

Sodastream - SODA

“Adding some fizz to our portfolio”
A proprietary **Pledge Capital** stock
pitch

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Our Purchases



The Case to Invest Now

A secular growth story at an inflection point

A Secular Growth Story at an Inflection Point

Growth of seltzer and long-term share gains within the category provide strong secular tailwinds. The rollout of direct to consumer delivery and exchange will enhance current trends and provide a significant financial benefit. These changes could help the company double its earnings in the next two years and potentially quadruple its earnings in the next four years.

What is Sodastream?

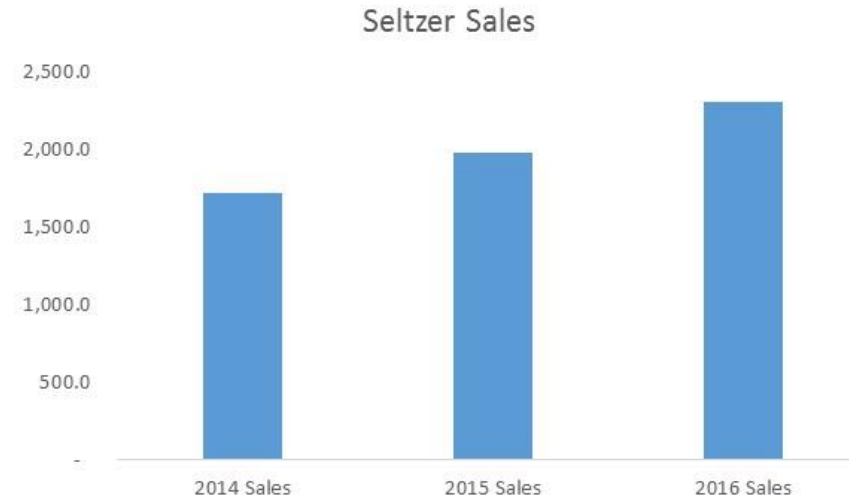
The brand and what it stands for is driving secular growth

Sodastream is the largest seltzer company in the world with actual consumption around two billion liters per year



In the US, bottled seltzer sales are increasing at a ~15% rate

Consumers are increasingly consuming seltzer beverages made by Lacroix, Bubly, Polar, Kroger, et al... because they are healthier than soda. In contrast, sugary drinks like soda and orange juice are in secular decline.



The company uses edgy marketing material to convince consumers to join its ecosystem...

- Sodastream crafted the word “Homoschlepien” to tease people with “a prehistoric preoccupation with single-use plastic bottles”.
- Sodastream is evolutionary superior to cans and bottles because:
 - It is better for the environment!
 - It is more convenient!
 - It is more affordable!



Google “homoschlepien” to learn more

It is better for the environment!

The average family uses 10,657 bottles and cans in 5 years. If you use Sodastream, you can help reduce this number and help preserve the health of the environment. Every year more people become environmentally conscience.



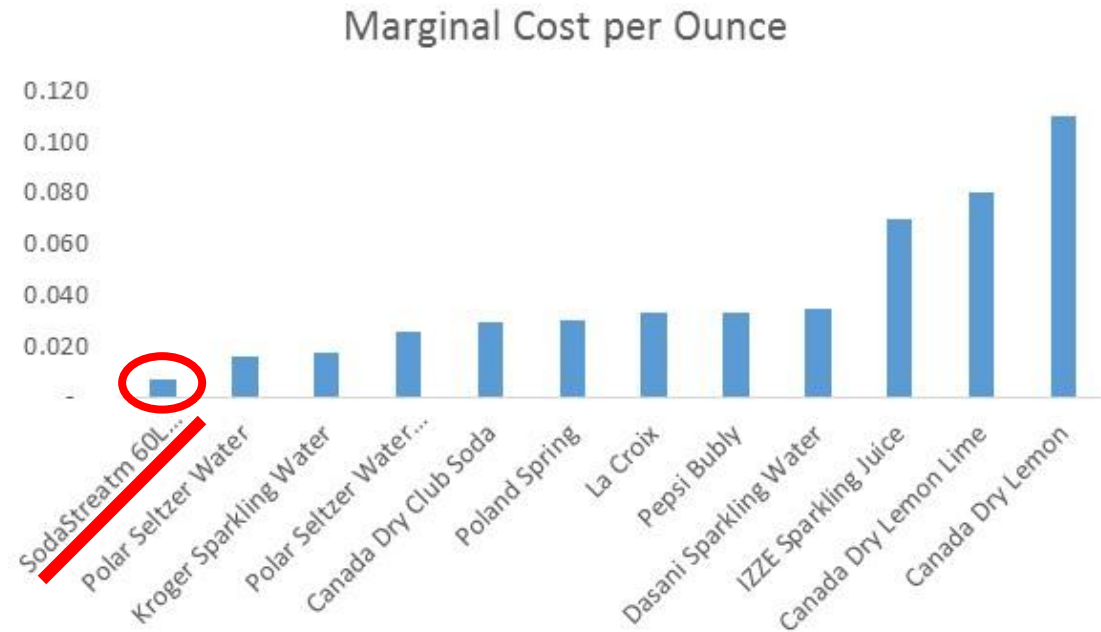
It is more convenient!

