



**Ticker:** SODA (Nasdaq)  
**Price:** \$47.34USD (2/22/13 Close)  
**Market Cap:** \$971.37mm  
**P/E Ratio:** 21.92  
**Sector:** Consumer Goods  
**Target Price:** \$56.14  
**Analyst Recommendation:** BUY

EPS	1Q	2Q	3Q	4Q	Year End	P/E
<b>2010E</b>	\$0.01	\$0.15	\$0.30	\$0.33	\$0.79	34.50
<b>2011E</b>	\$0.37	\$0.42	\$0.52	\$0.34	\$0.91	22.79
<b>2012E</b>	\$0.55	\$0.67	\$0.80	\$0.36	\$2.38	17.90
<b>2013E</b>	\$0.68 est.	\$0.64 est.	\$0.90 est.	\$0.56 est.	\$2.78 est.	14.13



## Company Description:

SodaStream is a home-beverage appliance manufacturer operating in the \$265 billion carbonated beverages industry. The company is rapidly growing and expanding into new markets, increasing market share and leading the way in creating a new category within the beverage industry with proven results thus far.

Based in Israel and established in 1903, SodaStream's products allow consumers to transform their tap water into sparkling water and carbonated soft drinks. The company designs, manufactures and sells soda makers, exchangeable CO2 cylinders and consumables such as CO2 refills, reusable carbonation bottles and flavors to over 55,000 retail stores in over 43 different countries. The company's offerings are convenient, cost effective, promote health and wellness and are environmentally friendly.

## Why Invest in SodaStream?

SodaStream is the leading company in the carbonated beverage industry that produces and markets an appliance which converts tap water into carbonated beverages. They will crush earnings expectations due to their rapid growth and low analyst forecasts, outstanding and reliable track record and high levels of innovation coupled with popular product offerings.

- 1.) Rapidly growing company expanding into many different markets with fantastic sales results thus far
- 2.) Consistently beat analyst's low estimates by a wide margin, quarter after quarter, year after year
- 3.) Company is in strong financial condition – no debt, steady increase in EBITDA, EPS, and revenue
- 4.) Extremely limited competition, high barriers to entry with a high level of innovation

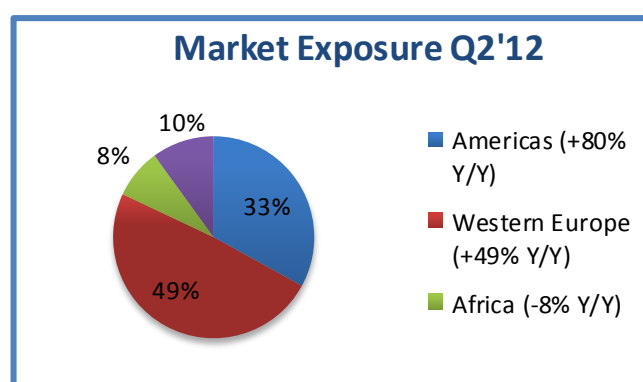
# Growth

## US Growth

SodaStream recently launched their product offerings in the United States and expects this market to contribute to over 50% of their total sales. Although the company only has a household penetration rate of 1% thus far, countries such as Sweden, which have had the product for longer have a penetration rate of 25% which is what the company plans on replicating in the US. Soda Maker sales rose by 86% in Q4, led by the introduction into 2,900 Wal-Mart stores and the company is planning on introducing its products into other retail stores as well. Grocery, drug, and convenience stores will all be tested in 2013 and expanded in 2014. SodaStream's products were advertised on Direct TV's HSN and sold 20,000 Soda Maker units in one day. US revenue increased by 55% YoY and still has plenty of room to run given the low household penetration rate. QoQ growth was 55.2% and the company is on track to maintain a double-digit annual growth rate through 2013.

## International Growth

In the Asian and Western European regions, revenue has increased 31% YoY in Q4 2012 and currently represents only 10% of total sales. Brazil and Chile were added to the company's distribution chain and are estimated to become leaders in sales in the South American market. In addition, the company is planning on expanding into Mexico, India and Argentina this year.



