Business Model Validation

SodaStream International Ltd.

ANALYSIS PREPARED BY
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BUSINESS MODEL VALIDATION
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DESCRIPTION OF SODASTREAM INTERNATIONAL

SodaStream International is the world's leading manufacturer and distributor of Sparkling Water Makers, which enable consumers to easily transform ordinary tap water into sparkling water and flavored sparkling water in seconds. The company's products offer convenience by eliminating the need to carry bottles home from the supermarket, to store bottles at home or to regularly dispose of empty bottles.

SodaStream's products promote health and wellness, are environmentally friendly, cost effective, and are customizable. The Company's products are available at more than 70,000 retail stores across 45 countries, including approximately 13,000 retail stores in the United States. SodaStream is headquartered in Airport City, Israel and its shares are traded on the NASDAQ (SODA).

EXECUTIVE SUMMARY OF SODASTREAM INTERNATIONAL'S BUSINESS MODEL

SodaStream's fundamental business model is simple and sound. It sells carbonation systems as well as refillable CO_2 canisters and (flavored water) pods. Thus, its core business model resembles the razor, razor-blade model.

Management is in the process of executing a sound strategy of pivoting away from enabling customers to prepare carbonated sodas at home to enabling them to prepare carbonated flavored water at home. This repositioning plays into the growing interest in health and wellness.

However, the fact that demand for SodaStream products has deteriorated much more precipitously than demand for soda in general may indicate that SodaStream's problems are several orders of magnitude more severe than in the soda industry in general. Thus, pivoting towards carbonated water may not prove to be an elixir.

Business Model Validation
Gold
Stamp of Certification

Report Date:

September 30, 2015

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USE OF THIS REPORT

This report was prepared on September 30, 2015 and is valid only as of that date. In preparing this report, we relied on information we believed to be reliable but did not fact-check every piece of information that came under our review. Subsequent events may have transpired that effect the subject company's business model.

Even in the event that we validate a business model as of the aforementioned date, such validation does not guarantee the subject company will reach every one of its—or its stakeholders'—milestones or expectations. Events beyond management's control may affect the execution of a company's business model.

Before making investment or business decisions, readers must undertake their own research and make their own assessments of the subject company's business model, investment worthiness and future outlook. Those wishing to invest in—or transact business with—the subject company must retain their own subject matter experts to assist them in making such investment and business decisions.

NEITHER BUSINESS MODEL VALIDATION NOR ITS ANALYSTS OR AFFILIATES ASSUME ANY RESPONSIBILITY WHATSOEVER FOR ANY ADVERSE RESULTS OF INVESTING IN—OR TRANSACTING BUSINESS WITH—THE SUBJECT COMPANY.

SUMMARY OF SODASTREAM INTERNATIONAL'S BUSINESS MODEL

SodaStream's fundamental business model is simple and sound. SodaStream sells its products through 21 distributors throughout the world. These distributors make SodaStream's products available for sale at some 70,000 retail stores. In recent years, SodaStream provided 1.5 billion liters of homemade soda to millions of homes worldwide. There is nothing convoluted about the products SodaStream sells or its revenue collection practices. While much of its sales are by way of consignment, its sales are not financed. The Company's products offer convenience by eliminating the need to carry bottles home from the supermarket, to store bottles at home or to regularly dispose of empty bottles.

SodaStream has a razor, razor-blade business model. It sells carbonation systems as well as refillable CO_2 canisters and flavored water pods. A household only needs one machine but will need to refill the CO_2 canisters repeatedly as well as replace the pods. Not only does such replenishment offer SodaStream substantial recurring revenue, but it may enable SodaStream to capture prime shelf space at retailers as they too benefit from the repeat traffic that SodaStream generates.

Management is in the process of executing a sound strategy of pivoting away from enabling customers to prepare a variety of carbonated sodas at home to enabling them to prepare a variety of carbonated flavored water at home. This shift makes sense in view of the fact that soda consumption has been falling in the US for decades. Management's current repositioning plays into the growing interest in health and wellness. Nevertheless, SodaStream's new lineup of products is largely untested and the difficulties experienced by Keurig 2.0 are not confirmatory indicators of a positive reception to the category that SodaStream is pursuing. Further, the Company's forthcoming machine (the Ultimate) is completely untested.

While a complete Business Model Validation is presented on pages 10 to 23 of this report, the following are among the business model validation issues relative to SodaStream that are worthy of highlighting.

Convenience

One concern with preparing carbonated drinks at home is the differential in the time such processes require versus the time necessary to open a can of the same drink. While it takes 90 seconds to make a Keurig Kold drink, it takes no more than 10 seconds to make a liter of SodaStream drinks. SodaStream does require some preparation; most notably making sure the water is very, very cold. Users that remember to refill their Sodastream bottles and keep them refrigerated between uses will have much more success with the machines.

Chicken-and-Egg Conundrum

SodaStream is introducing a wide variety of flavored water pods. The selection of these flavored water pods must be broad so as to convince people to purchase the machines. However, these pods will not be purchased until the initial machines are purchased and put into use. The longer it takes to sell the machines, the greater the delay in purchasing the pods. The more time the pods are sitting on the shelves, the more likely it is that retailers will reallocate the shelf space to another vendor or category. A reduction in shelf space dedicated to the flavored water pods would most likely result in consumers viewing the SodaStream machines as being of reduced utility.

Initiation Fee

SodaStream is much more price compelling than products offered by its chief rivals. For instance, Keurig Kold's purchase price will range from about $300 to $370 versus $79 for the least expensive SodaStream machine. The Kold will use single-serve pods to make an 8-ounce glass of Diet Coke or other carbonated drinks at more than $1 each as customers that own the Kold will have to shell out $0.99 to $1.29 per pod. SodaStream drinks cost between $0.08 and $0.20 per serving. Compared to purchasing soft drinks at mainstream retailers, SodaStream is compelling while Keurig Kold is not: Consumers can get a pack of two dozen 12-ounce cans of Coke online at Staples or Office Depot for just $12.99, which equates to $0.54 a can.

Competitive Analysis

Despite the cost of SodaStream's machines and pods, the Keurig machine does have some big advantages over SodaStream. First, its partnership with Coca-Cola will allow Keurig's customers to create Coke-branded products. Second, the Kold machine also automatically chills beverages to 39 degrees. Third, the Keurig machines do not rely on a CO_2 canister, a source of complaints from SodaStream's customers. In the meantime, SodaStream could be moving in on Keurig's coffee territory with a new hot-and-cold beverage machine of its own called Ultimate by SodaStream. Unlike Keurig machines, the Ultimate can produce larger servings as well as single-servings of the chosen beverage.

Conflating Industry Dynamics with Customer Demand

There is a major risk that SodaStream is camouflaging weak demand for its products with negative industry dynamics. Granted, the broad trends for soda consumption in the United States have consistently, albeit moderately, been trending down. However, demand for SodaStream's soda products has been plummeting much more rapidly than demand for soft drinks overall. For instance, at Coca-Cola, sparkling volume and still volume drinks were both up 1% annually in the first half of 2015. The traditional Coca-Cola brand witnessed a volume increase of 1% annually, while Coke Zero volume rose 5%, and Fanta volume increased by 3% annually.

During the same period of time, SodaStream's soda related sales plunged 28%. New machines sales were down by 37% while syrups plunged 45%. This indicates that the problem with SodaStream products is exponentially greater than the negative trends impacting soft drink sales in general. This fact was highlighted when Kraft terminated the partnership that it had with SodaStream, which covered the Crystal Light, Country Time Lemonade and the Cool Aid brands. (Nevertheless, there is an interesting footnote to this story:

SodaStream moved a record 6.9 million CO_2 refills during the second quarter of 2015, up 7% over the past year. Progress on CO_2 refills proves customers are still using their SodaStream machines.)

Contingent Liabilities

If distributors, retailers or consumers in any one or more of the markets in which SodaStream operates return a large number of cylinders without exchanging them for full ones, the Company may be required to pay a large amount of cash to refund a portion of the rental or license fees, which could have a material adverse effect on SodaStream's financial condition and results of operations.

Product Liability Analysis

The following are among the risks and sources of customer disappointment relating to SodaStream's products:

- There is negative sentiment for the lack of recyclable materials in SodaStream's products despite the fact that these products avoid the need to buy, haul and discard cans or plastic beverage bottles.

- Washing SodaStream's non-dishwasher safe carbonation bottles in the dishwasher or otherwise exposing them to severe heat could cause the bottle to burst during carbonation. Similarly, subjecting SodaStream's exchangeable CO_2 cylinders to pressure beyond their measured stress resistance could cause the cylinder to burst.

- Carbonating substances other than water with SodaStream's sparkling water makers could cause the sparkling water maker to fail and possibly cause damage to the other components of the Company's home beverage carbonation system.

Follow On Questions

The following are among the issues that deserve more clarification:

- To what extent do people buy SodaStream for themselves as opposed to gifts for others? If much of the revenue is a result of sales for gift-giving purposes I would be concerned. This would indicate that people are not really embracing SodaStream but that it is a suitable wedding or housewarming present.

- How adverse are people to lugging carbon dioxide canisters? Keurig avoids the necessity of ordering, lugging and installing new carbon dioxide canisters. SodaStream is pursuing partnerships with several companies whereby these partners will provide in-home CO_2 refills and/or home delivery of the same.

- I would want to know how often and how the machines are cleaned. After every use? Or at the end of each day of use? Or after 10 uses? I would want to know the exact cleaning regimen. What products need to be purchased to clean the machines? How expensive are they? How easily can they be obtained? How long is the cleaning process? Can all of the parts be placed in the dishwasher or are there some parts that must be cleaned by hand?

