

LESSONS FROM THE TRENCHES:
VALUE INVESTING,
ENTREPRENEURSHIP & LIFE

SODASTREAM: TUNING OUT THE NOISE AND HAVING THE COURAGE OF YOUR CONVICTIONS

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OVERVIEW OF SODASTREAM

- SodaStream manufactures home beverage carbonation systems, which enable consumers to easily transform ordinary tap water instantly into carbonated soft drinks and sparkling water



Soda makers: + Carbonating bottles: + CO2 cylinders: + Flavors:

- Large variety of designs, price points
- Durable, easy to use
- Reusable
- Hermetically-sealing cap
- BPA-free
- Glass or plastic
- 60 or 130 liters
- Consumers exchange empty cylinders for full ones at retail locations or home delivery via internet/phone
- Full range of regular, diet, "All-Natural," mixers, energy
- 2/3 less sugar and carbs than leading brands; no high-fructose corn syrup

AFTER I PITCHED IT TWICE PUBLICLY IN 2014, THE STOCK CONTINUED TO FALL



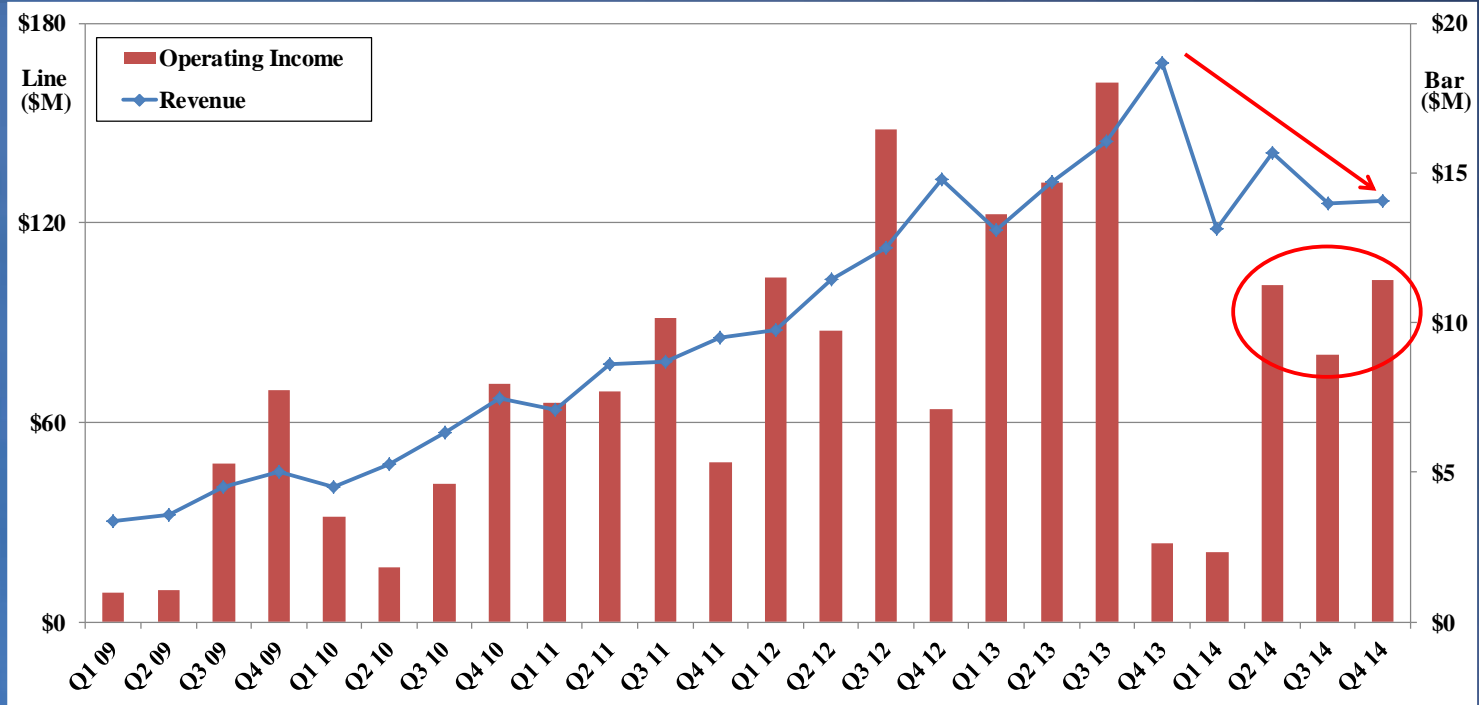
WHAT TO DO WHEN YOU'VE CAUGHT A FALLING KNIFE?