# Valuation

SodaStream currently stands at \$47.34 with a mean analyst price target of \$56.14. From current levels, this represents a marginal 19% upside and constitutes a BUY rating from 80% of the analyst covering the stock. The company has a 2.6 Price/Book ratio and is cash flow positive. In addition, short float is 45.63% which could lead to a major short squeeze. The company has rapidly accelerated its growth projections and has went above and beyond delivering the numbers, beating analyst estimates by a wide margin every time thus far. If analysts retain their 17.3x earnings multiple projection for 2013, shares would be valued at over \$60 and even higher in 2014.

My DCF valuation led to a Total Enterprise Value of \$1,234.1 million or \$64.48, assuming a 25% growth rate, a 10% tax rate (as provided by management), 12x terminal multiple and 11.1% WACC. According to analysts and Bloomberg Estimates, my projections lie on the low end, with forecasted EBITDA, Revenue and Gross Profit all lower than analyst's estimates. My 10% tax rate was taken from management's most recent earnings call; the terminal multiple was calculated by taking the forecasted terminal value (\$1,597.90) and dividing it by the forecasted 2017 EBITDA of \$133.2, thus making the terminal multiple 12x.

Terminal Value Calculation	
2017 EBITDA	\$133.2
Terminal Multiple	12.0x
<b>Terminal Value</b>	<b>1,597.9</b>
Discount Period	5.00
Discount Factor	1.69
PV of Terminal Value	<b>944.0</b>
Terminal Value % of TEV	76.5%

Total Enterprise Value (TEV)		\$1,234.1
Less: Total Debt		0.0
Less: Preferred Stock		0.0
Less: Minority Interest		0.0
Plus: Cash		62.1
<b>Market Value of Equity</b>		<b>\$1,296.1</b>
Fully Diluted Shares		20.1
<b>Equity Value Per Share</b>		<b>\$64.48</b>

DCF Assumptions	
Tax Rate	10.0%
Terminal multiple	12.0x
WACC	11.1%

# Innovation and New Product Offerings

The company has done a great job developing its products and bringing out new and more efficient offerings which consumers continue to buy. So far, the company has planned to roll out 3 new products which will allow the company to expand their market offerings for 2013. *Sodacaps* is a new way to flavor your carbonated beverage. Due to rookie inexperience, a popular problem is not measuring the correct quantity of flavoring to add to the drink, resulting in flavor that may be too strong or not strong enough. Sodacaps are pre-measured packet flavoring that allows more consistent flavor mixing among users. The second product, *Night Spirits*, gives the consumer the ability to make mixed drinks like Mojitos and Cosmopolitans from their Soda Maker to which alcohol can be added. This is projected to be a major hit and will allow SodaStream to increase its revenues by furthering its offerings and expanding its market. Finally, SodaStream plans to introduce the ability to make Energy Drinks which will allow consumers to make an energy drink of comparable (if not better) taste than RedBull and Monster for \$0.20 per drink. Lastly, SodaStream's partnership with Kraft, Campbell's and Breville will introduce Kool-Aid, V8 juice and Crystal Light products into the lineup for the consumer. The AquaBar, set to be released this year, will provide all the water functions needed in the home or office such as dispensing hot, cold, room temperature or sparkling water.

SodaCaps



Night Spirits



Energy



AquaBar



## Q4 2012 Results

### For the Quarter Ended December 31, 2012:

- Total Revenue increased by 55.2% to \$132.9 million from \$85.7 million in Q4 2011
- Net Income increased 41.6% to \$7.5 million from \$5.3 million in Q4 2011
- EPS increased 38.5% to \$0.36 from \$0.26 in Q4 2011

### For the Year Ended December 31, 2012:

- Total Revenue increased by 51% to \$436.3 million from \$289 million in 2011
- Net Income increased 59.6% to \$43.9 million from \$27.5 million in 2011
- EPS increased 56.0% to \$2.09 from \$1.34 in 2011

### FY 2013 Guidance:

- Revenue will increase by 25% over 2012 to \$436.3 million
- EBITDA will increase by 34% to \$82.54 million over 2012 EBITDA of \$61.6 million
- Net Income will increase 18% to \$51.80 million over 2012 Net Income of \$43.9 million

## Main Takeaways:

After listening to the Q4 earnings results, it seems that SodaStream is still maintaining their strong growth momentum going into 2013. Revenue increased by 55% YoY with the Americas showing an increase of 96%, Western Europe and Asia up by 31% and CEMA increased by 28%. In addition, consumables' sales increased by 54% with syrups increasing by 60% and a 26% increase in gas refills.