- Recent Sodastream commercials have portrayed [Hafþór Júlíus Björnsson](#), who plays the Mountain in hit TV show Game of Thrones.
- The commercials jokingly tell you that his secret to having huge muscles is carrying cases and bottles of soda/water from the supermarket.
- This message is particularly compelling in urban areas where fewer have cars.



It is cheaper!

After factoring in the cost of equipment, households who will consume more than one can of seltzer every other day and use their machine for at least five years can save money. The more you use, the more you save. The cost of the machine is fixed and home made seltzer has an extremely low marginal cost.



How does the product work?

Soda makers are easy to use and a convenient way to consume seltzer at home

First you buy a soda-making kit



- Soda-making kits start as low as \$60 and get as expensive as \$200+
- The launch of the Fizzi One-Touch machine in June 2018 introduces an automated system (electronic-based) that is an improvement over the mechanical nature of traditional machines. With this new soda-maker, you just push one button so it is more convenient.

The kit comes with one 60L gas cannister



- It is enough to make, 60L of carbonated water.
- Once empty, this CO2 cannister can be traded in for a full CO2 canister at a cost of \$15.
- Additional 60L CO2 cannisters cost \$30 if you do not exchange a used cannister.
- The company re-uses its CO2 cannisters, which have an expected life of 30+ years.

The kit also comes with a reusable plastic carbonating bottle



- Many households choose to buy additional bottles, including those made out of glass like the one pictured on the left.
- These bottles are filled with drinkable water and connected to the machine.
- Carbonated water is then produced with the push of a button.

Scarlett Johansson uses Sodastream, so why shouldn't you?



Sodastream Business Model

Selling Razors & Razor-Blades

Sodastream's business model is like Gillette's



Machines are Razors & CO2 refills are high-margin Razor-Blades

Machine	CO2 and other Consumables
<p data-bbox="262 554 1131 704">Most Sodastream machines are sold at cost plus variable marketing expenses incurred to attract a new household</p>	<p data-bbox="1166 554 2038 761">Sodastream users purchase replacement CO2. Depending on usage, this can range from a one replacement every year. The average is once every ~4.5 months</p>
<p data-bbox="262 849 1085 999">Useful life can extend to 7-8 years or more, but there is typically attrition that reduces the weighted average life</p>	<p data-bbox="1166 849 1882 942">Consumables like CO2 or flavors are a recurring source of high-margin sales</p>

The Inflection Point

Three ways to drive high margin sales of CO2 refills

The Rollout of CO2 Delivery/Exchange is a Game Changer...

