faced an uphill struggle against supply chain issues and inflationary pressures around commodities such as aluminum, which have led to market share loss and margin compression, respectively,” Callum Elliott, Bernstein’s analyst for beverages, told CPG Specialist in an email. “Over the next few months, we expect Monster to crest this hill, leading to an acceleration in growth of earnings and cash flows.”

The aluminum can issues surfaced during the pandemic as consumption of energy drinks — and really everything — was being done at home rather than in bars and restaurants. Coupled with that, according to **Andrea Teixeira**, a beverage analyst at **JPMorgan Chase & Co.**, was the "hype of hard seltzers."

Now that people are going out more, however, they will drink beverages from other presentations or packaging including glass and fountain, which will help alleviate the pressure on supply and pricing, she noted.

To mitigate the can problem, Monster turned to importing cans in the U.S., which Teixeira said was "unheard of" and "not economically sensible."

Now, Monster has two new operational suppliers in the U.S., which are decreasing the CPG's reliance on imported cans. As a result, the cost of sales related to the imported aluminum cans should be reduced in the second half of the year, **Rodney Sacks**, co-CEO of Monster, told analysts during the company's **first-quarter earnings call**.

As demand outstrips supply, the aluminum can issue is not going away overnight.

Related Content

- **May 25, 2022**CPGs Ranked by Largest Sales Growth Since Pandemic's Start
 - **May 9, 2022**Monster Beverage Costs Soar on the Back of Elevated Supply-Chain Expenses
 - **January 31, 2022**More Trouble for Beverage Makers as Aluminum Can Prices Soar on Rising Energy Costs, Ukraine Crisis
-

“While costs are high across the board, there are several key commodities that have spiked far more than average,” said **Katie Denis**, VP of communications and research at trade organization **Consumer Brands Association**. “Aluminum has been one of the hardest-hit materials, with the cost of aluminum for cans up 40% since before the pandemic.”

Louis Biscotti, national leader of the food and beverage services group at accounting firm **Marcum**, said he thinks the aluminum can shortage will “persist into the future,” albeit at a slower pace.

Beyond the aluminum issue, some of the other factors that will continue to beset Monster, and its competitors, include:

- Inflation
- High gas prices
- Supply chain disruptions

- Increased costs of transportation and freight
- Port congestion

Monster's cost of sales jumped up 40% YOY in Q1 2022, which the company's executives attributed mostly to elevated supply-chain expenses, **CPG Specialist reported**. Despite the issues, Monster saw record first-quarter net sales of \$1.52 billion, a 22.1% increase year-over-year, Sacks said in the Q1 earnings call.

“It’s actually too bad for Monster as their sales continue to climb despite all of the issues with logistics and ingredient supply,” **Marcum**’s Biscotti commented via email. “We can only imagine how good the sales and profits would be without these problems.”

Meanwhile, to offset the increased costs experienced in the supply chain, Monster raised prices by 3% with another 6% increase slated for Sept. 1, King said in the earnings call.

“I can't tell you when precisely growth margins will bottom but probably the first half of this year,” said **Mark Astrachan**, **Stifel's** beverages analyst. “And when you factor in the price increase that they announced ... coming this fall you should start to see gross margins actually go up year on year.”