RECOMMENDATION
HOLD+

Dr Pepper Snapple Group, Inc.

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The analysts covering this company do not own its stock at the time this report is submitted.

Research as of 15 Nov 2011
Estimates as of 15 Nov 2011
Pricing data as of 15 Nov 2011
Rating as of 15 Nov 2011

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ANALYSTS' PERSPECTIVE

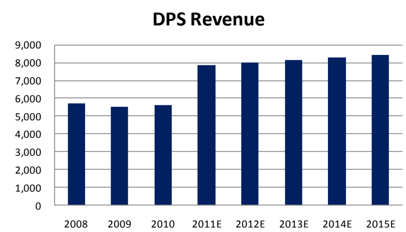
We recommend a hold with a positive outlook for Dr Pepper Snapple Group, Inc. Though the company has only existed as an independent, public entity since May 2008, its growth strategy and resulting performance is that of a mature, stable company.

KEY CONSIDERATIONS

- Management is committed to growing revenue via product innovation and distribution channels. Its growth approach is gradual, leaving room for more aggressive growth in the future. Our positive outlook stems from the opportunity to add a management premium if the company changes its growth strategy (although at this time we do not anticipate a strategy shift).
- Management has been keeping major margin input costs – commodities, marketing and distribution – in check. If the company chooses to grow more rapidly, more significant investment in marketing and possibly distribution will be necessary. (While we understand the rationale behind management's recent shift from focusing on a national marketing strategy to a localized one, we worry about the incremental costs and discontinuity of brands this could entail.)
- We considered two models. Treating the company as a mature firm, a dividend discounting model shows that the company is appropriately valued by the market giving us a hold recommendation. On the other hand the company is young and has visible opportunities for growth. From this perspective, analyzing the company with an APV model shows that there is some upside value to be realized, thus giving us a positive outlook recommendation.

MAJOR STATISTICS

Ticker (NYSE)	**DPS**
Market capitalization	**$7.87B**
Shares outstanding	**214.38MM**
Last closing price	**$36.72**
Price target	**$39.16**
52 week range	**$33.68 - 43.13**
Credit rating (S&P)	**BBB**
Dividend and Yield	**$1.28 (3.50%)**



Company Summary

Dr Pepper Snapple Group, Inc. (NYSE: DPS) manufactures and distributes flavored carbonated soft drinks (CSDs) and non-carbonated beverages (NCBs) in the United States, Canada and Mexico. The company was founded in 2007 and began operating independently of Cadbury PLC in 2008. Over fifty brand names comprise the company's product portfolio. Its major CSD brand names include Dr Pepper, Crush, Canada Dry, Sunkist, Schweppes, 7UP, A&W and Diet Rite. It's NCBs, including ready-to-drink teas, juices and mixers, include the brands Snapple, Hawaiian Punch, Mott's, Yoo-Hoo, Clamato, AriZona, FIJI, Welch's and Country Time. Dr Pepper Snapple Group's customers are bottlers, distributors and retailers.

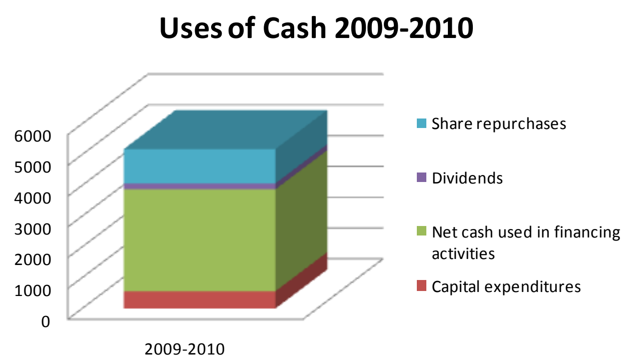
Strategy at a Glance
"DPS's strategy is unchanged, and it's working." – 2010 Annual Report

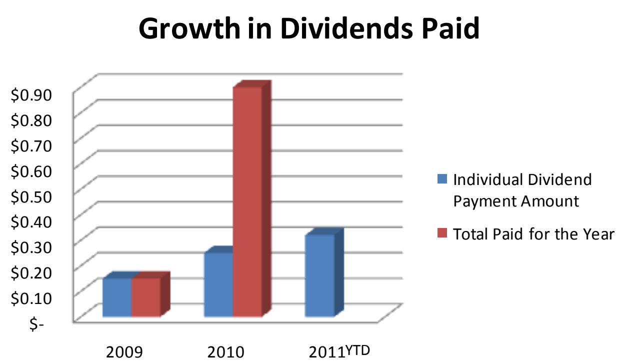
Dr Pepper Snapple Group is a stable non-alcoholic beverage company. It has generated consistent revenues, although recently it was only able to accomplish this by offsetting increasing input costs by raising product prices.