- Is SodaStream even trying to sell its beverage solution in markets other than the take-home market? If not, then the company is ceding these markets. If yes, can high throughput in terms of pouring drinks really be accomplished with SodaStream’s products? Could McDonald’s or a sports stadium really meet demand with SodaStream?

- It is very difficult for generic sodas to capture retailers’ shelf space. In fact, generic soda represents less than 2% of all soda sales. How does SodaStream anticipate surmounting such challenges?

- To what extent is the consumers’ experience with SodaStream a function of the variation in the quality of residential tap water? This is an important question for two reasons. First, there are daily problems with the quality, taste or smell associated with tap water delivered to homes in the US. These kinds of problems are probably much more pronounced in most of the rest of the world. These kinds of issues negatively affect the taste and enjoyment of SodaStream products.

- How much counter space does SodaStream require and how much discretionary counter space do potential customers have in their kitchens? How many households are essentially precluded from using a SodaStream product because of an absence of counter space? I might take this line of questioning even further by asking SodaStream if they have commissioned any anthropological studies. Such studies would entail an anthropologist visiting numerous customers in their homes and observing all of their interactions with SodaStream. It would be interesting to know to what extent different customer segments—single people living alone, single people living together, married couples without children, married couples with children, retirees living together—engage with SodaStream. If it was revealed that certain of these segments substantially never use SodaStream and there were logical reasons for their refrain, I would remove such households from the addressable market.

Part of the anticipated appeal of SodaStream’s Ultimate machine is that it can prepare hot beverages. The following is a brief analysis—and questions related to—the market opportunity for machines that can prepare hot beverages.

At the time of this writing it is my understanding that Keurig machines, which will compete with SodaStream’s Ultimate machine, are used in about 18 million U.S. households. Our research indicates that 90 million American homes use coffee makers of some kind. However, the real addressable market must be much smaller than 72 million American households. A very large number of these households must be people who never or rarely drink coffee while many other households are content with having basic kettles. There must be a very large constituency of coffee drinkers who do not want to invest in sophisticated coffee makers which require ascending any learning curves. Thus, much of the so-called replacement market is not really ripe for embracing sophisticated coffee makers from the likes of SodaStream.

The following are among the heretofore unanswered questions that I have relating to SodaStream's Ultimate machine:

- How versatile will SodaStream's Ultimate machine be? Can it brew soup? Can it be used for preparing energy drinks? Can it facilitate the production of hot beverages such as coffee and medicated teas? If yes, how many types of coffee can be prepared? Regular American coffee? Lattes? Cappuccinos? Even if SodaStream could be used to make coffee, how would freshness of the coffee be preserved? Unlike bottled or canned soda which can sit on shelves or in refrigerators for weeks while retaining its taste and carbonation, coffee needs to be freshly brewed in order to taste good.

- How sensitive will Ultimate by SodaStream be in terms of being able to block non-approved uses? For instance, can it prevent the preparation of alcoholic drinks?

- What is the risk of boiling-temperature water spraying out, potentially burning users?

- How many servings can be prepared with one pod?

- Are the pods light enough to cost-effectively order online and ship through the mail?

APPLICATION OF BUSINESS MODEL VALIDATION FACTORS

Factor No.	Business Model Validation Factor	COLOR RATING	Analysis
1	Addressable Market Analysis		The Company has not released any projections as to the market size of home produced carbonated flavored water beverages. However, the Company captured roughly 1% of the US households when it sold soda related products. It seems that penetration of the US households for its water products will be less due to the popularity of preparing soft drinks at home waning, the smaller differential in soda versus soft drinks (consumers can readily get a glass of water from their refrigerators or sinks), the loss of some key retail distribution points, and the reduced likelihood that existing consumers will want to purchase additional equipment.
2	Agency Issues		SodaStream is heavily reliant on distributors. The loss of momentum is harder to rejuvenate with distributors than with direct sales forces.
3	Alligator Risks		It does not appear that SodaStream is at risk of being consumed by another product.
4	Alignment		While SodaStream seems to provide a pleasant working environment for its Palestinian employees, the perception (and ensuing rancor) on the part of anti-Israel activists is to the contrary. Palestinians have lost their jobs as a result of attacks on the Company by anti-Israel elements. It seems reasonable to believe that the politicization of SodaStream could have sparked dissention between some of the workers.
5	Analog / Antilog Analysis		Due to the market for home carbonation being relatively thin and new, it is difficult to prepare a rigorous Analog / Antilog analysis.
6	Appropriability		SodaStream does not appear to have a surplus of uncaptured goodwill to appropriate.
7	Artificial Air Cover		For the quarter ended June 30, 2015, SodaStream had $33.4 million of cash on its balance sheet. This is hardly sufficient to declare that the Company is enjoying artificial air cover. During the same quarter, SodaStream had loans and borrowing outstanding of some $39 million.
8	Asset Inflation Misdirection		Asset Inflation Misdirection is not relevant with respect to SodaStream.
9	Babysitter Phenomenon		SodaStream has no exposure to the babysitter phenomenon.
10	Backward Integration Risk		I have detected no instances of forward channel partners producing products that compete with those produced by SodaStream.
11	Bottlenecks		I have not encountered any evidence to suggest that SodaStream will encounter bottlenecks in its production process.

Factor No.	Business Model Validation Factor	COLOR RATING	Analysis
12	Business Model Fragility		SodaStream sells a conduit to a consumable. Any sicknesses that result from customers using its filtration system could be extremely problematic for the Company.
13	Business Model Leverage		Since SodaStream's fixed costs are not massive and its profit margins are not expansive, there is limited leverage in the Company's business model.
14	Business Model Portability		SodaStream's business model is largely portable in the markets that have advanced water infrastructure and large retail outlets. However, not all geographic regions met these criteria.
15	Buy Locally Mandates		I am not aware that SodaStream is subject to any Buy Locally Mandates of any significance.
16	Capacity Head Fakes		I do not see any such issues limiting SodaStream's ability to grow its products' reach.
17	Capacity Smoothing		SodaStream does seem to have exposure to excess capacity (i.e. its capacity is not smoothed) in that it recently constructed new manufacturing facilities while in the midst of launching its flavored water products, for which demand cannot yet be known.
18	Cascading Risks		SodaStream would likely benefit if competitors such as Keurig failed. However, there is a possibility that the failure of a large competitor could embitter distributors and retailers (not to mention customers) to the home-produced carbonated water beverage category.
19	Cash Vaporization		Since little of SodaStream's business takes place with unsupervised employees accepting cash payments, there is little risk of Cash Vaporization.
20	Centrifugal Diffusion		During its repositioning towards flavored, carbonated water, SodaStream has streamlined into a unified message.
21	Channel Conflicts		Channel Conflicts are a possibility due to the large number of distributors and retailers used to bring the Company's products to the market.
22	Channel Stuffing		The penetration rates in Sweden look too good to be true. Until we receive a satisfactory explanation from management, we are concerned about the possibility of channel stuffing. However, in the most recent quarter (ended June 30, 2015) compared to the quarter ended December 30, 2014, SodaStream's inventories, trade receivables and other receivables all declined.

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23	Chicken-and-Egg Conundrum		SodaStream is introducing a wide variety of flavored water pods. The selection of these flavored water pods must be broad so as to convince people to purchase the machines. However, these pods will not be purchased until the initial machines are purchased and put into use. The longer it takes to sell the machines, the greater the delay in purchasing the pods. The more time the pods are sitting on the shelves, the more likely it is that retailers will reallocate the shelf space to another vendor or category. A reduction in shelf space dedicated to the flavored water pods would most likely result in consumers viewing the SodaStream machines as being of reduced utility.
24	Circumventability		Green Mountain, whose Keurig machines compete against those of SodaStream, experienced some loss of sales due to customers tampering with the lids of their pods. Aside from similar risks, I do not think that SodaStream is exposed to circumventability risks.
25	Coin Avalanche Fallacy		None of SodaStream's revenue streams consist of micropayments.
26	Commodity Leverage		The Company is not overly exposed to commodity prices.
27	Confidence Bloatedness		Management is not overly confident. On the most recent conference call with investors, management said in a number of instances that it is testing a variety of concepts and marketing campaigns and that it will adjust these initiatives based on the feedback it receives.
28	Conflating Industry Dynamics and Product Demand		There is a major risk that SodaStream is camouflaging weak demand for its products with negative industry dynamics. Granted, the broad trends for soda consumption in the United States have been consistently but moderately trending down. However, the deterioration in demand for SodaStream's soda products has been plummeting much more rapidly than demand for soft drinks overall. For instance, at Coca-Cola, sparkling volume and still volume drinks were both up 1% annually in 2015. The traditional Coca-Cola brand witnessed a volume increase of 1% annually, while Coke Zero volume rose 5%, and Fanta volume increased by 3% annually. Where Coca-Cola did have a problem, was with its Diet Coke brand, where volume declined by 6% versus last year. During the same period of time, SodaStream's soda related sales plunged 28%. This indicates that the problem with SodaStream products is exponentially greater than the negative trends impacting soft drink sales in general. Indeed, Kraft terminated the partnership that it had with SodaStream, which covered the Crystal Light, Country Time Lemonade and the Cool Aid brands.
29	Conscious Laundering		While SodaStream does appeal to those concerned about conservation and healthier lifestyles, it is not taxing its business model or finances with liabilities in terms of excessive wages, giving preferences to small suppliers, awarding contracts at rates higher than necessary or making philanthropic commitments.