- Re-do your analysis with an open mind
- Tune out the noise
- Seek disconfirming information, analyses and opinions
- Pretend that you don't own the stock and ask yourself if you'd buy it today
- If you fear you've made a mistake, maybe sell a little and see how you feel a week or month later
- But if you're convinced that your 50-cent dollar is now a 25-cent dollar, *buy more!*

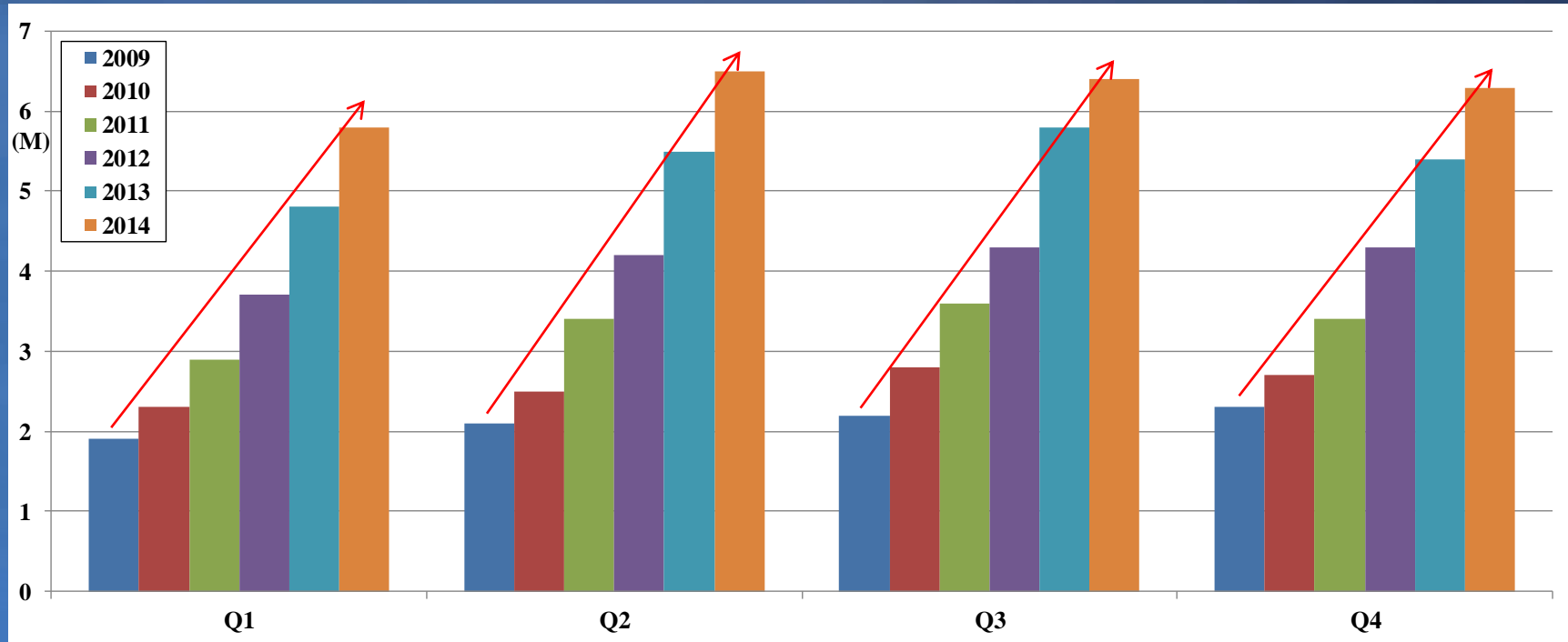


I TUNED OUT THE NOISE AND FOCUSED ON THE FINANCIALS

REVENUES WERE DOWN, BUT PROFITS REMAINED HEALTHY



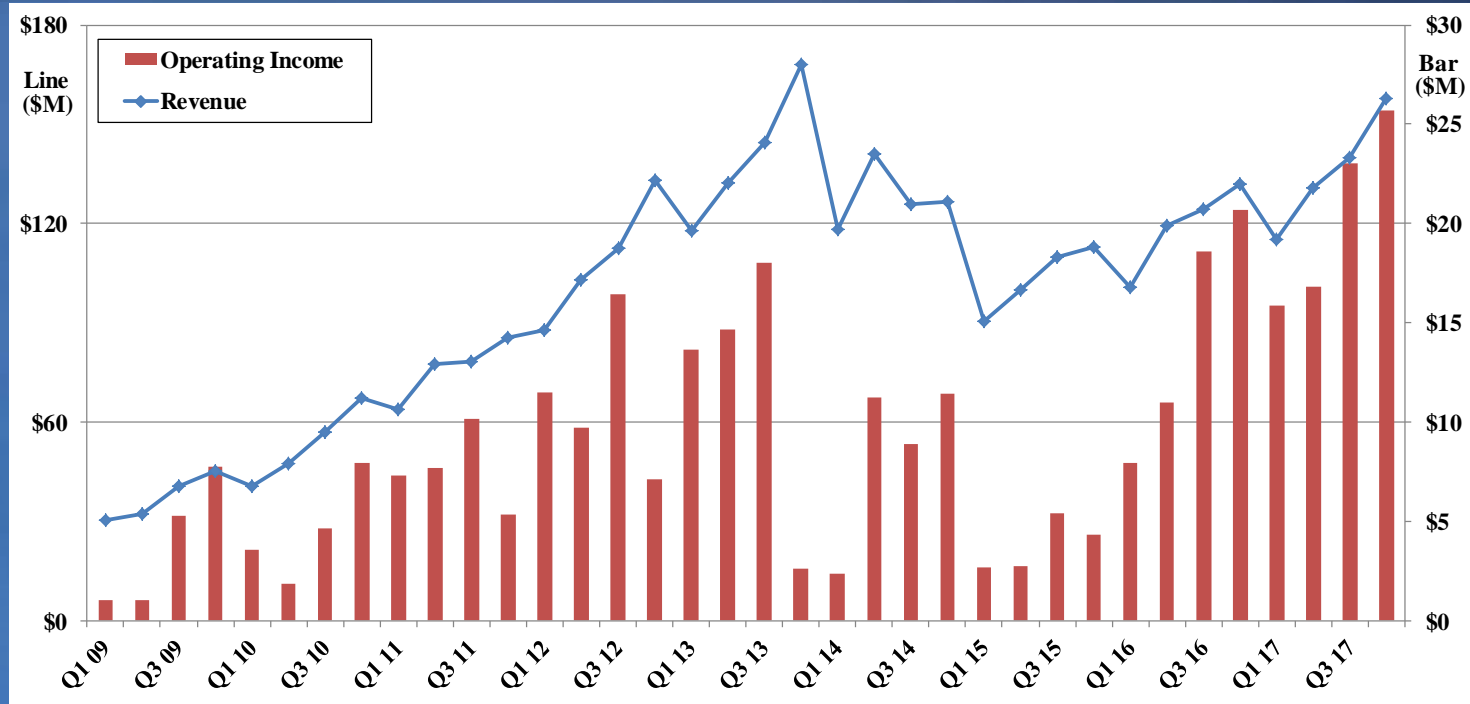