	2009	2010	2011YTD
Revenue	$ 5,531	$ 5,636	$ 4,442
EBITDA	$ 1,235	$ 1,230	$ 920
Diluted EPS	$ 1.97	$ 2.40	$ 1.98

Source: DPS Public Filings

With an integrated business model, Dr Pepper Snapple was responsible for the manufacturing and/or distribution of approximately 45 percent of its total United States sales during 2010. As of year-end 2010, there were 18 manufacturing and 174 distribution centers in the United States. For the remainder of its sales, it relies on a small number of licensing partnerships, particularly with The Coca-Cola Company and PepsiCo, Inc. According to Beverage Digest, the company holds the #1 spot by volume in the flavored CSD space. Though the company is a leader in Canada and Mexico's beverage markets, management has not indicated any impetus to further expand internationally. Rather, management has stated its plan is "squarely focused on organic growth only." To do this the firm's strategy relies on enhancing sales of key brands, investing in brand extensions, developing new, high-growth third party distribution agreements and increasing high margin sales in convenience stores, independent retailers and vending machines. Overall, sales and operating profit remain quite flat, while earnings per share have been increasing year over year. Management's major focus appears to be toward maintaining stable revenues in order to drive increasing share repurchases and dividends.





Dr Pepper Snapple Group is a unique valuation candidate insofar as it has only existed as a public, independent entity since mid-2008. We identified five particular factors for top and bottom line impact: From a revenue perspective, product innovation and channels are opportunities for growth. From a margin perspective, commodity costs, marketing and distribution may impact net revenues. Despite these management foci, we are unconvinced that substantial growth will be realized. Each of these five factors is considered here.

Revenue Factors

Product Innovation

"We're meeting consumer needs with innovation that is both relevant and delivers value." – Q1 2010 Results Earnings Call

Dr Pepper Snapple Group's portfolio includes over 50 brands. 75 percent of the company's sales volume comes from brands that are leaders in their respective brand categories. These include:

- Dr Pepper (#1 in its flavor category and #2 overall flavored CSD in the U.S.)
- Snapple (leader in ready-to-drink teas)
- 7UP (#2 lemon-lime CSD in the U.S.)
- A&W (#1 root beer in the U.S.)
- Canada Dry (#1 ginger ale in the U.S. and Canada)
- Clamato (A leading spicy tomato juice brand in the U.S., Canada and Mexico)
- Hawaiian Punch (#1 fruit punch brand in the U.S.)
- Mott's (#1 apple juice and #1 apple sauce brand in the U.S.)
- Mr and Mrs T, Rose's & Margaritaville (#1 portfolio of mixer brands in the U.S.)
  Penafiel (#1 carbonated mineral water brand in Mexico)
- Schweppes (#2 ginger ale in the U.S. and Canada)
- Squirt (#1 grapefruit CSD in the U.S. and #2 grapefruit CSD in Mexico)
- Sunkist (#1 orange CSD in the U.S.)

Dr Pepper case sales volume increased 3 percent during 2010 while Snapple saw an increase of 10 percent. Mott's grew 3 percent while Hawaiian punch grew 6 percent. Sale increases of Canada Dry were offset by decreases in Sunkist, 7UP and A&W. Overall, volume among these four brands was down 1 percent in 2010.

To maintain consumer engagement, Dr Pepper Snapple has been watching consumer packaging preferences. Management has remarked that it is experimenting with 12 pack, 18 packs, 20 packs and 0.5-liters. It is aware that consumers are responding to price increases and therefore is trying "to get where the big price difference doesn't just stand out as much." For example, part of Snapple's growth was realized not through brand innovation, but through packaging. With 6 packs, the company gained in Snapple sales through grocery channels during 2011.

