EQUITY RESEARCH

COMPANY UPDATE

May 9, 2012

CONSUMER & BUSINESS SERVICES/CONSUMER, HOUSEHOLD & PERSONAL CARE PRODUCTS

SodaStream

Follow-Up: 1Q Results Better Than Expected; Guidance Raised; Wal-Mart!!!

Stock Rating:

OUTPERFORM

12-18 mo. Price Target	$55.00
SODA - NASDAQ	$36.90

3-5 Yr. EPS Gr. Rate	30%
52-Wk Range	$79.72-$27.60
Shares Outstanding	19.9M
Float	13.0M
Market Capitalization	$734.4M
Avg. Daily Trading Volume	1,330,104
Dividend/Div Yield	NA/NM
Book Value	$11.86
Fiscal Year Ends	Dec
2012E ROE	83.5 %
LT Debt	$0.0M
Preferred	NA
Common Equity	$219M
Convertible Available	No

EPS Diluted	Q1	Q2	Q3	Q4	Year	Mult.
2011A	0.35	0.38	0.54	0.32	1.60	23.1x
2012E	0.55A	0.45	0.72	0.53	2.25	16.4x
Prior (E)	*0.48*	*0.51*	*0.70*	*0.47*	*2.15*	*NM*
2013E	0.69	0.63	0.89	0.69	2.90	12.7x
Prior (E)	*0.62*	*0.64*	*0.90*	*0.65*	*2.80*	*NM*

Reflects adjusted EPS for 2011. EPS estimates for 2012 and 2013 are adjusted to exclude IPO-related share-based compensation expense.

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SUMMARY

SodaStream reported better than expected 1Q results Wednesday, driven by healthy sales growth and margin expansion. In addition, the company raised 2012 guidance and announced that it has begun shipping to Wal-Mart. We are reiterating our Outperform rating and DCF-derived $55 target price on the shares, which in our view do not fully reflect SODA's meaningful growth opportunities in the U.S.

KEY POINTS

- SODA reported better than expected 1Q results Wednesday morning, as adjusted EPS of $0.55 was up 57% y/y and ahead of both our and the consensus estimates of $0.48 and $0.45, respectively. Net sales increased 50%, to $88M, including U.S. sales growth of 93%, while gross margin expanded 150 bps, to 55.0%.
- However, the major news of the day was that SODA has begun shipments to WMT and expects to be on shelves at 2,900 stores in the U.S. by the end of the month. Initially, WMT will be selling the Jet machine, spare CO2 cylinders and ~30 flavors, as well as cylinder exchange at some point.
- This news is not surprising, as management had acknowledged its intent to partner with the retailer, though the timing is a bit sooner than we anticipated. Further, we believe this move validates both the category as well as the company's ability to execute, and should help to accelerate consumer adoption and household penetration.
- Importantly, management also raised its 2012 guidance, which now includes revenue growth of 33% (vs. 28% prior), and adjusted net income growth of 42% (vs. 35% prior), This implies adjusted EPS of $2.22, up 39% from last year's adjusted EPS of $1.60 and ahead of both our prior estimate of $2.15 and consensus of $2.02.
- We are raising our 2012 and 2013 EPS estimates while maintaining our Outperform rating and DCF-derived $55 target price on the shares. Clearly, we are pleased with SODA's entry into WMT and the acceleration in machine unit growth, while believing the stock does not fully reflect meaningful growth opportunities, particularly in the U.S.

Stock Price Performance

Company Description

SodaStream is the world's leading manufacturer of home beverage carbonation systems, which enable consumers to convert ordinary tap water into carbonated soft drinks and sparkling water.

Review of SodaStream 1Q Results

Quarter Better Than Expected On Strong Top Line and Margin Expansion

SodaStream reported better than expected 1Q results Wednesday morning, as adjusted EPS of $0.55 was up 57% year-over-year and ahead of both our and the consensus estimates of $0.48 and $0.45, respectively. Net sales increased 50%, to $88 million, easily exceeding our estimate of $73 million, with strength across most regions. Sales in Western Europe grew 50%, to $46 million, and while the quarter benefited from a shift to direct distribution in the Nordics, excluding this impact organic sales were still up a healthy 38% on gains in both new and established markets. In the Asia-Pacific region, sales grew 110%, to $9.9 million, helped by the recent launch into Japan, which is going very well. However, sales in CEEMEA declined 33%, to $6.7 million, due to a pipeline fill by a distributor in the Czech Republic during the year-ago period which was not repeated.