A KEY METRIC OF THE COMPANY'S HEALTH, CO2 REFILLS, WERE HEALTHY



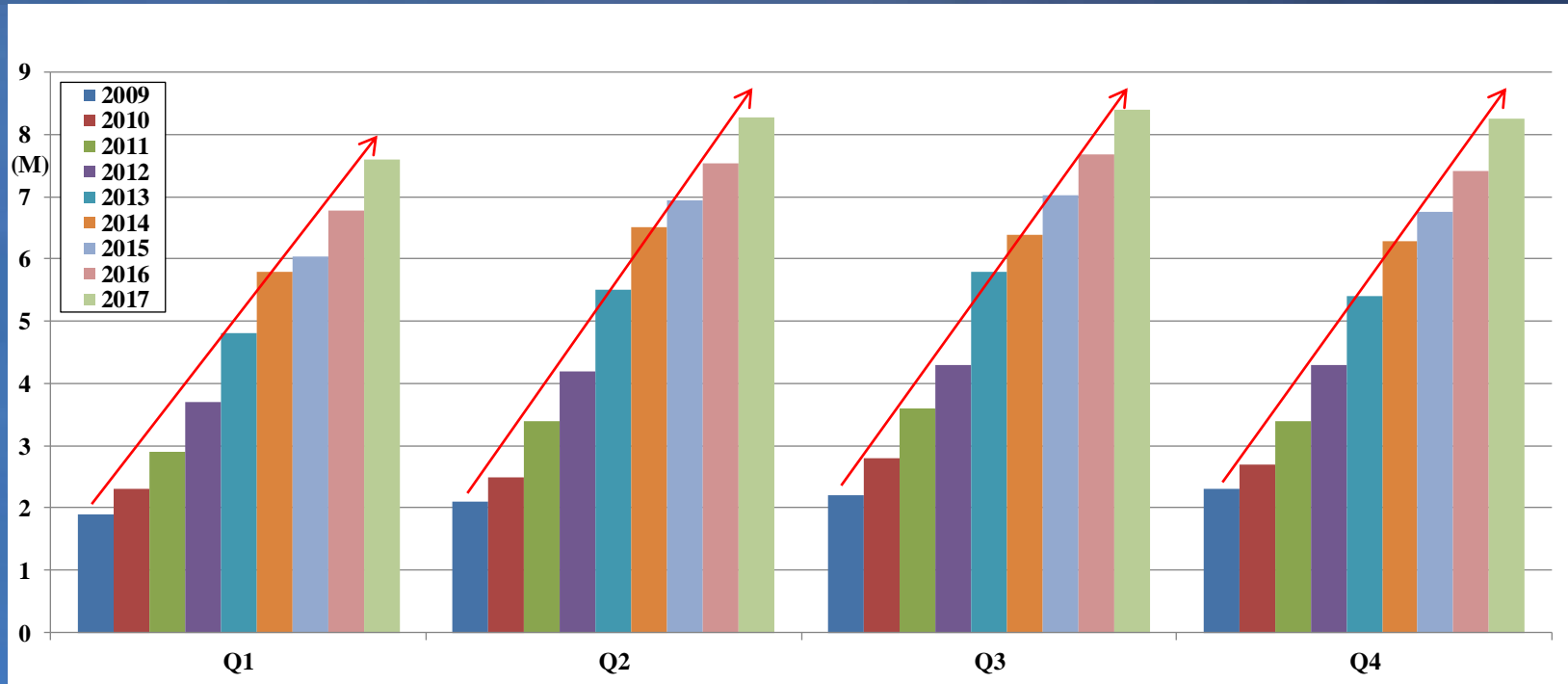
SO I BOUGHT MORE ON THE WAY DOWN, AND WAS RICHLY REWARDED



REVENUES AND EARNINGS SOARED



CO2 REFILLS HAVE REMAINED HEALTHY



KEY LESSONS

- Deciding what to do when a stock runs against you is a far more important – and difficult – decision than the initial one to initiate the position
 - Making the wrong decision here can destroy your reputation and business (e.g., Valeant)
- Emotions are almost always swirling, especially if you've publicly pitched the stock
 - Your value investing instincts are that if you liked it at the price you bought it, you should like it more now that it's cheaper
 - But emotionally you want to sell, end the pain and never think about this terrible stock again
 - There's also a powerful feeling of wanting to wait until it gets back to the price you bought it before selling
- You must tune out the noise and think clearly and rationally
- Focus on the fundamentals: if earnings rebound, the stock will as well
- Doing nothing may be the best option, but you also must have the courage to admit a mistake and get out...or know that you haven't made a mistake and buy more