January 21, 2013

Dear clients and colleagues,

Bottles and cans continue to fill up garbage dumps, landfills, parks and rivers. On average, every single day, 1 billion bottles and cans go to landfills around the world. They don't get recycled. The environmental cost of making these bottles is also very high. Consumers are more conscious of their health and sodas are getting a lot of bad press; most specifically, sodas have been noted as a contributor to the obesity epidemic. In 2009, 33 US states had a sales tax on soft drinks; both the number of states and the amount of tax is expected to increase.

What could be an investment opportunity that could help the environment, offer consumers a choice without eliminating soda? SodaStream comes to the rescue as it can completely eliminate bottles and cans – a positive for the environment. Its products have two-thirds fewer calories and two-third fewer carbohydrates, as well as lower levels of caffeine, hence addressing the health and wellness mega trend.

SodaStream (SODA US - $45.94)
www.sodastream.com

Business Overview

Sodastream is an Israeli firm listed in the US. It is the world's leading manufacturer of drink makers, carbonators and concentrates for sparkling soft drinks made at home. It has more than 5.5M consumers in 45 countries and distributes its products via 60K retail stores worldwide. In the US, it has a presence in 15K retail locations, including major retailers such as Bed Bath & Beyond, Williams Sonoma, Macy's, Target, Wal-Mart and Costco Wholesale.

The business model is to sell systems and then sell the consumables similar to the razor and blade model. Over time, revenues should shift from the soda maker to the consumables – the syrup and the gas – which will increase profitability. To put it in perspective, it has been operating in Switzerland for 15 years and currently has about 80% of its revenue coming from consumables and has EBIT margins higher than 25% in that market.

History

The company was founded in 1903 and was associated with London Gin Distillers until 1960. The first home soda machine was launched in 1950 with 14 flavours. In 1985 it was purchased by Cadbury Schweppes who sold it in 1997. Fortissimo Capital, a private equity firm, acquired it in 2007. The company went public on November 3, 2010.

Target Market

According to Euromonitor the global carbonated beverage market is estimated to be $264B with about 40% in the US. Major brands such as Coke, Pepsi and Doctor Pepper enjoy dominant market shares. SodaStream is

This report is provided solely for informational purposes and nothing in this document constitutes an offer or a solicitation of an offer to purchase any security. This report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and does not constitute a representation that any investment strategy is suitable or appropriate to a recipient's individual circumstances. Global Alpha Capital Management Ltd. (Global Alpha) in no case directly or implicitly guarantees the future value of securities mentioned in this document. The opinions expressed herein are based on Global Alpha's analysis as at the date of this report, and any opinions, projections or estimates may be changed without notice. Global Alpha, its affiliates, directors, officers and employees may buy, sell or hold a position in securities of a company(ies) mentioned herein. The particulars contained herein were obtained from sources, which Global believes to be reliable but Global Alpha makes no representation or warranty as to the completeness or accuracy of the information contained herein and accepts no responsibility or liability for loss or damage arising from the receipt or use of this document or its contents.

Performance figures are stated in Canadian dollars and are net of trading costs and gross of operating expenses and management fees. Further information about the Global Small Cap Composite is available by contacting the firm. Global Alpha Capital Management Ltd. (Global Alpha) claims compliance with the Global Investment Performance Standards (GIPS ®) and has prepared and presented this report in compliance with the GIPS. Global Alpha has not been independently verified.

well positioned to gain modest share, however. Given the large addressable market even a small gain in market share would equate to billions of dollars.

According to management an average American family uses 2,000 bottles and cans at home every year, as compared 1,200 to 1,500 bottles and cans in Europe. Coke or Pepsi cost, on average, about $0.85 per liter. Sodastream runs about $0.20 less per liter. In 2011, SodaStream sold the equivalent of 3.3 billion cans of soda.

Competition

The main competition comes from AGA, a subsidiary of Linde Gas. It has been operating for about five years and has approximately 15% market share compared to 80% market share for SodaStream in Sweden. SodaStream actually makes the bottles for AGA. Larger players such as Coke and Pepsi are also competitors

Competitive advantages

- Value play to the customer and not an OEM soda
- Strong network of retail distribution
- Customer stickiness as soda maker sales are accompanied by recurring consumables

Growth strategy

- Increase household penetration
- Product innovation
- Consumer education with brand building activities and advertising. Market expansion by focuses on the US market and penetrating new channels

Risks

- Competitive pressure from largest beverage companies
- Failure to gain household penetration and maintain customer stickiness

Market Data

Market Cap $982M, Debt nil, Cash 30.7M, p/e (2014) 16.2x, ev/sales (2014) 1.7x, ev/ebitda (2014) 11.1x, gross margin 54.5%, roe 15.3%.

Have a nice week.

The Global Alpha Team

This report is provided solely for informational purposes and nothing in this document constitutes an offer or a solicitation of an offer to purchase any security. This report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and does not constitute a representation that any investment strategy is suitable or appropriate to a recipient's individual circumstances. Global Alpha Capital Management Ltd. (Global Alpha) in no case directly or implicitly guarantees the future value of securities mentioned in this document. The opinions expressed herein are based on Global Alpha's analysis as at the date of this report, and any opinions, projections or estimates may be changed without notice. Global Alpha, its affiliates, directors, officers and employees may buy, sell or hold a position in securities of a company(ies) mentioned herein. The particulars contained herein were obtained from sources, which Global believes to be reliable but Global Alpha makes no representation or warranty as to the completeness or accuracy of the information contained herein and accepts no responsibility or liability for loss or damage arising from the receipt or use of this document or its contents.

Performance figures are stated in Canadian dollars and are net of trading costs and gross of operating expenses and management fees. Further information about the Global Small Cap Composite is available by contacting the firm. Global Alpha Capital Management Ltd. (Global Alpha) claims compliance with the Global Investment Performance Standards (GIPS ®) and has prepared and presented this report in compliance with the GIPS. Global Alpha has not been independently verified.