In the USA, sales for Soda Makers increased by 86% to 568,000; gas refills rose by 89% to 890,000 and syrups increased by 131% to 2.8 million. In addition, overall unit sales for Soda Makers increased by 300%, syrups by 140% and gas refills by 290%. Management noted that the majority of the growth (80%) came from the introduction of the products through Wal-Mart in the USA.

SodaStream's new product, the Source, was recently launched in the UK, Japan, Sweden, Australia, Canada, the US and Europe and has generated great media exposure. The company reported net income growth of 42%, but a 4% reduction in gross margin due to the closure of the New Jersey port during the holiday season due to Hurricane Sandy. Gross margins for 2013 are expected to stay flat at 54% but will increase after a new production facility is completed and on line in 2014. SodaStream has a heavy reliance on subcontractors for production lying mainly in transportation costs between factories; therefore bringing the entire production process under a single roof will limit or eliminate these costs, effectively increasing gross margins.

The company is also taking new initiatives to strengthen their position in the marketplace. Their new distribution plan and expansion of shelf space led to a 50% increase in US door count in Q4 to 15,000 and a 100% increase in US gas exchange locations bringing the total number to 9,500 locations. SodaStream also entered new markets such as Brazil, Chile and Singapore, but don't expect to see significant results from these locations as management noted that it usually takes between 2-3 years to get a new location on line.

As previously noted, SodaStream broke ground on a new, one million square foot manufacturing facility which is expected to come on line in late 2013 and be fully operational by late 2014. This facility will bring all aspects of production under a single roof, thus improving efficiency. Management cites that this new facility should add 200 bps to their overall gross margin. They also cited that the company is receiving tremendous government assistance in capital expenditures as well as labor and tax benefits to build this facility in Israel.

The Super Bowl commercial, which aired in the second half, was a great success. Although CBS turned down their initial Super Bowl ad, the backup video was seen by an estimated 100 million Americans and the rejection from CBS led to free PR exposure which generated 5 million YouTube hits on the video that was banned.

The guidance provided for 2013 beat analyst expectations, with top-line growth of 25% expected YoY in 2013. Keep in mind that management has a knack for promising low expectations and then beating those expectations by a wide margin. Adjusted EBITDA will expand by 34% in 2013 and Capex is forecasted to be in the neighborhood of \$75-\$85 million, 60% of which will go to the new factory.

This year will focus on the consumer, household awareness and loyalty with a primary focus on improving household penetration. In the US, penetration lies at just over 1%, however in other countries such as Sweden, penetration is about 25% which represents tremendous growth potential for SodaStream. Lastly, management provided some color into the Samsung deal, noting that Samsung is the #1 seller of high end fridges in the US with a starting price of \$3500 for their unit. They avoided questions relating to the marking of the new Samsung product and did not provide any other guidance or commentary. I believe it is safe to say that SodaStream's deal with Samsung has the potential to be a big hit, and expanding into new sectors with their product will help spread the word and brand name.

# Conclusion

Overall, SodaStream presents a fantastic opportunity as a long-term investment that can produce tremendous capital appreciation for shareholders. The company has consistently blown away analyst estimates due to low expectations and an increase in sales from the expansion and development of new and existing markets. The introduction into the US and South American market, in addition to their recent partnership with Samsung will allow the company to expand their offerings and increase sales and shareholder equity.