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30	Contingent Liability Analysis		As far as I can tell, SodaStream does not have knowable contingent liabilities in the form of litigation, environmental damages, tax obligations or the like.
31	Copernicanism		SodaStream's managers do not believe that their efforts are irrelevant. This is evidenced by their making a series of bold decisions, such as those revolving around repositioning the Company in carbonated water business.
32	Culture Clash		A large part of SodaStream's turnaround plan calls for selling carbonated water in the United States. SodaStream has been very successful in selling carbonated water in Europe. However, Europeans seem to like carbonated water much more than Americans.
33	Deals with the Devil		It does not appear that SodaStream's supply or distribution channels are in the hands of entities with interests inimical to the Company.
34	Dead Zone Analysis		SodaStream's machines are generally significantly less expensive (approximately \$80 to \$100) than those sold by Keurig (the Kold is supposed to debut at \$299). At those reasonable price points, SodaStream is able to appeal to a large enough market to attract the support of distributors and retailers.
35	Delusion of Relative Performance		There is a significant risk of falling prey to the delusion of relative performance. It may be true that SodaStream's sales are deteriorating less dramatically than those of its competitors. However, the appeal of preparing carbonated beverages is waning. One reason being is that it is less expensive and more convenient to buy such beverages at the store and just open up the bottle when ready to drink.
36	Delusion of Single Explanations		The Delusion of Single Explanations is not an issue with SodaStream.
37	Demand Head Fakes		While there are no structural demand headfakes, I am concerned that there are cultural demand headfakes. I am concerned that a large portion of SodaStream's machines were purchased as gifts for others rather than by people who intended to use the machines. Notwithstanding that the Company reported that refills of its CO_2 canisters reached an all-time high in the most recent quarter, I am concerned that the novelty has worn off.
38	Diffusion of Stakeholder Analysis		SodaStream's shareholder base is not large, diffuse or vocal enough to stop the campaigns that the Boycott, Divestment and Sanction zealots have waged against it.

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39	Distributor Leverage		It could become increasingly difficult to reach potential end customers. Demand for SodaStream's products has been deteriorating. Fewer retailers are stocking the Company's products. SodaStream's home beverage carbonation systems and consumables are distributed through third-party distributors in 21 countries. Furthermore, SodaStream's distributors undertake to manage the reverse logistics needed for customers to return empty CO_2 cylinders and exchange them for filled CO_2 cylinders. In the event that any of the distributor does not successfully manage the reverse logistics, it will make it more difficult for SodaStream's customers to obtain replacement CO_2 cylinders, which will negatively affect the Company's brand and its revenues in that market. In addition to creating potential safety and public health risks, such sales of consumables by unauthorized third parties may result in lost sales opportunities, negatively impact customer retention and could harm the Company's reputation if these products cause damage when used with SodaStream products.
40	Dividend Straightjacket		Since SodaStream does not pay any dividends it is not exposed to Dividend Straightjackets.
41	Dogma of Hardness		I do not think there are related issues at SodaStream. It is difficult to be overly objective regarding employee performance when a company is implementing a strategic shift in direction. Further, the disruption caused by required reserve military service on the part of some of SodaStream’s employees would make it difficult to implement overly objective performance markers.
42	Double Barrel Targeting		SodaStream uses a variety of media to market its products.
43	Dot Disconnectedness		There is no dot disconnectedness risk here. If enough people purchase SodaStream's products for preparing carbonated water at their homes, the transition should be successful.
44	Dumping		SodaStream competes in more than 20 countries and has not claimed that it is the victim of dumping. Even if dumping were to occur it would likely have a nominal impact due to the diversity of markets that SodaStream serves.
45	Edifice Complex		The Company is in the final stages of moving much of its Israeli operations to Lehavim. It appears that this move was uneventful. If there was any risk of the edifice complex, it would likely have lapsed by now.
46	Error of Egocentrism		I do not think that excessive blame or praise is being placed on CEO Daniel Birnbaum. Mr. Birnbaum seems willing to delegate and share the duties of running the Company with his management team. Also, SodaStream recently hired John Sheppard as President of SodaStream U.S.
47	Elasticity of the Definition of Revenue		I have no reason to believe that SodaStream is becoming more aggressive in defining its revenues.

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48	Endowment Effect		The fact that SodaStream is in the midst of dramatically pivoting its products and target markets indicates that the Company has not fallen victim of the endowment effect.
49	Excess Elixir		The Company is not developing business models around underutilized assets. On the contrary, SodaStream is making major investments in developing its Ultimate machine which is said to be able to make a large variety of beverages as well as to serve as a platform for the Internet of Things.
50	Exit Alignment Analysis		SodaStream has forged an alliance with Pepsi. Since Keurig tied up with Coca-Cola, there are not many other potential obvious suitors for SodaStream. Further, Pepsi CEO Indra Nooyi has been careful to put to bed the notion the soda giant would be buying out SodaStream, or even taking a significant stake in the company.
51	First Mover vs. First-Entry Failure		SodaStream seems to be moving at roughly the same overall speed as Keurig in launching new products. Its forthcoming Ultimate machine will be delayed about 1.5 years after the introduction of Keurig's Kold. This may yield SodaStream time to improve upon the Keurig Kold. It does not seem that SodaStream will lose many sales to the Keurig Kold in the intervening time.
52	Footnote Fallacy		The issues facing SodaStream—such as whether there will be sufficient demand for flavored carbonated water—have been addressed in this report. These issues eclipse those that could fall under the Footnote Fallacy.
53	Forward Integration Risk		I do not believe that SodaStream is exposed to Forward Integration Risk.
54	Fragility Mitigation		SodaStream is in the process of relocating some of its contested manufacturing operations.
55	Free Lunch Paradigm		SodaStream products require its customers to expend some effort in preparing drinks with its machines. Thus, the Company is offloading the costs of preparing its product on to the consumer.
56	Full Product Line Mandate		SodaStream does have a reasonably full line of complimentary products. However, the Company did not adopt such a strategy as a result of demands placed on it by other industry participants.
57	Gambler's Fallacy		Management is not passively waiting until a better quarter presents itself. Rather, management is taking logical courses of action to align the Company with the changing preferences of the majority of consumers.
58	Goading Goliaths		SodaStream is not taunting industry Goliaths. Rather, it has forged an alliance with Pepsi.

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59	Government Interference Risk		SodaStream is exposed to the movement that wishes to boycott Israeli companies.
60	Hail Mary		SodaStream is in the process of making a significant transition in the nature of beverage preparation machines it sells. The related decisions are a function of applying logic to the facts on the ground. These decisions should not be deemed Hail Mary plays because the redirection of the target markets are related to SodaStream's legacy markets. For instance, many of its distributors, retailers and marketing channels will remain the same.
61	Handcuffed Customers		SodaStream is not exposed to Handcuffed Customers.
62	Headwind Analysis		SodaStream's revenues fell 28% year-over-year for the quarter ended June 30, 2015. Further, the reduced consumer interest in carbonated beverages prepared at home is industry-wide: Green Mountain's sales declined 5% year-over-year in the quarter ended June 27, 2015. That company's pricing was very weak as evidenced by its pod net sales falling 1% even after factoring in volume growth of 5%.
63	Heisenberg Principle		Management of SodaStream is well aware that consumer preferences are moving away from sugary soft-drinks and towards healthier beverages. These trends are prompting management to pivot SodaStream's entire focus accordingly.
64	Hood Ornamentation		SodaStream has retained celebrities such as Scarlett Johansson to pitch its products. Such endorsements are part of a sound marketing strategy, rather than efforts to exaggerate the power of its Board of Directors.
65	Iatrogenic Risks		While the Company is notably pivoting its business away from sodas to waters, it is doing so because the outlook for selling carbonated soda systems is bleak. SodaStream's efforts to sell carbonated water may not prove successful, but this outcome would still not be indicative of Iatrogenic Risks.
66	Icarus Paradox		SodaStream's products are not radically superior to those of its competitors such as the Keurig products.
67	The Illusion of Rigorous Research		On the most recent quarterly conference call, CEO Daniel Birnbaum stated (in several instances) that SodaStream's approach to market research is experimental and iterative. SodaStream cannot be accused of professing to have conducted definitive market studies. On that call, Mr. Birnbaum indicated that SodaStream is test marketing several initiatives in a few US markets and that further marketing efforts will be considered in view of the success of the initial marketing tests.
68	Industry Stability		There are no signs that SodaStream's supply base or distribution channels are under stress.

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69	Integration Risks		SodaStream has not acquired any companies recently and therefore, there are no imminent integration risks.
70	Intensity of Rivalry		The degree of competition in the home beverage carbonated dispensers industry is intense. SodaStream's primary competitor is Keurig (in which Coca-Cola raised its ownership stake to 17% recently). Other competing dispensers include: Purefizz, iSi Soda Siphon, Lancer, Best Whip SodaPlus, and Soda-Sparkle.
71	Irrational Extrapolation		SodaStream has reported that its products have penetrated 25% of Swedish households while their household penetration rate in the United States is 1%. I would not project that the US household penetration rate will ever approach that of Sweden. Rather, I would, at best, start from the existing penetration levels in the US and then add a small annual variance (in some cases a negative variance). Swedes are probably more concerned about plastic bottles piling up in landfills. Also, their propensity to commute with bicycles indicates that they would prefer carbonation systems versus hauling large volumes of water or soft drinks home.
72	Just-World Hypothesis		I detected no complacency on the part of management during the most recent conference call. The fact that Management is pivoting the direction of the company so profoundly suggests that the Just-World Hypothesis is not at play.
73	Lagging Infrastructure Buildout		Even in developed nations such as the United States, there are notable deficiencies associated with water infrastructure. Branded soft drink makers have no tolerance for any such inconsistencies as they want customers that consume their beverages to have consistently safe and positive experiences.
74	Las Vegas Conundrum		I do not think that there is a Las Vegas Conundrum issue associated with SodaStream. I am not aware of any companies giving away home carbonated beverage dispensers. However, some owners of SodaStream machines are circumventing SodaStream in finding ways to refill their CO_2 canisters.
75	Legal Chastity Belts		The refilling of its CO_2 canisters is designed to be a profit center for SodaStream. However, courts could rule that such activity represents a misuse of market position. For instance, in 2008, the German Federal Court of Justice, the highest German court, upheld a decision by the German Federal Cartel Office that preventing end consumers from having their CO_2 cylinders refilled by third parties constituted an abuse of a dominant position in violation of EU and German competition law and required the Company to permit the end consumers to have their CO_2 cylinders refilled by or exchanged with third parties.
76	Litigation Inattention		I do not believe that senior management of SodaStream (save perhaps its chief counselor) spends an inordinate amount of time on Company litigation.