Sales in the Americas increased 93%, to $26 million, on strength in the U.S., Brazil and Canada. During Wednesday's earnings conference call, management provided encouraging commentary regarding its U.S. business. For example, total U.S. sales grew 78% despite no additional retail doors added in the quarter, with flavor sales up 101% and CO2 sales up 71%. Further, NPD and other retail data indicated that sell-through increased over 70%, suggesting that the U.S. consumer base is growing nicely and continues to outpace the rest of the world in terms of consumables consumption. As such, every major retailer where SODA had a presence this time last year has expanded shelf space to include additional syrup flavors.

Turning to the product segments, sales of soda maker starter kits increased 37%, to $33.5 million, while unit sales increased 15%, to 683,000, marking an acceleration from last quarter's 8% growth. However, as mentioned above, excluding the timing shift in the Czech Republic, unit sales increased 54% year-over-year, as the company's Czech distributor accounted for fully one-quarter of SODA's starter kit unit sales in the year-ago period. Further, management noted on Wednesday's conference call that it expects a more normalized ordering pattern for the remainder of the year from its Czech distributor, while year-over-year comparisons also become easier. Consumable sales increased 61%, to $52.4 million, including a 29% increase in CO2 refill units and a 52% increase in flavor units. Making this more impressive, management commented that 1Q is typically the softest quarter and they believe this is another indicator that the adoption rate is increasing

In the U.S., unit sales of soda maker starter kits increased 27%, to 146,000, a deceleration from last quarter's 45% growth. During Wednesday's conference call, management pointed out that the year-over-year comparison was made difficult by the fact that the base period reflected inventory rebuilding on the part of SODA's largest and most productive U.S. retailers after a very strong 2010 holiday period. With this in mind, these same retailers entered the 2011 holiday period with more appropriate inventory levels, thereby reducing the need to rebuild in 1Q. The base period also benefited from the initial pipeline fill for roughly 1,000 new retail doors in the U.S., with no such pipeline fill this quarter. Adjusting for this, U.S. unit sales increased 45%, consistent with 4Q growth.

In addition to the strong top line, another key driver of the EPS outperformance in the quarter was gross margin, which expanded 150 bps year-over-year, to 55.0%, ahead of our estimate of 54.0% and helped to some degree by the shift to direct distribution in the Nordics. Sales and marketing expenses were up almost 60%, to $27.3 million, and up 170 bps relative to sales, to 31.0%, above our estimate of 30.0%. The increase relates to costs associated with the acquisition of the Nordics distribution operations, as well as incremental advertising and promotion spending in certain markets. As a result, adjusted operating income increased 60%, to $12.9 million, above our estimate of $10.9 million, while adjusted operating margin increased 90 bps, to 14.7%, below our 15.2%.

2012 Guidance Raised; Entering Wal-Mart

Importantly, management also raised its 2012 guidance, which now includes revenue growth of 33%, up from 28% prior, and implies full-year sales of $384 million. Further, adjusted net income (excluding $5.5 million in share-based compensation expense) is expected to increase 42%, up from 35% prior, implying adjusted net income of $47 million. Using management's previously stated guidance of 21 million average fully-diluted shares outstanding for 2012, this implies adjusted EPS of $2.22, up 39% from last year's adjusted EPS of $1.60 and ahead of both our prior estimate of $2.15 and consensus of $2.02.

However, the major news of the day was the announcement that SODA has begun shipments to Wal-Mart (WMT-NYSE, $59, Not Rated), and that it expects to be on shelves at 2,900 stores in the U.S. by the end of the month. Initially, WMT will be selling the Jet model soda maker in two colors, as well as spare CO2 cylinders and bottles, along with approximately 30 flavors. Eventually, these stores will also be offering CO2 cylinder exchanges, although management did not provide timing. The machines are expected to be placed in the small appliance aisle, as well as an end cap, and SODA anticipates providing in-store demonstrations at some point.

This news is not surprising, as there had been much investor speculation on the potential for a WMT rollout, particularly after SODA entered Target (TGT-NYSE, $55, Not Rated) late last year, and management had acknowledged its intent to partner with the retailer. That said, the timing is a bit sooner than we anticipated, as our bullish case had been late 2012. However, it's interesting to note that this marks SODA's first rollout at a major U.S. retailer without a trial period, which we believe validates both the category as well as the company's ability to execute. Further, we believe the increased retail footprint in the U.S. should help to accelerate consumer adoption and household penetration, as SODA machines will now be available in over 13,000 doors and gas exchange in 8,000 locations (when WMT begins to offer the program).