Customers historically had to travel to stores to purchase the CO2 cannisters needed to make seltzer. The roll-out of delivery and exchange starts the summer of 2018 and will have the following impact:

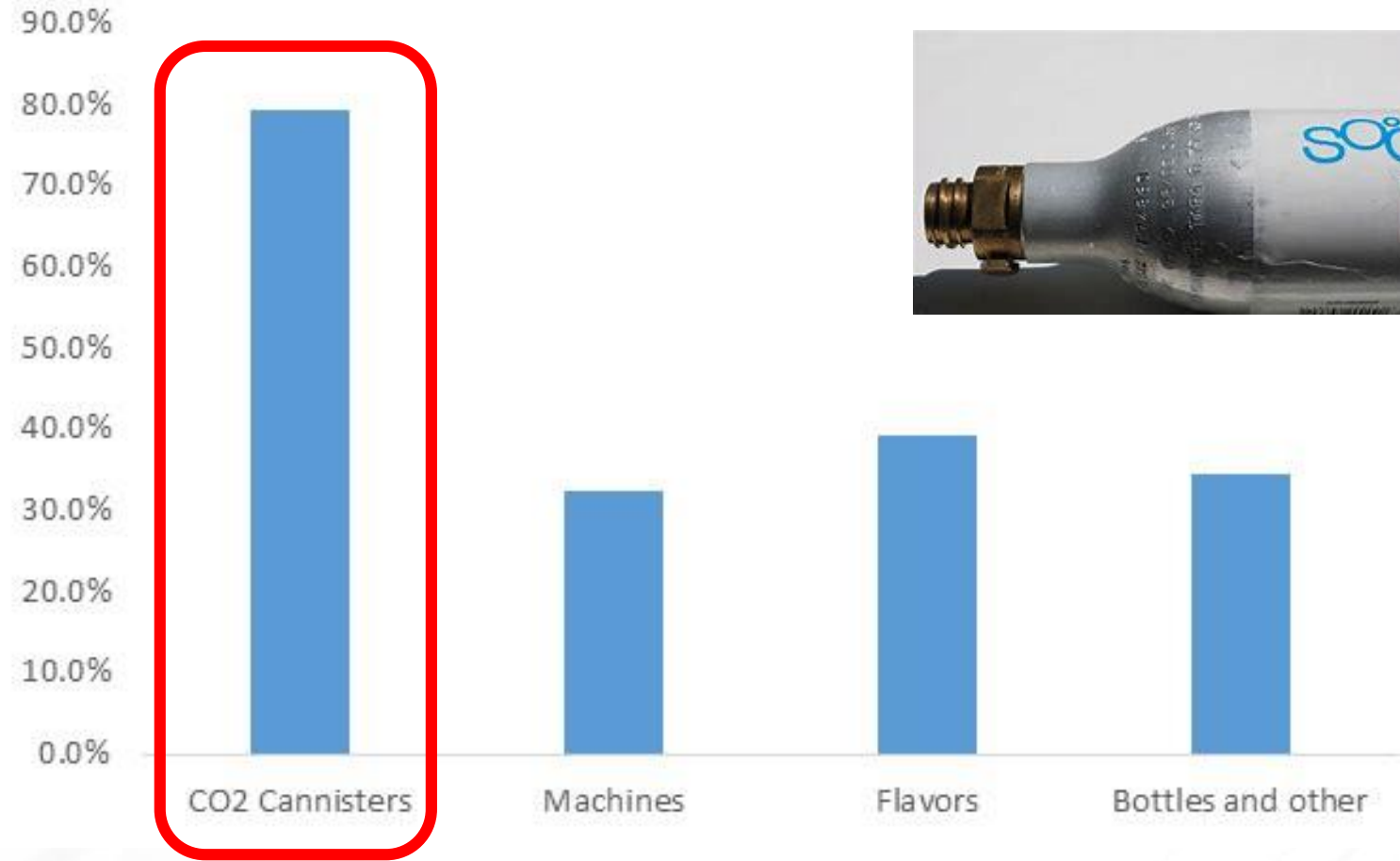
- Conversion of in-store purchase to delivery
- Increase usage from current customers
- Increase adoption from new customers



...that will drive a material financial impact

- **Conversion** – every switch from in-store purchase to delivery by an established customer, increases the gross profit dollar realized on a replacement CO2 cannister.
- **Increased Usage** – added convenience drives additional consumption of CO2 refills from established customers.
- **Increased Adoption** – added convenience encourages purchase of machines by new households which will lead to a steady stream of CO2 replacement purchases.