Moreover, worries about the product offerings being a “fad” have led to a high short interest which could result in a short squeeze should the company continue to grow and expand. Competition is hard to come by, with Cuisinart’s offerings showing diminishing sales and SodaStream’s bank of patents providing an even bigger barrier for opponents to enter the market. The current valuation for the company is absurdly low and shares should be trading in the \$60 dollar range given management’s 25% annual growth rate for the next 8 years. The company will continue to blow away analyst estimates, innovate their products and take over new markets by storm. SodaStream is a no-brainer growth play and a Buy at these levels.

I would like to finish with a story involving a few girls and the Super Bowl commercial. Being a sophomore in college, I had a few people in our dorm for the big game. When the SodaStream ad aired, I happened to be in my room grabbing a drink and I could hear everyone going wild – “I want one of those” and “Oh my god those are so awesome, my friend has one!” I happened to hear this and my roommates told the girls that I had one in my room. They came in and were so excited to see it. I brought it out, made some soda (good ol’ lime w/ some mystery liquid added for some extra pizzazz) and handed each a cup. They were in love! They thought the machine was so cool and the soda tasted really good, not to mention healthy (which is all people seem to care about these days.) This is what got me to buy one, and I’m certain I influenced these girls to go out and buy one of their own.

## Analyst Estimates

Firm Name	Recommendation	Target Price	Date
William Blair & Co	Outperform	-	2/20/13
Canaccord Genuity Corp	Hold	\$52.00	2/21/13
Roth Capital Partners	Buy	\$60.00	2/20/13
JPMorgan	Overweight	\$56.00	2/021/13
Dougherty & Co	Buy	\$56.00	2/21/13
Stifel Nicolaus	Hold	-	2/21/13
Barclays	Overweight	\$55.00	2/21/13
Oppenheimer & Co.	Outperform	\$60.00	2/20/13
Deutsche Bank	Buy	\$56.00	2/21/13
Monness	Buy	\$70.00	8/12/11

*Consensus Rating: Buys: 80.0% | Holds 20.0% | Sells: 0.0%*

# Financial Highlights Q4 2012 / Q4 2011

	Q4 2012	YoY % Change
<b>Total Revenues</b>	\$132.9M	+55.2%
<b>Net Income</b>	\$7.5M	+41.6%
<b>Adjusted Net Income</b>	\$9.4M	+71%
<b>EPS</b>	\$0.36	+38.5%
<b>Adjusted EPS</b>	\$0.45	+78%

Revenue*	1Q	2Q	3Q	4Q	Year End
<b>2010E</b>	\$41.73	\$49.04	\$54.26	\$67.88	\$212.91
<b>2011E</b>	\$61.75	\$76.68	\$82.38	\$89.00	\$309.81
<b>2012E</b>	\$87.87	\$103.2	\$112.48	\$132.95	\$436.50
<b>2013E</b>	\$113.13 est.	\$128.88 est.	\$141.63 est.	\$164.63 est.	\$548.37 est.

Net Income*	1Q	2Q	3Q	4Q	Year End
<b>2010E</b>	\$2.82	\$2.71	\$2.68	\$4.73	\$12.94
<b>2011E</b>	\$5.79	\$7.29	\$11.00	\$5.52	\$29.60
<b>2012E</b>	\$10.11	\$9.45	\$16.77	\$7.53	\$43.86
<b>2013E</b>	\$12.77 est.	\$12.30 est.	\$18.30 est.	\$10.65 est.	\$54.03 est.

EBITDA*	1Q	2Q	3Q	4Q	Year End
<b>2010E</b>	-	\$3.18	\$4.44	NA	\$18.22
<b>2011E</b>	\$7.80	\$11.99	\$11.83	\$7.96	\$39.58
<b>2012E</b>	\$13.49	\$12.25	\$19.07	\$10.85	\$55.66
<b>2013E</b>	\$17.23 est.	\$17.45 est.	\$25.65 est.	\$16.88 est.	\$77.21 est.

Gross Margin %	1Q	2Q	3Q	4Q
<b>2010E</b>	53.93	50.69	56.30	54.34
<b>2011E</b>	53.48	52.98	53.54	57.35
<b>2012E</b>	55.04	54.36	54.18	53.03
<b>2013E</b>	54.08 est.	53.72 est.	54.20 est.	53.80 est.

*\*All figures in Millions USD*