Raising Estimates; We Remain Bullish

Based on these encouraging results and guidance, we are raising our 2012 EPS estimate to $2.25 from $2.15 prior, which represents a year-over-year increase of 35% and is based on 34% sales growth, to $387 million. This reflects the benefit of entry into WMT, healthy momentum in Western Europe and Asia-Pacific, the launch of new machines such as the Revolution and Source later this year, and the rollout of carbonated versions of Crystal Light and Country Time lemonade later this month, partially offset by a doubling of advertising spending in the U.S. In addition, we are raising our 2013 EPS estimate to $2.90 from $2.80 prior, which represents a year-over-year increase of 29% an is based on sales growth of 20%, to $465 million.

Finally, we are maintaining our Outperform rating and DCF-derived $55 target price on the shares. Clearly, we are pleased with SODA's entry into WMT and believe this should lead to further growth and retail expansion. In addition, the acceleration in machine unit growth from 4Q indicates to us that the business remains healthy overall. While we expect the stock to remain highly volatile, we remain convinced in the validity of both the category and SODA's business model, and believe the stock does not fully reflect what we view as meaningful growth opportunities, particularly in the U.S.

(In millions, except per share data)

Income Statement	Mar11A	Jun11A	Sep11A	Dec11A	2011A	Mar12A	Jun12E	Sep12E	Dec12E	2012E	Mar13E	Jun13E	Sep13E	Dec13E	2013E
Western Europe	30.5	43.3	39.7	39.7	153.2	45.7	54.1	47.62	45.7	193.0	49.3	58.4	51.4	49.3	208.5
Y/Y Change (%)	*23%*	*22%*	*10%*	*20%*	*18%*	*50%*	*25%*	*20%*	*15%*	*26%*	*8%*	*8%*	*8%*	*8%*	*8%*
CEMEA	10.0	8.2	7.5	5.2	30.9	6.6	7.4	8.3	6.2	28.5	7.6	8.3	9.09	6.80	31.8
Y/Y Change (%)	*70%*	*35%*	*32%*	*-32%*	*22%*	*-34%*	*-10%*	*10%*	*20%*	*-8%*	*15%*	*12%*	*10%*	*10%*	*12%*
Americas	13.3	14.7	24.0	32.0	83.9	25.6	26.4	33.6	44.8	130.4	35.9	36.9	47.1	62.7	182.5
Y/Y Change (%)	*153%*	*136%*	*124%*	*70%*	*105%*	*93%*	*80%*	*40%*	*40%*	*55%*	*40%*	*40%*	*40%*	*40%*	*40%*
Asia-Pacific	4.7	3.0	4.5	8.8	21.0	9.9	5.9	8.9	10.6	35.4	11.9	7.1	10.7	12.7	42.5
Y/Y Change (%)	*52%*	*40%*	*117%*	*59%*	*64%*	*110%*	*100%*	*100%*	*20%*	*68%*	*20%*	*20%*	*20%*	*20%*	*20%*
Net Sales (U.S. Dollars)	**58.5**	**69.1**	**75.7**	**85.7**	**289.0**	**87.9**	**93.8**	**98.4**	**107.2**	**387.3**	**104.8**	**110.7**	**118.3**	**131.5**	**465.3**
Y/Y Change (%)	***50%***	***38%***	***39%***	***32%***	***39%***	***50%***	***36%***	***30%***	***25%***	***34%***	***19%***	***18%***	***20%***	***23%***	***20%***
Cost of Sales	27.2	32.5	35.2	36.5	131.4	39.5	42.7	41.8	44.5	168.5	46.6	49.8	49.7	53.9	200.0
Gross Profit	**31.3**	**36.6**	**40.5**	**49.1**	**157.5**	**48.4**	**51.1**	**56.6**	**62.7**	**218.8**	**58.2**	**60.9**	**68.6**	**77.6**	**265.3**
Y/Y Change (%)	***-72%***	***17%***	***11%***	***21%***	***40%***	***55%***	***40%***	***40%***	***28%***	***39%***	***20%***	***19%***	***21%***	***24%***	***21%***