Estimated Gross Margin of Different Products



Converting In-store Purchases to Delivery...

Established customers are currently purchasing Sodastream replacement CO2 cannisters from a store. They are extremely likely to convert to delivery and exchange. Since this cuts out the middleman, the company will increase both its revenue and its gross profit per refill.

Estimated Impact of Conversion		
	In-Store Purchase	Delivery
Revenue	7.97	14.99
Cost	1.59	5.84
Gross Profit	6.38	9.15



...Will Yield a Significant Financial Impact

I believe people who try delivery will convert all of their purchases. But conservatively, I project Sodastream will convert 40% of its current base of refill CO2 cannisters. If this occurs, I estimate the company could generate an additional ~\$36.7M in income. For reference, the company reported ~\$81.3M in total operating income during 2017. I believe this will occur in the next few years or sooner. This service will be rolled out from the summer of 2018 to the spring of 2019.

Consumers are likely to increase their usage

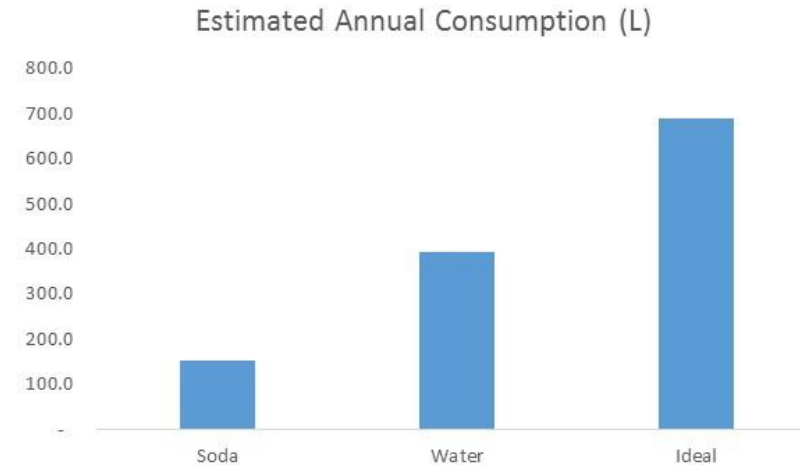
- By rolling out delivery around the world, it will become more convenient for customers to purchase CO2 refills.
- Naturally, the company will also implement a digital customer relationship management system which will be used to encourage increased usage.
- Over the next few years, I believe Sodastream could boost the average amount of CO2 used per customer by 15% and generate an additional ~\$45.4M in incremental profit. For reference, total operating profits in 2017 were \$81.3M.



A Sanity Check on Increased Usage

We believe the data supports our 15% assumption. In fact, average usage could increase far more than 15%. On average, each person in a Sodastream household consumes ~67L of carbonated water per year. This is:

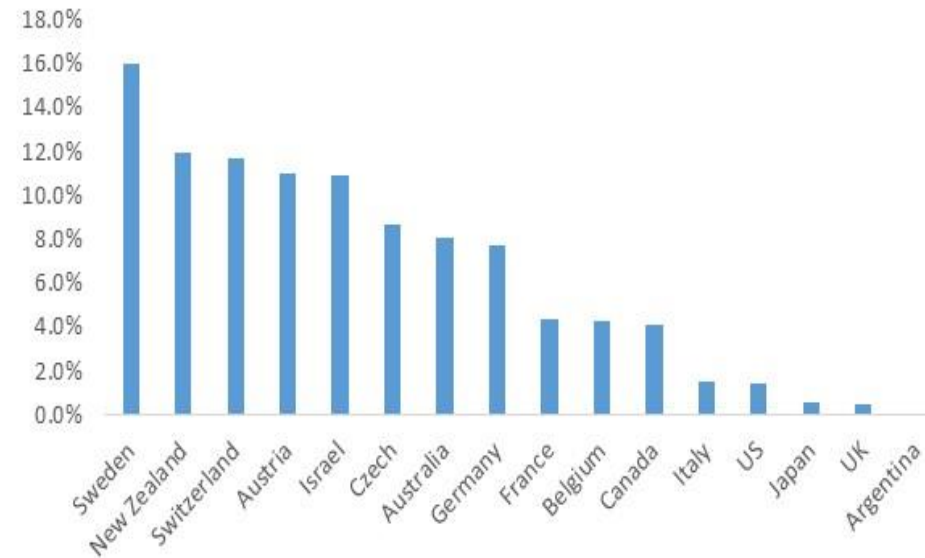
- 1/10 of the total liquids we should consume each year
- 1/6 of the water the average person actually consumes per year
- Less than 1/2 of the soda the average person actually consumes per year