Factor No.	Business Model Validation Factor	COLOR RATING	Analysis
77	Litigiousness Exposure		I do not believe that there is a significant risk of SodaStream becoming embroiled in paralyzing litigation.
78	Lock-Up Release		The Company's lock-up period expired long ago.
79	Lucretius Problem		It seems to me that SodaStream's management has chosen appropriate benchmarks.
80	Maginot Margin Line		SodaStream is not exposed to the Maginot Margin Line issue since no significant competitor is offering similar products at drastically lower prices.
81	Market Penetration Analysis		It does not appear that SodaStream has inflated its estimates for market penetration.
82	Market Sizing Analysis		It does not appear that SodaStream has inflated its estimates for its key addressable markets.
83	Market Spoilage Risks		SodaStream's competitors (foremost among them, Keurig) are large, responsible companies. Thus, I do not think there is a great risk of them spoiling the market for do-it-yourself carbonated beverages.
84	Mavens Mirage		The Company is evolving. The definition of its core business is changing. I have not detected any misuse of its press releases or conference calls to pump up SodaStream Mavens.
85	Meandering Measurements		There is some risk that there is a mismeasurement in terms of how many cups of beverages can be yielded from its carbonation canisters.
86	Migration Paths		SodaStream is developing a product that could prepare both hot and cold beverages. It is not clear to me to what extent SodaStream benefits from other adjacencies such as alcoholic beverage or soups.
87	Minimally Viable Product Boomerang		While SodaStream conducts research and tests its products in accordance with high standards, it still sells consumables that are subject to less regulatory rigor than pharmaceuticals or medical devices.
88	Montage Mirage		SodaStream's management has not committed the Montage Mirage.
89	Name Suitability		The SodaStream name was well-suited for the legacy business. However, now that the Company is focusing on water and healthier beverages, the suitability of the name has been undermined.
90	Obvious Occlusion		The importance of evaluating the extent of customer acceptance towards SodaStream's carbonated water has been discussed in this report.

Factor No.	Business Model Validation Factor	COLOR RATING	Analysis
91	Omniscient Technology Fallacy		As of the date of this report, Management has painted a very optimistic vision for what its forthcoming Ultimate machine will be able to do but has not divulged many pertinent details. Management's comments related to the Ultimate machine could be construed as being the salvation of SodaStream.
92	One-Hit Wonders		I am not aware of SodaStream taking any actions that could be categorized as one-hit wonders.
93	Optionality		Much of SodaStream's legacy technology related to carbonated sodas has been repurposed to serve its carbonated water efforts. The Ultimate machine is said to be designed to be extremely versatile. The Company has a history of developing innovative products.
94	Organizational Infidelity		SodaStream has a clear organizational chart.
95	Overalignment		I am not aware of SodaStream overaligning itself with its distributors or retailers.
96	Pareto Paradox		I do not believe SodaStream is exposed to the Pareto Paradox.
97	Performance Suppression		There is no need for the Company to refrain from reporting improving operational metrics. Thus, there is little potential for upside surprises when taking into account this consideration.
98	Platform Dependence		SodaStream provides its own platform for its pods and filters.
99	Platform Shifting Risks		SodaStream is not exposed to Platform Shifting Risks. On the contrary, given that others' pods can be used in SodaStream's machines, such other competitors may be exposed to Platform Shifting Risks.
100	Precedential Value of Management		Management is committed but not perfect. SodaStream adds to its executive team when given skills become necessary to pursue corporate goals.
101	Press Release Pumping		SodaStream did issue a press release indicating that it would hire 1,000 Syrian refugees in its Israeli production facilities. This was a disingenuous ploy given that Israel would not give sanctuary to so many Syrian refugees.
102	Price Elasticity		SodaStream seems to be exposed to price elasticity in terms of selling its initial machines. For customers who like preparing beverages at home, SodaStream enjoys some price inelasticity.
103	Price Halo		Compared to the Keurig Kold, several of SodaStream's machines may win a limited price halo.

Factor No.	Business Model Validation Factor	COLOR RATING	Analysis
104	Price Positioning Analysis		SodaStream's products are priced reasonably compared to that of the competition.
105	Pricing Straightjackets		I do not believe that SodaStream is vulnerable to Pricing Straightjackets. SodaStream manufactures its own products. While large retailers may be inclined to pressure SodaStream to offer its products at low prices, SodaStream's products are less expensive than those of the competition and many retailers have a history of generating substantial business from selling SodaStream's products.
106	Pricing Umbrella		SodaStream does enjoy a pricing umbrella given that many of its competitors, such as Keurig, sell their comparable products at higher prices.
107	Prisoner's Dilemma		Other than issues addressed elsewhere in this Business Model Validation, I do not think SodaStream has been confronted with the Prisoner's Dilemma.
108	Pivot Pageant		SodaStream is in the midst of pivoting towards home-produced flavored, carbonated water beverages. However, the Company's management team does not pivot excessively.
109	Pyrrhic Victory		I do not believe that SodaStream is vulnerable to winning a Pyrrhic Victory.
110	Quality of Testimonials		SodaStream has many very positive testimonials from reported users. However, there are some negative testimonials on sites such as Amazon.
111	Range Regression		SodaStream's management has been forthright in communicating the difficulties that exist in the soda business and the difficulties associated with pivoting away from that business. Its guidance has been down but not misleadingly so.
112	Razor-Razor Blade Business		SodaStream does benefit from the Razor-Razor Blade Business Model in that its machines are the razors while its carbonation canisters and pods act as the razor blades.
113	Rear-View Mirror Effect		SodaStream is not victim of the Rear-View Mirror Effect as evidenced by its pivoting towards the water business. However, the investment community may continue punishing its shares for its past difficulties.
114	Real Options Potential		There does seem to be some Real Options Potential built into SodaStream's forthcoming Ultimate machine.
115	Regulatory Ramp Up		As SodaStream moves towards water and away from sugary sodas, regulatory risks are diminished. However, SodaStream does sell a consumable that end users prepare, so there could be greater regulatory risks going forward.

Factor No.	Business Model Validation Factor	COLOR RATING	Analysis
116	Rivalry Analysis		While there is significant competition in the industry, such competition carries benefits such as increased customer awareness and the allocation of shelf space of category products at retailers.
117	Rounding Error Fallacy		I know of no Rounding Error Fallacy that would be visited upon SodaStream.
118	Sales Cycle Analysis		Distributors and retailers are familiar with SodaStream's products. These products are relatively simple and are available at relatively low price points. Thus, the Company fares well in terms of Sales Cycle Analysis.
119	Sequence of Utilization Analysis		SodaStream's multi-pronged efforts to make it easy for customers to refill their canisters is an example of how the Company considers the Sequence of Utilization Analysis.
120	Shreckenberg's Self-Destroying Prognosis		I do not think such risks need to be factored into SodaStream's business model.
121	Shakedown Exposure		SodaStream is no more at risk than other companies for being pressured into paying governmental fines. In fact, such risks may be mitigated by the fact that the Company operates in several countries. Thus, if one government becomes to overbearing, SodaStream could make the case that it could easily shift the venue of its activities and facilities.
122	Shiny Object Syndrome		While SodaStream's management has pivoted several times, I believe that such shifts are a result of sound business decisions.
123	Signal-to-Noise Skewedness		SodaStream is a leader in its industry and its strategy is not driven by reacting to competitors' initiatives; rather, Management drives the Company according to its interpretation of consumer demands.
124	Social Media Shakedown		SodaStream has already been shaken down through media channels for having its headquarters located in Israel and for employing Palestinians. Retailers in Canada, the UK and other countries have already been the victims of protests because of their carrying SodaStream products. While the Company moved its headquarters to a different city in Israel, there are no certainties that it will not be shaken down again through social media. Further, given that the end product is a consumable and its customers have a surplus of time on their hands, the Company does maintain a notable Social Media Shakedown risk.
125	Stoplight Analysis		There is a risk that SodaStream's healthy carbonated water solutions will not resonate with a sufficiently large enough group of customers.

Factor No.	Business Model Validation Factor	COLOR RATING	Analysis
126	Strategy Paradox		Given that SodaStream is positioning the Company in the direction of healthy water, I do not believe that SodaStream is exposed to the Strategy Paradox.
127	Substitution Risk		SodaStream's machines are a substitute for bottled water and sodas. These traditional beverages remain substitutes for SodaStream.
128	Sunk Costs Syndrome		SodaStream is in the process of dramatically pivoting its business away from sodas and towards flavored water. This indicates that Management is not attached to its past investments.
129	Supplier Leverage		As far as I can tell, no suppliers have significant leverage over SodaStream.
130	Surplus Logic		I have detected a Surplus Logic risk associated with SodaStream. That is, the Company claims that its recent sales setbacks are a function of the decaying soft drink market, which has prompted the Company to pivot to offering more healthy fare. The problem is that the soft drink market is not decaying as rapidly or as dramatically as SodaStream would have us believe. Therefore, the deterioration in SodaStream's recent performance is likely more a function of Company-specific factors.
131	Switching Costs		SodaStream faces a greater risk that its customers cease using any similar home carbonation system than the risk of their customer defecting to a competing home carbonation system. The Company does lose some pod sales as its machines can accommodate pods from other companies. However, it is my understanding that it is very difficult for its customers to switch canisters.
132	Target Identifiability		SodaStream is quite familiar with distributors and retailers who are the likely vendors for its products. Further, the Company is expanding the scope of its partners; such as the companies that can refill its canisters and deliver them to customers' homes.
133	Technology Overfitting		It does not appear that SodaStream's carbonated systems are over engineered.
134	Traffic Repellant		SodaStream and its channel partners attract the kinds of shoppers that could become SodaStream customers.
135	Trans-Generational Emotional Resonance		While not highly relevant, it is pre-mature to conclude that parents are passing down their affection of SodaStream products to their children. However, children see SodaStream products on the kitchen countertops and develop their own impressions of SodaStream products.
136	Transparency Trap		SodaStream is sufficiently transparent.