In terms of new products, Dr Pepper Snapple Group has identified that 31 percent of its 2011 innovation pipeline is in healthier, more nutritious products. Its efforts include new formulations of two staple brands: Dr Pepper and Snapple. Introduced in October 2011, Dr Pepper Ten has only 10 calories per 8 ounce serving. Dr Pepper has been leading per-capita consumption in the firm's beverage portfolio. Of the 600,000 stores selling fountain drinks in the United States, regular Dr Pepper is sold in half of them. A brand extension, Dr Pepper Ten, is being targeted to 25 to 34 year-old male consumers. Social media coverage is driving the marketing campaign. A new Snapple formula reduces calories in some flavors up to 10 percent. Snapple Half and Half (a lemonade iced tea) will be introduced in early 2012.

Regarding management's emphasis on Dr Pepper Ten as its primary innovation focus, we attempted to forecast Dr Pepper Snapple's performance in light of other companies that placed similar emphasis on singular product rollouts. The primary target for this analysis was Coca-Cola in light of its June 2005 release of Coke Zero (similarly targeted to calorie-minded males). While Coca-Cola did not directly break out revenues from this product alone, we attempted to compare 2005 and 2006 revenues under the most bullish of assumptions; namely that any increase in revenue from Q3 2005 through the next few quarters came from Coke Zero. Our findings were underwhelming. According to Coca-Cola's 2006 annual report, trademark Coca-Cola sales (globally) were up just 3 percent YoY; Coke Zero accounted for "nearly one third of Trademark growth in 2006." Indeed, while Coca-Cola's revenues saw a 20 percent pop from Q1 2005 – Q2 2005, the following four quarters showed an average growth of 1 percent (and a median growth of negative 5 percent). It is also extremely plausible that the Q2 2005 jump was attributable to seasonality; in 2006 the same summer quarter showed a 24 percent jump over Q1. We concluded that product innovation, at least in terms of product extensions like Dr Pepper Ten, are not likely to significantly increase Dr Pepper Snapple revenues.

KO Revenue Pre and Post Coke Zero Launch (mm)					
Q1 05	Q2 05	Q3 05	Q4 05	Q1 06	Q2 06
$5,266	**$6,310**	$6,037	$5,491	$5,226	$6,476
	20%	-4%	-9%	-5%	24%

Channels

"We're increasing our single-serve mix through continued incremental cold drink asset placements and fountain installs" – Q1 2010 Results Earnings Call

Dr Pepper Snapple Group management has identified single serve sales (and specifically fountain) as an opportunity for growth. According to the 2010 annual report, they have tasked themselves with adding an average of 35,000 incremental cold drink asset placements per year through 2013. (Note: This includes both cold vault and fountain placements.)

Cumulative Growth in DPS Fountain Installations (000s)					
	2006	2007	2008	2009	2010
Total Installations	31	58	84	136	179
Growth Rate		87%	45%	62%	32%

Within both the quick-service restaurant space (a focus channel for fountain) and the restaurant space more broadly, soda's share of beverage purchases and Dr Pepper's share of the soda space have been relatively flat over the past three to four years. What is more, on average Dr Pepper has consistently out-priced other sodas within the quick-service restaurant space. That said, as of 1H 2011 a robust 40 percent of all adults who have been to a fast-food restaurant in the past month ordered fountain sodas; 26 percent of these consumers choose their quick-service restaurant based on the fountain soda options available,[1] and if the firm continues to grow its fountain installations at the annual average 26 percent rate seen since 2006, they could be in good stead to capture a larger slice of this market. On the other hand, the extreme reliance on growth from just one channel is a point of concern. Other analysts on earnings calls have questioned the CEO about the company's volume growth. Many brands, including portfolio brand stable Dr Pepper, will see declines if fountain volume growth is taken out.