A growing number of households are likely to adopt Sodastream

- By rolling out delivery around the world, Sodastream will enhance convenience, increase machine sales, and ultimately increase sales of high-margin CO2 refills.
- The sixteen countries shown in the chart on the right account for 86% of Sodastream's entire household user base.

Household Penetration by Country



Global Household Penetration

- In these sixteen countries, the average household penetration rate is 3.1%. If Sodastream were to increase this percentage to 6.2%, they would add approximately 10.8M households to the current base of 12.5M.
- If our assumptions on conversion and usage are right, these 10.8M new households will be more profitable than the current average. In aggregate, they could generate \$264.5M in incremental profits.

There is significant upside potential when you combine these three drivers

Conversion + Increased Usage + Increased Adoption = Potential Incremental Profit

$$\$36.7\text{M} + \$45.4\text{M} + \$264.5\text{M} = \$346.6\text{M}$$

- Let's assume 20% gets eaten up by additional corporate overhead.

$$\$346.6\text{M} \times (1-20\%) = \$277.3\text{M}$$

- Compare this to 2017 operating income of \$81.3M:

$$\$277.3\text{M} + \$81.3\text{M} = 358.6\text{M}$$

$$358.6\text{M} / 81.3\text{M} = \sim 4.4\text{x}$$

- I believe there is further upside if the company can (1) achieve a greater than 40% conversion rate, (2) increase usage by more than 15%, and/or (3) achieve higher than 6.2% household penetration. There is additional upside if recent growth in other products is sustainable.

The Moat & The Risks

What can go wrong?

The business should exhibit lower risk than the most industries

Regardless of the economic environment, I believe there will be fewer homoschlepien each year as more start making their own soda & seltzer at home. As a result, I believe Sodastream stock offers superior risk and reward compared to the market over a 5 year time horizon.

- Airlines
- Real Estate Development
- Autos
- Energy
- Consumer Retail
- Consumer Staples
- Telecom
- Utilities

In my opinion, the volatility of their recurring CO2 refill business is low. Unlike most consumer staple businesses, this one is generating organic growth.



The traditional competitive landscape...

Historically, in-store retailers have been reticent to carry a new entrant's replacement CO2 cannisters. Without an established base of users, building inventory of a new entrant's CO2 refill cannisters can not be justified financially. So even well financed entrants like the Keurig Kold have failed to take sufficient market share to survive in this market. As a result, new entrants (e.g. Kitchen Aid, Samsung, AARKE, et al) have tended to produce higher-end or differentiated machines that use Sodastream's CO2 refill cannisters.



...may give way to an evolved competitive dynamic

While introducing direct to consumer delivery/exchange greatly enhances convenience, it could create additional risks. Building a successful delivery/exchange network may encourage equipment partners to copy this capability, and create more competition in the long run (or it may not). However Sodastream has by far the densest network of users, so it will continue to have an advantage (e.g. Drinkmate has already introduced an inferior delivery and exchange service). In addition, I believe we should look at the broader competitive landscape which includes bottled and canned seltzer. But the competitive dynamic within home-made seltzer is a risk factor that we are monitoring. In the meantime, I believe delivery/exchange will create a significant financial benefit for shareholders. Despite the risks, this initiative is simply the right move to make for customers.

We look forward to your feedback

Summary - Sodastream benefits from the secular growth of seltzer sales and should be a long-term share gainer against bottles and cans. With the rollout of delivery, they are well-positioned to (1) convert customers from in-store purchases to higher-profit delivery, (2) drive increased usage of CO2, and (3) acquire new customers.



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