Gross Margin	**53.5%**	**53.0%**	**53.5%**	**57.3%**	**54.5%**	**55.0%**	**54.5%**	**57.5%**	**58.5%**	**56.5%**	**55.5%**	**55.0%**	**58.0%**	**59.0%**	**57.0%**
Y/Y Change (bps)	***(40)***	***230***	***(280)***	***300***	***60***	***150***	***150***	***400***	***120***	***200***	***50***	***50***	***50***	***50***	***50***
Sales & Marketing	17.1	22.5	23.1	36.4	99.2	27.3	32.4	31.5	41.8	132.9	32.5	36.5	37.8	51.3	158.2
% of Net Sales	29.3%	32.5%	30.6%	42.5%	34.3%	31.0%	34.5%	32.0%	39.0%	34.3%	31.0%	33.0%	32.0%	39.0%	34.0%
General & Administrative (Adjusted)	6.1	6.0	6.3	6.1	24.4	8.2	8.4	8.4	8.6	33.6	9.2	9.4	9.4	9.8	37.8
% of Net Sales	10.5%	8.6%	8.3%	7.1%	8.5%	9.4%	9.0%	8.5%	8.0%	8.7%	8.8%	8.5%	8.0%	7.5%	8.1%
Other Income, Net	(0.0)	(0.0)	(0.0)	(0.0)	(0.2)	(0.0)	-	-	-	(0.0)	-	-	-	-	-
Operating Income (Adjusted)	**8.1**	**8.2**	**11.2**	**6.7**	**34.1**	**12.9**	**10.3**	**16.7**	**12.3**	**52.3**	**16.5**	**15.0**	**21.3**	**16.5**	**69.3**
Y/Y Change (%)	***124%***	***303%***	***59%***	***15%***	***81%***	***60%***	***26%***	***50%***	***85%***	***53%***	***28%***	***45%***	***28%***	***34%***	***33%***
Operating Margin (Adjusted)	**13.8%**	**11.9%**	**14.7%**	**7.8%**	**11.8%**	**14.7%**	**11.0%**	**17.0%**	**11.5%**	**13.5%**	**15.7%**	**13.6%**	**18.1%**	**12.6%**	**14.9%**
Y/Y Change (bps)	***460***	***780***	***180***	***(110)***	***280***	***90***	***(90)***	***230***	***370***	***170***	***100***	***260***	***110***	***110***	***140***
Management Fee/Share Based Payment	1.4	1.3	1.3	1.3	5.4	1.4	1.4	1.4	1.3	5.5	0.3	0.3	0.3	0.3	1.0
Operating Income (Reported)	6.7	6.9	9.8	5.3	28.7	11.5	8.9	15.3	11.0	46.8	16.2	14.8	21.1	16.3	68.3
Interest Expense, Net	(0.2)	(0.5)	(0.5)	(0.3)	(1.5)	(0.1)	(0.1)	(0.1)	(0.1)	(0.5)	(0.1)	(0.1)	(0.1)	(0.1)	(0.5)
Other Financial Expenses	0.4	(0.4)	(0.6)	0.0	(0.6)	0.1	-	-	-	0.1	-	-	-	-	-
Pre-Tax Income (Reported)	6.5	7.8	10.9	5.6	30.9	11.5	9.0	15.4	11.2	47.1	16.3	14.9	21.2	16.4	68.8
Income Tax	1.0	1.2	0.8	0.3	3.4	1.4	1.0	1.7	1.2	5.3	2.0	1.8	2.5	2.0	8.3
Tax Rate	15.6%	15.9%	7.5%	5.4%	10.9%	12.0%	11.0%	11.0%	11.0%	11.2%	12.0%	12.0%	12.0%	12.0%	12.0%
Net Income (Reported)	5.5	6.6	10.1	5.3	27.5	10.1	8.0	13.7	9.9	41.8	14.4	13.1	18.7	14.4	60.6
Y/Y Change (%)						*84%*	*22%*	*36%*	*87%*	*52%*	*42%*	*63%*	*36%*	*45%*	*45%*
Adjustments (Net of Tax)	1.4	1.3	1.3	1.3	5.4	1.4	1.4	1.4	1.3	5.5	0.3	0.3	0.3	0.3	1.0
Net Income (Adjusted)	**6.9**	**7.9**	**11.5**	**6.7**	**32.9**	**11.5**	**9.4**	**15.1**	**11.2**	**47.3**	**14.6**	**13.3**	**18.9**	**14.7**	**61.6**
Y/Y Change (%)						***68%***	***20%***	***32%***	***68%***	***44%***	***27%***	***41%***	***25%***	***31%***	***30%***
Shares Outstanding (Diluted)	19.6	21.0	21.0	20.8	20.6	21.0	21.0	21.1	21.1	21.0	21.2	21.2	21.3	21.3	21.2
EPS (Adjusted)	**$0.35**	**$0.38**	**$0.55**	**$0.32**	**$1.60**	**$0.55**	**$0.45**	**$0.72**	**$0.53**	**$2.25**	**$0.69**	**$0.63**	**$0.89**	**$0.69**	**$2.90**
Y/Y Change (%)	***59%***	***83%***	***37%***	***-1%***	***34%***	***57%***	***18%***	***31%***	***66%***	***41%***	***25%***	***40%***	***24%***	***30%***	***29%***