Fountain Sales Scenario Analysis - Per Valve Value			
Scenario	Cause	Incremental Revenue	Derivation
Bear Case	Growth bottoms out and DPS fails to add any new fountain valves	$0	
Base Case	DPS achieves its 5 yr historical avg 28,000 incremental Dr Pepper and Dt Dr Pepper fountain valves in each of the next 5 years	$239,870	(Price/unit reflects avg historical Dr Pepper price in QSR, grown at YTD avg inflations rate of 3.11%)*(28,000 incremental sales/yr) for the next 5 yrs, discounted at the Rf
Bull Case	DPS achieves its target 35,000 incremental cold drink asset placements/yr; all go to fountain sales	$299,838	(Price/unit reflects avg historical Dr Pepper price in QSR, grown at YTD avg inflations rate of 3.11%)*(35,000 incremental sales/yr) for the next 5 yrs, discounted at the Rf

There are limitations to the fountain sales scenario analysis. Because neither Dr Pepper Snapple, other CSD peers nor major quick-service restaurants (i.e. McDonalds) split out the sales from fountain drinks, it is difficult to discern a baseline value off of which total fountain sales might grow. What is more, there is effectively no data available

[1] Mintel 2011 Quick Serve Restaurants Report, Tables 75 and 83, Accessed 15 November 2011 at cademic.mintel.com/sinatra/oxygen_academic //display/&id=543320/displaytables/id=543320

on the potential for cannibalization in places where the firm's fountain valves are installed at the potential expense of existing bottle sales. The scenario analysis as presented implies a very basic assumption that each new valve installed represents one incremental sale at the average price of a Dr Pepper as reported by Mintel (adjusted for inflation). While it is reasonable to think that the firm will continue its growth trend of the past five years given their emphasis on building out this part of their business, there are clear limitations on this growth model insofar as they are already present in 50 percent of the country's 600,000 fountain drink-serving restaurants (and their market share of the restaurant soda sales has been relatively flat in spite of these years of growth in fountain presence). Thus, it seems that an emphasis on fountain will not drive the substantial growth hoped for by management.

Margin Factors

Commodity Prices
"To the extent we eliminate waste and reduce costs, it does certainly help us offset the headwinds of commodity inflation." – Q1 2011 Results Earnings Call

Dr Pepper Snapple Group management has a medium-term commodities hedging strategy. While currently 100 percent hedged through 2011 and approximately 50 percent hedged through Q1 2012, management has overtly stated on earnings calls that its strategy does not, and will not, include hedging out as far as 9 – 12 months. The company has a commodity policy committee tasked with managing the pricing risk of commodities less than 6 months out. Its key inputs are aluminum, corn, natural gas, apple juice and PET. At 0.52, COGS has the strongest correlation (and lowest standard error) with aluminum of all the major inputs (Aluminum, Nat Gas, Corn and Fruit), the price of which has been declining since April 2011. Management anticipates a 7 to 9 percent increase in COGS for 2011 based on commodities cost increases. Management has a track record of over-anticipating the impact of commodities inflation on COGS (i.e. they projected a 6 percent increase in COGS for 2009 when in fact the actual growth was 1 percent; for 2010 they anticipated a 3 percent drop in COGS versus an actual drop of 14 percent). Management does not break out what percent of COGS growth comes from commodities; from Q1 11 to Q3 11 COGS increased 23 percent, but it is unclear what percent of this came from commodities.

```
. regress cogs corn sugar natgas aluminum oranges, vce(robust)

Linear regression                                      Number of obs =      66
                                                       F(  5,    60) =    8.36
                                                       Prob > F      =  0.0000
                                                       R-squared     =  0.3873
                                                       Root MSE      =  52.183
```

cogs	Coef.	Robust Std. Err.	t	P>|t|	[95% Conf.	Interval]
corn	.3040054	.156664	1.94	0.057	-.0093692	.6173799
sugar	-5.653049	1.872895	-3.02	0.004	-9.399398	-1.906701
natgas	-.2228013	.1556075	-1.43	0.157	-.5340626	.08846
aluminum	.0723243	.017229	4.20	0.000	.0378613	.1067874
oranges	.0377351	.0369209	1.02	0.311	-.0361177	.1115879
_cons	489.1775	42.54458	11.50	0.000	404.0757	574.2793