Factor No.	Business Model Validation Factor	COLOR RATING	Analysis
137	Tribal Warfare		As SodaStream has but few initiatives, the risks of internecine strife are low.
138	Triple Witching		There is no triple witching risk as any excessive orders placed during the peak in sales of SodaStream products would have been canceled several quarters ago.
139	Unbundling		Other than selling its own ensemble of products, SodaStream's products are not bundled with other products and therefore the Company does not have an unbundling risk in that sense. However, many customers are circumventing SodaStream when they refill their CO_2 canisters. Also, some customers (many of which are in Europe) are using pods from other purveyors.
140	Veto Diffusion		I do not think that one family member that is disinclined to use a SodaStream dispenser would veto another family member from purchasing it, in most cases. However, such vetoes could arise from the homemaker due to issues of budget and shelf space. Also, preparing alcoholic beverages in which fruits are inserted would make the cleaning of the dispensers more difficult because fruits are sticky.
141	Wittgenstein's Ruler		I have read dozens of reviews relative to SodaStream products. My impression is that the reviews are largely authentic, reasoned and balanced. Some customers are vocal fans of SodaStream products and others have lost interest due to the efforts necessary to produce drinks from SodaStream machines.

EXHIBIT A

COLOR CODED RATING SCORECARD

The color coded Rating Scorecard, below, is used throughout this Business Model Validation.

Rating Scorecard	
	Best Rating
	Second Best Rating
	Intermediate Rating
	Second Worst Rating
	Worst Rating
	Not Rated

EXHIBIT B

BUSINESS MODEL VALIDATION
DEFINITIONS OF FACTORS

Source	Factor No.	Business Model Validation Factor	Definition
Page 29	1	Addressable Market Analysis	Care should be taken to ensure that projected market opportunities are not exaggerated due to the Myth of 1%, insufficient pain, market definitional issues and the like.
Page 173	2	Agency Issues	The issue here is the degree of divergence that exists [redacted]
Page 163	3	Alligator Risks	The risk that a given product will [redacted] product.
Page 94	4	Alignment	Alignment relates to the extent to which a company's management, shareholders, employees, [redacted] employees and investors should largely have similar incentives.
Page 333	5	Analog / Antilog Analysis	[redacted] requires that a business model be contrasted with a business model that was ultimately successful.
Page 65	6	Appropriability	The ability to monetize [redacted]
Webinar	7	Artificial Air Cover	This occurs when a business plan's vulnerabilities may be occluded by [redacted]
Webinar	8	Asset Inflation Misdirection	In some cases, the value of a class of assets might appreciate very rapidly but not because [redacted] might be looking for asset protection, not income.
Page 152	9	Babysitter Phenomenon	Service providers [redacted] themselves of the limited capacity that such service providers have.
Webinar	10	Backward Integration Risk	Backward Integration Risk occurs [redacted] services further back in the supply chain.
Page 119	11	Bottlenecks	Bottlenecks, or chokepoints, ar [redacted] or where required expertise is limited.
Page 177	12	Business Model Fragility	This term is relatively self-explanatory. In general, it represents the risk that an [redacted] the business.

Source	Factor No.	Business Model Validation Factor	Definition
Page 129	13	Business Model Leverage	One permutation of Business Model Leverage is the disproportionate impact that [redacted]
Page 165	14	Business Model Portability	The demonstration of a given business [redacted] variety of customer segments.
Webinar	15	Buy Locally Mandates	This term is relatively self-explanatory. In general, [redacted] to penetrate markets with such mandates.
Page 171	16	Capacity Head Fakes	Capacity Head Fakes occur when the perceived production capacity is [redacted] schedules and the like.
Webinar	17	Capacity Smoothing	In capital intensive industries, as well as in industries where customers demand second [redacted] they are less exposed to carrying capital intense operations during industry troughs.
Page 79	18	Cascading Risks	Cascading Risks [redacted] ncreases the likelihood that other industry players will also fail.
Webinar	19	Cash Vaporization	Cash Vaporization occurs when employees handling cash dilute the product sold [redacted] However, the proprietor would not suspect that anything untoward is taking place.
Webinar	20	Centrifugal Diffusion	Centrifugal Diffusion occurs when a company's focus or marketing [redacted]
Webinar	21	Channel Conflicts	Channel Conflicts occur [redacted] istributors, Internet ordering and the like.
Webinar	22	Channel Stuffing	Channel Stuffing [redacted] goods than the distributors believe they can sell in the immediate future.
Page 175	23	Chicken-and-Egg Conundrum	The Chicken-and-Egg Conundrum occurs when the commercial success of one [redacted] product.
Page 173	24	Circumventability	Circumventability refers to the risk that [redacted] connecting service providers with customers.

Source	Factor No.	Business Model Validation Factor	Definition
Webinar	25	Coin Avalanche Fallacy	Coin Avalanche Fallacy is [redacted] render the company profitable.
Webinar	26	Commodity Leverage	Positive Commodity Leverage is [redacted] hen its commodity prices rise but must reduce its prices when its commodity prices fall.
Webinar	27	Confidence Bloatedness	Confidence Bloatedness [redacted] Analysts too often overweight managerial confidence.
Webinar	28	Conflating Industry Dynamics and Product Demand	This occurs when a [redacted] that the weakness in demand is product or company specific.
Webinar	29	Conscious Laundering	Conscious Laundering occurs when a company is run for [redacted] a profit.
Webinar	30	Contingent Liability Analysis	This is an assessment of the [redacted] ctions that it has already undertaken.
Webinar	31	Copernicanism	Copernicanism is the notion that the [redacted] managers into thinking that their efforts are irrelevant.
Webinar	32	Culture Clash	Culture Clash refers to culture [redacted] extrapolation.
Webinar	33	Deals with the Devil	Deals with the Devil refer to relying [redacted]
Page 91	34	Dead Zone Analysis	Products that have low price [redacted] as well as to conduct canvas marketing through broad media channels.
Webinar	35	Delusion of Relative Performance	Generating impressive [redacted] such improving performance.
Webinar	36	Delusion of Single Explanations	It is illogical to believe that the fortunes of [redacted]
Webinar	37	Demand Head Fakes	Demand Head Fakes [redacted] that will soon reduce the availability of a given product.

Source	Factor No.	Business Model Validation Factor	Definition
Webinar	38	Diffusion of Stakeholder Analysis	Companies that [redacted] support for policies that benefit those companies.
Page 90	39	Distributor Leverage	Distributors that have [redacted] for the use of their distribution channels have leverage over their customers.
Webinar	40	Dividend Straightjacket	Companies that pay large dividends (relative to their cash flow) are largely [redacted] to determine how well a company is performing.
Webinar	41	Dogma of Hardness	Management teams that are overly [redacted] their employees.
Webinar	42	Double Barrel Targeting	Targeting potential customers [redacted]
Webinar	43	Dot Disconnectedness	Dot Disconnectedness occurs when [redacted] thesis.
Webinar	44	Dumping	The issue here is whether the [redacted] heir wares in the local markets.
Webinar	45	Edifice Complex	Companies that embark on building new headquarters often falter. Such initiatives are [redacted] Further, moving a company's [redacted]
Webinar	46	Error of Egocentrism	Egocentrism occurs when [redacted] performance of a subject company.
Page 43	47	Elasticity of the Definition of Revenue	Some companies stretch the definition of revenue, [redacted]
Webinar	48	Endowment Effect	The longer one holds an asset, or the greater [redacted] one attaches to such asset. The expectations of such a seller may not parallel those of ready buyers.
Webinar	49	Excess Elixir	Some companies believe that [redacted] businesses often proves to be detrimental.
Webinar	50	Exit Alignment Analysis	Companies that [redacted] ikely acquirers.

Source	Factor No.	Business Model Validation Factor	Definition
Webinar	51	First Mover vs. First-Entry Failure	The issue here is that not all [redacted] their first mover advantages. Fast followers benefit from learning from the mistakes of first movers.
Webinar	52	Footnote Fallacy	The Footnote Fallacy [redacted] given short-shrift.
Webinar	53	Forward Integration Risk	Forward Integration Risk [redacted] products and services closer to the customer.
Page 177	54	Fragility Mitigation	This refers to steps a company with a fragile business model [redacted]
Webinar	55	Free Lunch Paradigm	This is a niche metric. In the classical sense, [redacted] off of another company's investments, such as by recruiting their well-trained employees.
Webinar	56	Full Product Line Mandate	In some industries, business customers expect [redacted] developing a full product line may not lie within the core competency for the vendor and is expensive.
Webinar	57	Gambler's Fallacy	Gambler's Fallacy is the mistaken belief that a string of losses will [redacted]
Webinar	58	Goading Goliaths	Start-up companies that goad industry [redacted]
Webinar	59	Government Interference Risk	This represents the risk that [redacted] impact the subject business.
Webinar	60	Hail Mary	This represents scenarios where a [redacted] gamble.
Webinar	61	Handcuffed Customers	Prospective customers may [redacted] they do not want any variation to those products.
Webinar	62	Headwind Analysis	Analysis and theory are great. But sometimes it makes sense to determine whether or not [redacted] product) or negative (customers are not receptive to a given product).