Source: company reports and Oppenheimer & Co. estimates

(In millions, except per share data)

SODA DCF Model	2012E	2013E	2014E	2015E	2016E
Net Income	42	61	79	97	120
Plus: Interest Expense (After-Tax)	-	-	-	-	-
Plus: Depreciation & Amortization	10	12	14	16	18
Less: Capital Expenditures	(34)	(23)	(22)	(19)	(22)
Plus/Less: Changes in W/C & Other	(10)	(11)	(11)	(12)	(12)
Unlevered Free Cash Flow	**9**	**39**	**60**	**83**	**105**
PV of Unlevered Free Cash Flow	**8**	**32**	**44**	**55**	**63**

PV of Free Cash Flow	203
PV of Residual Value	847
Enterprise Value	1,049
Less: Total Debt/Preferred	(4)
Equity Value	1,045
Mid-Year Adjustment Factor	1.05
Equity Value (Adjusted)	1,100
Shares Outstanding	20
Value Per Share	**$55**

Assumptions	
Risk-Free Rate	5.00%
Beta	1.00
Market Risk Premium	6.00%
Cost of Equity	11.00%
Tax Rate (Statutory)	18.00%
Cost of Debt (Pre-Tax)	6.00%
Cost of Debt (After-Tax)	4.92%
Cost of Preferred	0.00%
Shares Outstanding	20.1
Price	$37
Market Cap	743
Total Debt	4
Preferred	-
Total Capitalization	747

Capitalization	Current	Target
Equity	99%	95%
Debt	1%	5%
Preferred	0%	0%
WACC		**10.7%**
Residual FCF Growth Rate		3.00%

Terminal Free Cash Flow Growth Rate

WACC	2.0%	2.5%	3.0%	3.5%	4.0%
9.7%	$57	$60	$64	$68	$74
10.2%	$53	$56	$59	$63	$67
10.7%	$49	$52	$55	$58	$62
11.2%	$46	$48	$51	$54	$57
11.7%	$43	$45	$47	$50	$53

Source: company reports and Oppenheimer & Co. estimates

Investment Thesis

Our Outperform rating on the shares is based on our view that SODA's position as the leader in the burgeoning home beverage carbonation market should afford it significant growth opportunities in the coming years, particularly in the US, the world's largest soft drink market and one in which SODA is meaningfully underpenetrated. In addition, we believe the premium valuation for the shares is justified by this growth opportunity, while on a price-to-earnings-growth (PEG) basis the shares appear reasonably priced.

Price Target Calculation

We derive our 12- to 18-month target price of $55 through a five-year discounted cash flow valuation, using a weighted average cost of capital (WACC) of 10.7% and a 3.0% residual growth rate of our terminal (2016) unlevered free cash flow estimate of $105 million.

Key Risks to Price Target

The greatest risk to the SODA story, in our view, is the company's ability to successfully penetrate the US market, which will require a change in behavior on the part of consumers, as well as significant investments in marketing and infrastructure. Even if SODA is successful in executing its US growth strategy, the company will likely attract competitors, which could mitigate growth.