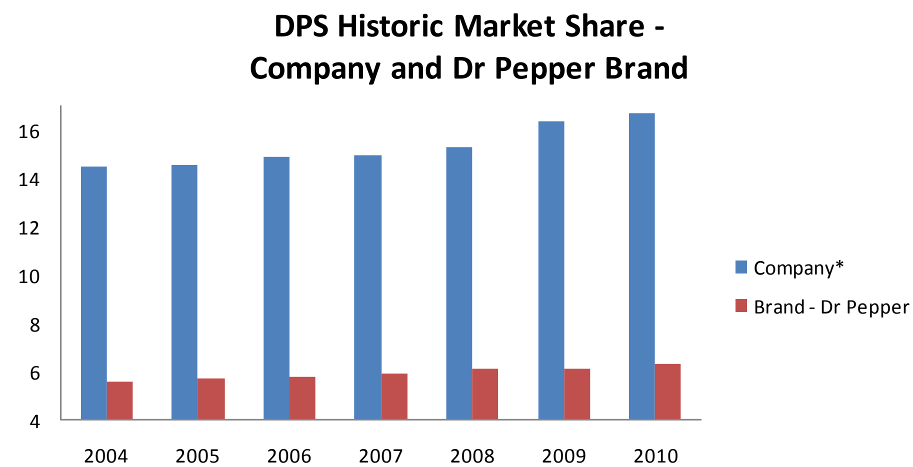
It is also worth noting that packaging accounts for approximately 50 percent of the COGS basket, main inputs for 25 percent and other commodities for approximately the remaining 25 percent. Given that year to date aluminum prices have effectively been flat (Note: we were unable to find a spot market for accurate historic PET or resin prices), we can only be further confident that near term change in commodities costs will have limited bearing on the fundamental value of the company.

All in, Dr Pepper Snapple seems well-positioned to manage commodities risks within the constraints of its strategy given that it has an active team focused on the task and it is hyper-conservative in its inflation estimates. However, it is unclear if it is well-served by hedging no more than a few months in advance given the predictability of its production schedule and the rather stagnant prices of major inputs year to date. Assuming that the 7 to 9 percent increase in COGS from commodities costs is priced into the market's valuation of the company (which it should be given that management announced this expectation publicly), any incremental value (or loss) will likely come from a shift in Dr Pepper Snapple's hedging strategy.

Marketing Investment

"Driving organic growth through targeted and efficient marketing" – 2010 10-K

Dr Pepper Snapple Group is not seeking to aggressively expand its market share or overall sales, but rather is focused on gradual, organic growth. It states that its brand businesses require low capital investment. Once a brand is established, there are not significant expenditures other than marketing. Management has discussed its shift from national to local marketing strategies. It is seeking to engage with consumers regionally rather than via a national marketing campaign. Given the increasing investments by competitors in brand building, this strategy may help differentiate Dr Pepper Snapple; however, the company seems to be investing in too many of its brands simultaneously (as perceived qualitatively in earnings calls). Furthermore, we are concerned by the inconsistent investment in marketing, especially as this is the primary method by which brand sales are driven. In 2008, SG&A sales increased due to high transportation costs, increased payroll costs and spin off separation costs. The company noted these increases were offset by lowered marketing costs. In the next two years, SG&A expenses increased partly due to higher marketing investment costs. Though data is limited, it appears that management may adjust marketing spend in response to other rising/falling costs. Supporting a national campaign around Dr Pepper Ten and related brands, the 2011 marketing spend is projected to be $20 to $25 million.



Source: Beverage Digest Annual Top-10 CSDs Report

**Pre 2008, Company represents DPS Share of Cadbury*

Targeted demographic marketing efforts have seen success. A 2010 campaign around Dr Pepper, 7UP, Squirt and Clamato in Hispanic markets saw volume increases of 25 percent. According to earnings calls, the company intends to target five low income per capita areas going forward. Another campaign around the company's mixer brands resulted in an increase of one million cases year over year. The company markets many brands regionally, like Vernors and Squirt. Though management has indicated that its brands have "the potential to go national," no firm plans have been announced for expansion. Though the firm is investing in marketing and promotional activities, these efforts have not consistently contributed positively to bottom line sales. For example, according to the 3Q 2010 earnings call, investments in two-liter CSD grocery and mass merchandiser store events, one-gallon Hawaiian Punch grocery and dollar store events, six-pack Snapple sampling promotions and new 7UP promotions resulted in reduced net sales growth of 3 percent.