Source	Factor No.	Business Model Validation Factor	Definition
Page 43	63	Heisenberg Principle	The more intense the dissection [redacted] that company.
Webinar	64	Hood Ornamentation	Hood Ornamentation refers to retaining [redacted] people do not contribute much besides their name.
Webinar	65	Iatrogenic Risks	Iatrogenic risks address the probability that the [redacted] being treated.
Page 149	66	Icarus Paradox	The Icarus Paradox surfaces when a [redacted] its customers.
Webinar	67	The Illusion of Rigorous Research	The Illusion of Rigorous Research occurs when [redacted] Often, this is done to intimidate others from challenging the conclusions.
Webinar	68	Industry Stability	Instability among the supplier [redacted] industry.
Webinar	69	Integration Risks	This term is self-explanatory in the [redacted] and acquisitions.
Webinar	70	Intensity of Rivalry	Intensity of Rivalry addresses the [redacted] given industry.
Page 34	71	Irrational Extrapolation	Irrational Extrapolation can [redacted] may influence a product's success in a new market.
Webinar	72	Just-World Hypothesis	Good things do not necessarily happen to [redacted]
Page 90	73	Lagging Infrastructure Buildout	This refers to a needed [redacted] modern infrastructure to operate properly.
Page 154	74	Las Vegas Conundrum	The Las Vegas Conundrum [redacted] is the given company's core offering.
Webinar	75	Legal Chastity Belts	Legal Chastity Belts arise when laws restrain the power of technology. For instance, software that [redacted] mployees to remain at home when they have already been scheduled to report for work.

Source	Factor No.	Business Model Validation Factor	Definition
Webinar	76	Litigation Inattention	Company-threatening litigation can [redacted] even missing one product cycle can doom a company.
Webinar	77	Litigiousness Exposure	This issue addresses the risk that a [redacted] in litigation.
Webinar	78	Lock-Up Release	When lock-ups expire and executives are able to sell their shares, such executives may leave the [redacted] career initiatives.
Webinar	79	Lucretius Problem	This refers to choosing inappropriate [redacted]
Webinar	80	Maginot Margin Line	Companies that have large market [redacted] the board, they stand to lose massive revenues.
Webinar	81	Market Penetration Analysis	Market Penetration Analysis determines the [redacted].
Page 29	82	Market Sizing Analysis	Market Sizing Analysis determines the [redacted] product volume and revenue.
Page 143	83	Market Spoilage Risks	Market spoilage [redacted] the whole industry negatively.
Webinar	84	Mavens Mirage	Mavens Mirage refers to a company highlighting its rapidly growing businesses ([redacted] revenues belong to the core business.
Webinar	85	Meandering Measurements	Measurements [redacted] of a time period may misdirect.
Webinar	86	Migration Paths	Migration Paths refer to the ability of a [redacted] adjacencies.
Webinar	87	Minimally Viable Product Boomerang	In industries such as health care and [redacted] not been adequately researched and tested.
Webinar	88	Montage Mirage	The Montage Mirage takes place when a company, [redacted] or mentions that the company is receiving.
Page 107	89	Name Suitability	An ill-fitting name can [redacted]
Page 316	90	Obvious Occlusion	What is obvious is not [redacted]

Source	Factor No.	Business Model Validation Factor	Definition
Webinar	91	Omniscient Technology Fallacy	This relates to the [redacted] technology.
Webinar	92	One-Hit Wonders	One-Hit Wonders refer to one time actions [redacted] a sales-leaseback of property.
Page 145	93	Optionality	Optionality refers to a business's [redacted] pursuits.
Webinar	94	Organizational Infidelity	Organizational Infidelity means that the [redacted] scale a business model when employees do not know to whom they are expected to report.
Page 94	95	Overalignment	Overalignment could occur when one [redacted] s when a franchisor assumes the debt of a franchisee.
Page 136	96	Pareto Paradox	There are a variety of reasons why unquestioning [redacted] company.
Page 187	97	Performance Suppression	Performance Suppression occurs when a [redacted] r the like.
Page 160	98	Platform Dependence	Platform Dependence occurs when a company heavily relies on other companies to furnish the necessary infrastructure for the former company to operate.
Page 160	99	Platform Shifting Risks	Platform Shifting Risks occur when the [redacted] significant changes.
Webinar	100	Precedential Value of Management	The issue here is to be careful [redacted] erformance since management has limited control over its fortunes.
Webinar	101	Press Release Pumping	Companies that try to inflate their stature in the eyes of investors often promiscuously issue press releases [redacted] that are true but are a somewhat misleading.
Page 56	102	Price Elasticity	Price Elasticity means that [redacted] eans that customers will continue purchasing products even though prices are rising.
Webinar	103	Price Halo	Some companies sell selected [redacted] or its reasonable pricing.

Source	Factor No.	Business Model Validation Factor	Definition
Webinar	104	Price Positioning Analysis	Price Positioning Analysis [redacted] as well as in relation to the targeted customers' affordability and perceptions of value.
Webinar	105	Pricing Straightjackets	Pricing Straightjackets occur when a manufacturer [redacted] might have wanted to offer very popular products at deep discounts so as to lure customers into their stores so that they could cross-sell.
Webinar	106	Pricing Umbrella	Pricing Umbrellas [redacted] company under review. When this happens, there is often room for companies to raise prices.
Webinar	107	Prisoner's Dilemma	The Prisoner's Dilemma occurs when a business [redacted] may be logical if the alternatives to this decision are even worse.
Webinar	108	Pivot Pageant	The Pivot Pageant occurs when [redacted] too frequently.
Webinar	109	Pyrrhic Victory	Pyrrhic victories are those were a company wins a [redacted]
Page 132	110	Quality of Testimonials	Some endorsements, reviews and [redacted] when they come from people who actually use the product in the way that the targeted customers would use the product.
Webinar	111	Range Regression	Range Regression occurs when the [redacted] the low end declines (or the contrapositive).
Webinar	112	Razor-Razor Blade Business	The Razor-Razor Blade business model [redacted] ime purchase, more inexpensively than it sells its replacement products.
Webinar	113	Rear-View Mirror Effect	The Rear-View Mirror Effect occurs when [redacted] onto the future.
Page 147	114	Real Options Potential	Real Options Potential [redacted]
Webinar	115	Regulatory Ramp Up	Regulatory Ramp Up occurs when a business [redacted] ramped up yet. When regulators grasp a new technology or industry, regulations will be put in place.
Webinar	116	Rivalry Analysis	The more intense the rivalry among competitors, [redacted] margins.

Source	Factor No.	Business Model Validation Factor	Definition
Webinar	117	Rounding Error Fallacy	Rounding Error Fallacy holds that a small problem--such a small percentage of defective products or [redacted]
Webinar	118	Sales Cycle Analysis	Sales Cycle Analysis focuses on the number [redacted] and effort to close sales.
Webinar	119	Sequence of Utilization Analysis	Businesses that make the [redacted] that neglect one or more of the total customer experience.
Webinar	120	Shreckenberg's Self-Destroying Prognosis	The correct prediction must take [redacted] respond to the prediction.
Page 182	121	Shakedown Exposure	Shakedown Exposure represents [redacted] unnecessary services, or even paying legitimate employees and vendors above market rates.
Webinar	122	Shiny Object Syndrome	The Shiny Object Syndrome occurs when [redacted] new initiatives.
Webinar	123	Signal-to-Noise Skewedness	Companies may become passive [redacted] gambits.
Page 182	124	Social Media Shakedown	Publicly-traded [redacted] ctive social media users are exposed to being pressured into making concessions that they may rather not make.
Webinar	125	Stoplight Analysis	Despite how many positive elements a [redacted] one chink in the chain can render placing a new product on the market impossible.
Page 77	126	Strategy Paradox	The more a business pursues [redacted] organization takes.
Webinar	127	Substitution Risk	Substitution Risk relates to customers [redacted] same utility.
Webinar	128	Sunk Costs Syndrome	The Sunk Costs Syndrome occurs when [redacted] even though those investments have little prospect of delivering value.
Page 85	129	Supplier Leverage	Suppliers that have unique products or face [redacted] customers.
Webinar	130	Surplus Logic	Surplus Logic occurs when many constituent [redacted] business model is not convincing.

Source	Factor No.	Business Model Validation Factor	Definition
Page 120	131	Switching Costs	Switching Costs are the costs that customers bear [redacted] are a barrier to entry. Lower switching costs can lead to the poaching of customers.
Webinar	132	Target Identifiability	Some companies (for example, those [redacted] s required, have difficulty determining who the highest value target is.
Page 169	133	Technology Overfitting	Technology Overfitting occurs when a [redacted] may not be perceived by the customers or will not be appreciated by customers.
Webinar	134	Traffic Repellant	Some traffic drivers attract the kinds o [redacted] desired by the retailer.
Webinar	135	Trans-Generational Emotional Resonance	Trans-Generational Emotional Resonance occurs [redacted] to their children.
Page 183	136	Transparency Trap	Transparency is the ability of outsiders to detect how a given company's business works, as well as to estimate, with some degree of accuracy, of [redacted] learn of the subject company's strategy.
Webinar	137	Tribal Warfare	Companies that are excessively [redacted] sinks below those of many of its products and divisions. Customers are confused.
Webinar	138	Triple Witching	When demand dramatically [redacted] hatters when supply and demand re-approach equilibrium.
Webinar	139	Unbundling	One form of unbundling risk occurs [redacted] the costs of the minutes rise, which could cause customers to become more price sensitive and use fewer minutes.
Page 158	140	Veto Diffusion	Veto diffusion means that many players [redacted]
Webinar	141	Wittgenstein's Ruler	Wittgenstein's Ruler refers to product reviews. [redacted] rather than the product reviewed.