Important Disclosures and Certifications

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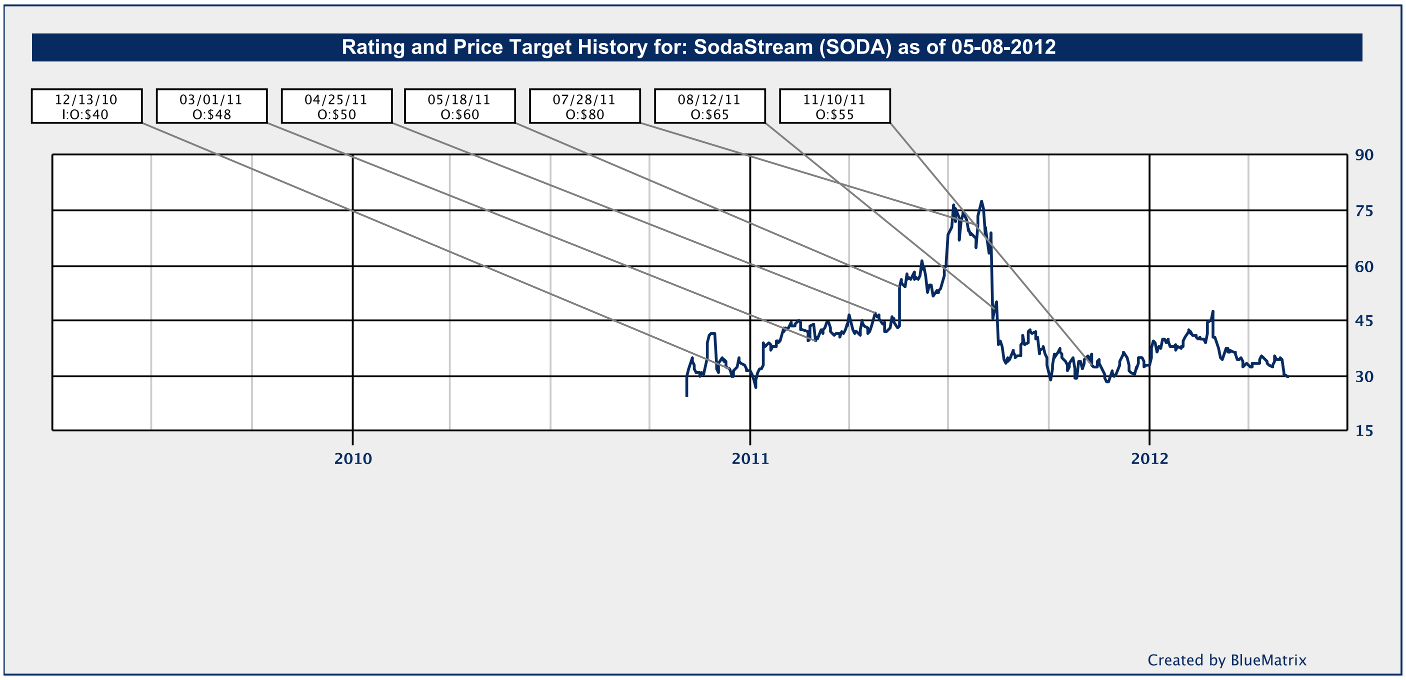

All price targets displayed in the chart above are for a 12- to- 18-month period. Prior to March 30, 2004, Oppenheimer & Co. Inc. used 6-, 12-, 12- to 18-, and 12- to 24-month price targets and ranges. For more information about target price histories, please write to Oppenheimer & Co. Inc., 85 Broad Street, New York, NY 10004, Attention: Equity Research Department, Business Manager.

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Outperform(O) - Stock expected to outperform the S&P 500 within the next 12-18 months.

Perform (P) - Stock expected to perform in line with the S&P 500 within the next 12-18 months.

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Neutral - anticipates that the shares will trade at or near their current price and generally in line with the leading market averages due to a perceived absence of strong dynamics that would cause volatility either to the upside or downside, and/or will perform less well than higher rated companies within its peer group. Our readers should be aware that when a rating change occurs to Neutral from Buy, aggressive trading accounts might decide to liquidate their positions to employ the funds elsewhere.

Sell - anticipates that the shares will depreciate 10% or more in price within the next 12 months, due to fundamental weakness perceived in the company or for valuation reasons, or are expected to perform significantly worse than equities within the peer group.

Distribution of Ratings/IB Services Firmwide

			IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent
OUTPERFORM [O]	324	55.67	145	44.75
PERFORM [P]	250	42.96	86	34.40
UNDERPERFORM [U]	8	1.37	3	37.50

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Company Specific Disclosures

Oppenheimer & Co. Inc. makes a market in the securities of SODA.

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Additional Information Available

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