Distribution

"[Our] distribution footprint . . . gives us a solid foundation for growth." – Q1 2010 Results Earnings Call

The bulk of Dr Pepper Snapple Group's products are distributed via Coca-Cola and PepsiCo systems. In 2010, 71 percent of Dr Pepper concentrate was distributed via one of these two systems, which accounted for 21 percent and 30 percent of concentrate sales respectively (KO and PEP). While this saves Dr Pepper Snapple on its own manufacturing processes (and it just received $715M and $900M licensing payments from KO and PEP respectively for 25-year distribution agreements after each company purchased its biggest bottlers), it also dilutes Dr Pepper Snapple's ability to aggressively merchandise its own brands at the point of purchase. Towards this end, in 2010 Dr Pepper Snapple repatriated some of its smaller brands (including 7UP, Sunkist, Squirt, Vernors) in order to transfer them over to Dr Pepper Snapple's own direct-store-delivery system. In terms of sustaining current levels of sales performance, Dr Pepper Snapple will be well-served by its current model; however, should the company look to expand more aggressively, then it may have to strengthen its direct distribution system. What is more, should one of the two primary distribution relationships (Coca-Cola and PepsiCo) cease to exist for any reason, Dr Pepper Snapple is at risk of significant financial and brand equity-related loss. Finally, 89 percent of the company's 2010 net sales were derived from the United States, 4 percent from Canada and 7 percent from Mexico/the Caribbean. Management has made no indication that they are interested in pushing for further international expansion.

Performance Projections

As previously discussed, Dr Pepper Snapple has performed consistently, however a strong growth trajectory has not been observed since the company's spinoff from Cadbury PLC. Additionally, Dr Pepper Snapple Group management has given no indication that it is looking to push growth in the near-term. Based on these challenges, we tried to value the company from a number of different perspectives:

1) Comparable products
2) Products/sectors that have folded
3) Comparable spinoff transactions
4) Dividend discounting model
5) Adjusted present value model

Comparable Products

We tried, as discussed previously, to forecast growth using a comparable company performance following the introduction of a new brand innovation (comparing Coca-Cola's Coke Zero to Dr Pepper Snapple's Dr Pepper Ten). Due to the lack of substantial earnings increases observed in Coca-Cola's financial data, this did not serve to be a successful model for projecting Dr Pepper Snapple growth going forward.

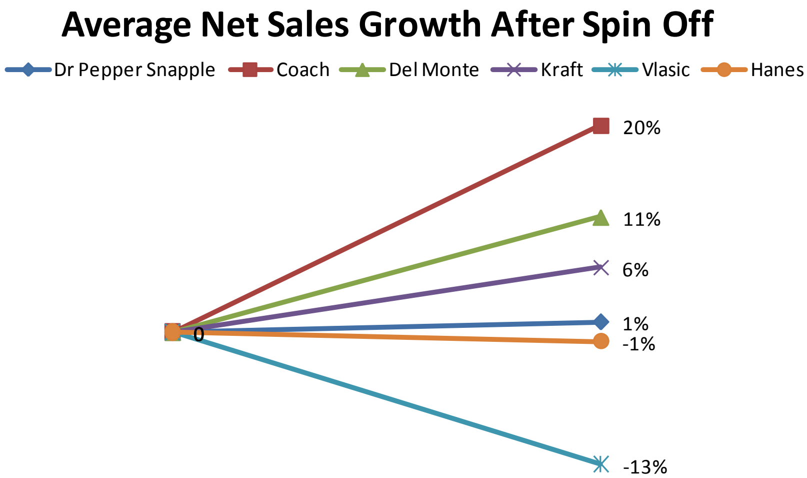
Products/Sectors That Have Folded

Another approach for valuation considered was to evaluate potential downside risk by looking at other spaces that had matured. Spaces were examined included bottled water, family restaurants, music technologies (vinyl, tapes and compact discs) and alcoholic beverages. Due to our limited data on Dr Pepper Snapple Group because of its limited public existence, this analysis did not yield robust results.