EXHIBIT C

NOTES ON SOURCES

The sources cited on Exhibit B (Business Model Validation Definitions of Factors) relate to:

- Business Model Validation, a book written by David Wanetick, where page numbers are listed. Further information is available at www.businessmodelvalidation.com.
- A webinar on Business Model Validation produced by the Business Development Academy, where “Webinar” is cited as the source. Further information is available at http://bdacademy.com/business_model_validation.php.

Parties interested in either of the above may contact info@bdacademy.com for further details.

EXHIBIT D

GOVERNANCE AND CORPORATE STRUCTURE ANALYSIS

Governance and Structural Issues

Congruity of Corporate Domicile

Congruity of Legal Form

Congruity of Headquarter's Domicile

Complexity of Capital Structure

Insider Stakes

Existence of Activist Investors

Ownership by Hedge Funds

Rights Enjoyed by Private Equity Investors

Independence of Board of Directors

Insider Transactions

Family Members on Board

Frequency of Voting for Directors

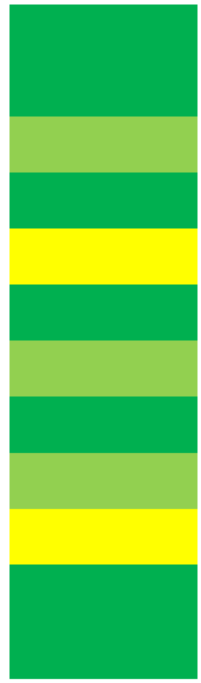

EXHIBIT E

ACCOUNTING PRACTICES ANALYSIS

Accounting Issues

Frequency of Accounting Changes

Frequency of Accounting Restatements

Frequency of Changes in Accounting Firms

Frequency of Changes in Financial Staff

Late Financial Filings with Authorities

Accounting Firms Earning Non Audit Fees

EXHIBIT F

REVENUE DRIVER ANALYSIS

Revenue Driver Analysis	
The service makes the pre-purchase review of a product or service more convenient.	
The service makes the process of purchasing a product or service less risky, more convenient or more rewarding.	
The service reduces the upfront costs of purchasing the product.	
The service makes the installation of a product more convenient.	
The product enables customers to make more money.	
The product enables customers to save money.	
The product enables businesses to lose less money.	
The product or service intimidates adversaries.	
The product saves customers time and enhances customer convenience.	
The product reduces risk for the customer.	
The product enhances the customer's image.	
The products or services remove stigmas.	
The product extends the life—and enhances the functionality—of a previously purchased product.	
The service renders the disposal of a previously purchased product less risky, more convenient and maybe even enhances the image of the disposer.	
New uses for existing products are discovered.	

It is acknowledged that some issues do not have corresponding ratings.

EXHIBIT G

QUALITY OF REVENUE ANALYSIS

Quality of Revenue Analysis	
Fertilization	
Harvest	
Slash & Burn	
Revenue Cleanliness	
Referenceable Customers	
Annuity	
Customer Prices (In)Sensitivity	
Rapidity of Collections	
Customer Base Diversity	
Demand Headfake Risk	
Corresponding Liabilities	
Iatrogenic Risk	
Cost of Revenue	

EXHIBIT H

RETAIL CHANNEL CHECK ANALYSIS

Retail Channel Check Analysis

Product Displays at Retailers	
Price Mark Downs	
Incidence of Clearance	
Inventories on eBay	
Price Direction on eBay	

EXHIBIT I

DIFFUSIONS OF INNOVATIONS THEORY

Diffusions of Innovations Theory	
Relative Advantage	
Visibility	
Trialability	
Simplicity	
Compatability	
Degree of Conformist Culture	
Industry Culture	
Licensure Asphyxiation	

EXHIBIT J

STOPLIGHT ANALYSIS

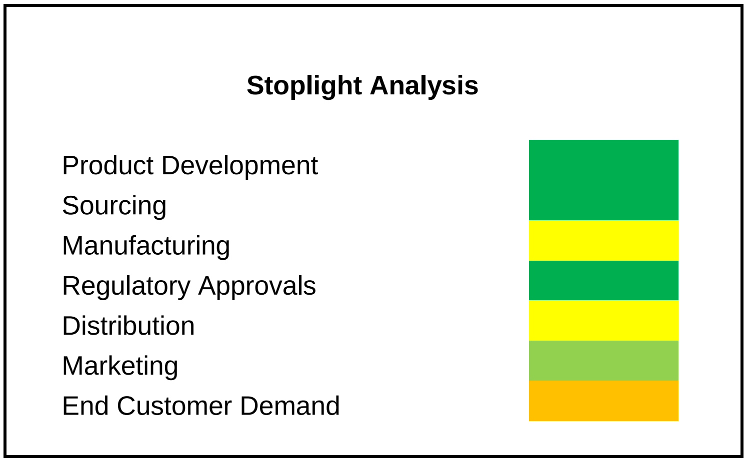

EXHIBIT K

COMPETITION / VALUE-ADDED MATRIX

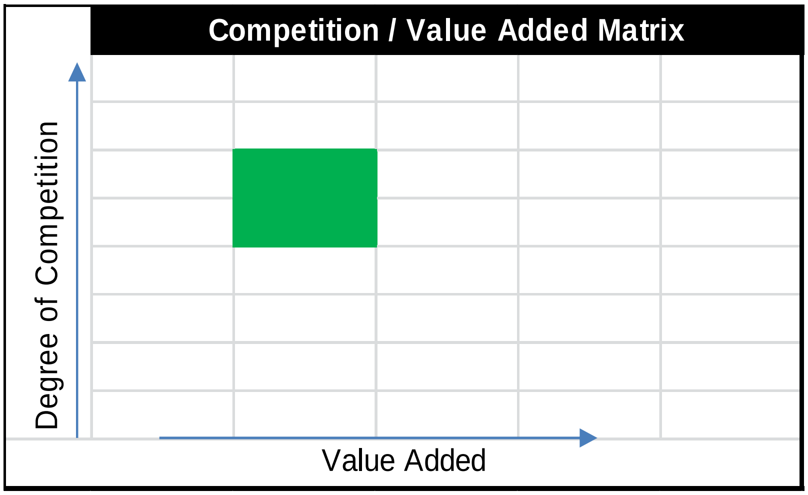

EXHIBIT L

RISK EXPOSURE CALCULATOR

The Risk Exposure Calculator		
Growth	Pressures for Performance	3
	Rate of Expansion	3
	Inexperience of Key Employees	2
	Growth Score	**8**
Culture	Rewards for Entrepreneurial Risk Taking	3
	Executive Resistance to Bad News	1
	Level of Internal Competition	2
	Culture Score	**6**
Information Management	Transaction Complexity and Velocity	2
	Gaps in Diagnostic Performance Measures	3
	Degree of Decentralized Decision Making	3
	IT Score	**8**
	Total Score	22

EXHIBIT M

PRELIMINARY PATENT COVERAGE ANALYSIS

Preliminary Patent Coverage Analysis	
Percent of Research Investments Becoming Patent Applications	
Designated Inventions Patents (pursued)	
Appropriate Regions Covered by Patents (pursued)	
Assignments	
Joint-Ownership Risk	
Reliance on Federal Funding	
Indemnifications on Products Acquired from Suppliers	
Alignment of Pivoting and Patents	
Freedom of Operation Opinion Letters	
Remaining Patent Life	
Payment of Maintenance Fees	
Ability to Detect Infringement	
Efforts to Detect Infringement	
Rigor of Prior Art Searches	
Forward Citation Analysis	
Backward Citation Analysis	
Tightness of Supply Chains (using Forward Citation Analysis)	
Prosecution History	
Sustainability in Opposition	
History of Sustaining Invalidity Attacks	
Patent Examiner Analysis	
Patent Lawyer Analysis	

Note: A thorough review of the Company's patent portfolio is beyond the scope of this engagement. The above was prepared based on cursory review of some of the company's patents and by way of discussion with Management.

EXHIBIT N

PRELIMINARY TRADE SECRET COVERAGE ANALYSIS

Preliminary Trade Secret Coverage Analysis
Confidentiality Agreements with Employees
Confidentiality Agreements with Consultants
Confidentiality Agreements with Suppliers
Meetings with Employees Regarding Maintaining Confidentiality
Production of Privileged Documents
Document Stamping and Marking
Sign In / Sign Out Procedures for Confidential Documents
Document Shredding Policies
Siloing of Privileged Information
Policies Regarding Disclosure on Website
Policies Regarding Speaking with the Press
Policies Regarding Writing Articles
Policies Regarding Speaking at Conferences
Controlled Access to Privileged Rooms and Computers
Policies with Regard to Facilities Tours
Visitor Entry, Peripherals and Escort Procedures
Exposure to Government Disclosure
Propensity to Abandon Published Patent Applications
Sponsorship of Code Jam Sessions
Exposure to Outsourcing of Manufacturing
Exposure to Foreign Ownership
Exposure to Inside / Outside Auditors
Exposure to Foreign Travel by Employees
Exposure to Rotating Students
Trade Secret Protection Efforts Taken by Key Partners (Law Firms)
Monitoring of Employee Social Media
Password Protection Measures
Technologies Employed to Protect Trade Secrets
Exposure to Employees with Exploitable Vulnerabilities

Note: A thorough review of the Company's trade secrets is beyond the scope of this engagement. The above was prepared based on cursory review of some of the company's trade secrets and by way of discussion with Management.

