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Business Day

Market Place;Boston Beer has an unusual public offering gimmick.

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AS a rule, companies do not like to have shareholders with very small holdings. Sure, they are usually loyal and can be depended on to vote with management if a proxy battle erupts. But it costs just as much to send annual reports and proxies to a holder with 33 shares as it does to send them to a holder with 10,000 shares.

Many companies, looking to save money, have offered to buy back small holdings, called odd-lots in the business.

But the Boston Beer Company, the purveyor of Samuel Adams beer, is going out of its way to lure just such holders in one of the most unusual initial public offering gimmicks in years. It has placed coupons in its six-packs, and established a toll-free line -- (800) 495-2739 -- to lure customers to buy 33 shares, for \$15 each, for a total of \$495.

Boston Beer has set aside 990,000 shares for such buyers in its planned offering of 4 million shares that will be priced in a few weeks, probably at the same price. The six-pack buyers must first get the formal prospectus for the offering in the mail before purchasing the stock. To be eligible, these buyers must be at least 21 years old and not work either for a brokerage firm or a beer distributor.

"It is very novel, and it should develop brand loyalty," said David Menlow of IPO Financial Reporter of Springfield, N.J., which monitors initial public offerings and is forecasting the stock price will leap when the main offering is sold through underwriters led by Goldman, Sachs. Buyers in the consumer offering will be able, if they wish, to sell their shares in the public market as soon as the underwritten offering is completed.

But the method risks the possibility of unhappy drinkers, and not just if Boston Beer proves to be a supposedly hot offering that turns cold. The shares are to be allocated on a first-come, first-served method. To get your order in, you must fill out a form that comes with the final prospectus, which became available on Friday, and send it in with a check. Checks sent without that form will be returned. And if the offering sells out, those who get their checks in late will be disappointed.

The lure of the offering stems from the big Wall Street success of Redhook Ale Brewery, which went public in August at \$17 a share and surprised many by becoming a very hot issue. It leaped to \$27 the first day of trading, and has since risen to \$30. One reason Mr. Menlow thinks Boston Beer will be hot is that frustrated would-be buyers of Redhook will clamor to get into this offering. Both Redhook and Boston Beer are part of the boom in small craft beers, but it is hard to imagine two companies in the same industry with more different strategies. Redhook has built its own breweries, two in Washington State and one under construction in New Hampshire, but has cut a deal with

Anheuser-Busch, the industry giant, to distribute its products nationally.

Boston Beer, by contrast, has contracted with larger breweries to make its products, but handles its own distribution. Its products are currently made by Pittsburgh Brewing in Pittsburgh and by G. Heileman Brewing in Portland, Ore., with production just getting under way in a Genesee plant in Rochester.

At \$15, the expected offering price, Boston Beer is priced at about 52 times profits for the last year. Such a price assumes substantial growth in profits. That is not far from where Redhook went public, at about 45 times earnings, but is well below the price-earnings ratio of almost 80 that Redhook now sports.

In both cases, it is obvious that a lot of growth is anticipated. That hope may be more reasonable in the case of Redhook, which is still not available in many parts of the country but will get there thanks to its deal with Anheuser-Busch, than in the case of Boston Beer, which is already available in all 50 states, although it has hopes of foreign expansion. In this country, growth will require selling to drinkers who are passing it up.

Or by concocting more brews. While Samuel Adams Boston Lager is by far its largest selling brand, it has 13 others, including seven that are sold only on a seasonal basis. The newest of those, a Christmas-season brew called Old Fezziwig after a character in Charles Dickens's "A Christmas Carol," is described by the company as "a hearty brown ale spiced with cinnamon, ginger and orange and brewed with caramel and chocolate malts."

Prospective buyers of the shares might keep in mind that a lot of existing owners of Boston Beer are cashing in by selling some of their shares at \$15. The list of selling shareholders does not include C. James Koch, the company's founder and chief executive, but he'll still do fine. Most of the money being raised by the company will be used for distributions to existing owners, with Mr. Koch's share about \$6.4 million. And, at \$15, his shares will be worth \$107 million.

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