APPENDIX A

EXPLANTION OF RANKINGS

Every business model—even the most promising—has its own inherent set of risks and concerns. Below is a delineation of how we assess the overall merits of business models.

Logo	Business Model Ranking	Business Model Validated
Business Model Validation Platinum Stamp of Certification	Best Rating	Yes
Business Model Validation Double Gold Stamp of Certification	Second Best Rating	Yes
Business Model Validation Gold Stamp of Certification	Satisfactory Rating	Yes
Business Model Validation Silver Stamp of Certification	Rating Reflects Correctable Challenges	No
Business Model Validation Not Rated Stamp of Certification	Business Model is Not Validated	No

APPENDIX B

RESEARCH METHODOLOGY

For more than 20 years, we have been valuing and assessing companies. We have analyzed and reviewed hundreds of business models and business / strategic plans. From this experience—and as can be reviewed on the pages that above—we have compiled a list of hundreds of questions that address many facets of business models.

It is with these and many other considerations in mind, that we begin assessing the subject business model by reviewing the relevant business plans, white papers, presentations, brochures, spec sheets and accompanying financial models. The review of these documents is complemented by research into the relevant industry. This industry research is both primary (e.g. interviews with industry experts such as former industry executives, trade association representatives, industry reporters, etc.) as well as secondary (e.g. Internet research and the review of other analyst reports.) Then, we interview the management team. We synthesize our review of company documents, our independent research as well as insight gleaned from interviews with management. Ideally (and to the extent practical) we like to conduct live, on-site interviews with CEOs and CFOs as well as Directors of Business Development, Research & Development, Manufacturing, and Marketing.

In determining whether the subject business model is deserving of the Business Model Validation imprimatur, we employee both analytical assessments and subjective reasoning. We believe that penetrating business models requires data driven analysis as well as the mental dexterity that results from many years of experience reviewing business challenges throughout a diverse array of industries.

When reviewing business models, we dedicate both hemispheres of our brains. Our analysis is a unique combination of calculation and judgment.

APPENDIX C

ASSUMPTIONS AND LIMITING CONDITIONS

Information, estimates, and opinions contained in this report are obtained from sources considered reliable. We have not independently verified every piece of data delivered to us by Company management, interviews with other knowledgeable sources or other external sources. We assume no liability for such sources. Such information has been accepted as correct without further verification, and we express no opinion on that information.

This Business Model Validation is only relevant as of the date of its publication. Subsequent events have not been considered, and we have no obligation to update our report for such events and conditions.

This report should not be relied upon for investment considerations. Those wishing to invest in the company covered in this report should conduct their own research and/or retain their own investment advisors. No liability for adverse consequences of investing in, or conducting other business with the subject company, is assumed by Business Model Validation or the analyst (s) that prepared this report.

This report was prepared under the direction of David Wanetick. Neither the professionals who worked on this engagement nor the partners of Business Model Validation or IncreMental Advantage, LLC have any present or contemplated future interest in SodaStream or any interest that might prevent us from performing an unbiased valuation. Our compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in, or the use of, this report.

APPENDIX D

CERTIFICATIONS

I certify that, to the best of my knowledge and belief:

1. The statements of fact in this report are true and correct.

2. The analyses, opinions, and conclusions were developed, and this report was prepared in conformity with the teachings of the Business Model Validation course offered through the Business Development Academy.
.
3. No one provided significant professional assistance to the person signing this report.

4. I had, do not have, and do not anticipate having any financial interest in SodaStream.

APPENDIX E

SOURCES OF INFORMATION RELIED UPON IN THIS VALUATION

External Documents and Sources

1. [redacted]

    i. [redacted]

    ii. [redacted]

2. Information made publicly-available by SodaStream

3. Internet searches

4. Visit to retailers that sell SodaStream products and discussions with selected retail store representatives

5. Course materials used in the Business Model Validation training program

APPENDIX F

CURRICULUM VITAE

DAVID WANETICK

Current Positions

IncreMental Advantage, LLC, Managing Director, Princeton, NJ Since 2005, David Wanetick has been a Managing Director at IncreMental Advantage, a valuation firm with an expertise in valuing intangible assets and emerging technologies. He is involved in all of the firm's valuation and business modeling. Clients include law firms; emerging, mid- and large-sized companies; technology transfer offices; inventors; venture capitalists and private equity firms. Valuations are primarily conducted in the context of negotiating licensing agreements, mergers and acquisitions and litigation support.

Business Model Validation Since 2009, David has been the CEO of Business Model Validation, a firm which develops and reviews sophisticated business models for purposes of raising capital and capital budget allocation.

Certified Patent Valuation Analyst Since 2008, David has developed the curriculum and has run dozens of the courses required for applicants to earn their designations as Certified Patent Valuation Analysts. He works closely with other CPVA board members in terms of updating the course materials and updating the related exam.

Patent Fairness Opinions Since 2011, David has begun formalizing and standardizing the preparation of patent fairness opinions that are used in a wide array of patent-related transactions all over the world.

Previous Positions

Earlier in his career, David was a securities research analyst and was employed by Merrill Lynch, First Albany and wrote his own newsletter, Market Maneuvers. David was the senior analyst for Gateway Memorandums / the Wall Street Transcript for five years.

Previous Valuations

Among the specific technologies, and related patents, and companies that David Wanetick valued are semiconductor equipment; optical inspection; micro electrical mechanical systems; keyboard, video, mouse patents; SIM card technologies; Internet applications; water separation technologies; water carbonation technologies; RF communication links; Internet traffic control technologies; payment processing technologies; Internet search applications; biometrics; electro-magnetic pulse inspection equipment; orthogonal frequency division multiplexing; robotic lawnmowers; immune system biologicals; Bluetooth applications; defibrillators; ocean thermal energy conversion technologies; oil services technologies; loyalty marketing technologies; catalytic heating; trademarks related to specialty apparel; wireless applications; software for schools; audio cables; glucose monitoring test strips; solar power patents; hydraulic fracturing; grain measurement devices; electrical current management; adaptive optics; stem cells; manganese battery technology; database software; cement process; food processing innovations and personal hygiene products.

Publications – Books

David is the author of the smash hit, **Business Model Validation**. This unique book reveals David's groundbreaking analysis into emerging business models such as those of on-demand taxis, home sharing, Bitcoin, music streaming, drones, crowdfunding, marijuana dispensaries, electronic cigarettes, flash sales operators, freemium businesses, electric vehicles, massive open online course operators (MOOCs), cloud storage and 3-D printers.

David is the author of three other books that have achieved world-wide acclaim, including the only two books that unveil Industry Analysis. These books include *Bound for Growth: How to Use Winning Stocks Using Industry Analysis* (1997) and *Hot Sector Investing: How to Profit from Over 100 Emerging Opportunities* (1999). He developed a textbook for his course entitled *Valuation of Emerging Technologies*.

Publications – Articles

Some of the recent articles written by David Wanetick include:

- Valuing Trade Secrets
- Valuation of Patent Applications with Binomial Distribution
- Patent Valuation and Baseball Players
- Costs of Capital - You Can Love More than Just One
- What is the Real Value in Real Options?
- Residual Knowledge Agreements and Neural Prosthetics
- Determining Patent Value Through Claims Analysis
- The Value of Valuing Patents
- How Patent Vulnerability Impacts Valuation
- Strategic Implications of Trade Secrets
- Opening the Kimono on Contract Valuation
- How Sun Tzu Would Outflank Patent Trolls
- The Value of Withheld Indemnifications
- Assessing the Probability of Obtaining a License
- Strategies for Negotiating Licenses
- Winning Negotiations Before They Begin

In addition to dozens of blogs that have published David Wanetick's work, his articles have appeared in:

- Les Nouvelles, published by the Licensing Executive Society
- Intellectual Asset Management
- Patent World
- CEO Magazine
- The CPA Journal
- Licensing Journal
- Willamette Insights
- Valuation Strategies
- Valuation Examiner
- Business Valuation Update
- IP Frontline
- IP Litigator
- Technology Transfer Tactics
- Inventor's Digest
- Private Equity Manager
- Research & Development Magazine
- The Canadian Institute of Chartered Business Valuators

Lecturing

David teaches the following courses through The Business Development Academy:

- Valuation of Emerging Technologies
- Negotiating License Agreements for Maximum Returns
- Financial Modeling and Projections
- Fundamentals of Business Valuation

These courses have been delivered all over the United States (New York City, Princeton, Philadelphia, Boston, Washington DC, Atlanta, Raleigh, Dallas, Miami, Austin, Chicago, Silicon Valley, San Francisco, Seattle, San Diego), in the United Kingdom, Belgium, Germany, Spain, the Netherlands, Singapore, Kuwait, Malaysia, India, China, Hong Kong and Israel. Attendees from all over the world have participated via webinar.

Representatives from more than 375 Fortune 500 companies have attended his programs. In addition, he has lectured on the above issues before many organizations and corporations such as the Canadian National Research Council; Houston Intellectual Property Lawyers Association; The Northeast Technology Council; The New York Society of Security Analysts; The Toronto Society of Security Analysts; The Montreal Society of Security Analysts; The San Francisco Financial Analysts Society; and, The Boeing Company.

From 1997 – 2004, David taught Industry Analysis at The New York Institute of Finance and at The New York Society of Securities Analysts.

Education

David received his undergraduate degree from Bucknell University in December 1988, where he double majored in economics and political science. He pursued a Master's of Science Degree in Taxation from Pace University from 1989 to 1990.

Certifications

David Wanetick earned his standing as an Accredited Valuation Analyst with the National Association of Certified Valuation Analysts. He is a Certified Patent Valuation Analyst and a Certified Emerging Company Analyst.

CONTACT INFORMATION

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