Comparable Spinoff Transactions

We identified five spinoffs – Coach, Del Monte, Hanes, Kraft and Vlassic – that qualitatively aligned with Dr Pepper Snapple Group. Though they are not all in the beverage space, each of these new companies was spun off from a major consumer products conglomerate for strategic reasons, and was subsequently set up as a public, independent entity. Graphing sales, COGS, SG&A and net income for these new companies in the years following their IPO showed no alignment with Dr Pepper Snapple's performance over the course of the past three years.

However, these companies represent a range of success with post-IPO growth, and represent a reasonable range of possible stable revenue performance for Dr Pepper Snapple in the coming years. With the exception of Vlasic, which filed for bankruptcy, and Hanes with relatively weak sales performance, the other firms demonstrate stable growth. Dr Pepper Snapple is certainly not outperforming these comparables; however, management seems committed to realizing consistent earnings.



(Average growth rate calculated from year of spin off to present or bankruptcy filing)
Sources: Public SEC Filings

Dividend Discounting Model

Dr Pepper Snapple Group management has placed emphasis on their commitment to returning cash to shareholders via dividends. While the company shows no signs of materially-significant bottom line growth in the next five years, its steady state market share supports the claim that the company is in no imminent danger of becoming insolvent. Therefore, we ultimately chose to value Dr Pepper Snapple Group with the dividend discounting model. In other words, the present value is the dividend valued as a perpetuity. Using the dividend discounting model produced an implied price/share of $32.29. Compared to the current price of $36.72, this gives a hold recommendation.

Factor	Value	Rational	Source
D	$ 0.90		
βe	0.87	Excess returns over the market calculation	
Rf	2%	Most recent 10 yr Treasury yld (reflects analysts' view on 12 mo market trends and desire to be ultra-conservative)	http://research.stlouisfed.org/fred2/data/GS10.txt
MRP	6.82%	Excess returns of the iShares Dow Jones US Consumer Goods Sector Index Fund over the Wilshire 5000 from 2001-2007	http://web.wilshire.com/Indexes/calculator/; http://us.ishares.com/product_info/fund/performance/IYK.htm
Re	8%	implied	
G	5%	Kraft average annual dividend growth rate	
Price	$ 32.29	Implied	

Dividend Growth Rate						
	2006	2007	2008	2009	2010	Avg Growth Rate
Kraft Dividend	$ 0.96	$ 1.04	$ 1.12	$ 1.16	$ 1.16	
		8%	8%	4%	0%	5%

Adjusted Present Value Model

In order to better assess the value of Dr Pepper Snapple Group as a going concern, we tested three terminal value growth rates that each seemed equally plausible given the company's current position. Based on a stock price as of publication of $36.72, it is noteworthy that all three growth rates are consistent with a hold rating (implied price/share range is $44.56 to $39.16). Because management has made it clear that it will push for growth over the next 5-7 years (and would be susceptible to removal by the Board should management fail in this endeavor), we use the more aggressive 3.14 percent to set our price target herein. Using this value to drive our APV analysis is consistent with our intention to balance a conservative dividend discounting model against a more aggressive APV to demonstrate both the current condition of the company as well as its growth potential in the short to medium term. (See the Appendix for our APV Model)

Minimum (.73%) – Used Mintel data to determine YoY growth in CSD, juice and tea sales from 2005 – 2015E, weighted by DPS's portfolio breakdown of 81 percent CSDs, 19 percent tea/juice.

Median (2.59%) – Weighted the average 2008 – 2010 change in DPS market share across regular soda, diet soda, juice and tea by portfolio breakdown (56 percent regular soda, 25 percent diet soda, 19 percent tea/juice). The upper bound was then given a .5% haircut to reflect rising commodity costs.

Maximum (3.14%) - Calculated in two ways: 1) Average 2010 growth rate across all major DPS brands as reported in the 2010 annual report and 2) Average historical growth rate across: revenue; cost of goods sold; sales, general and administration; depreciation and amortization; and capital expenditures for transaction peer group (tickers: COH, HBI, KFT, DLM). These approaches returned a growth rate of 3.64 percent and 3.61 percent respectively. The upper bound was then given a 0.5 percent haircut to reflect rising commodity costs.

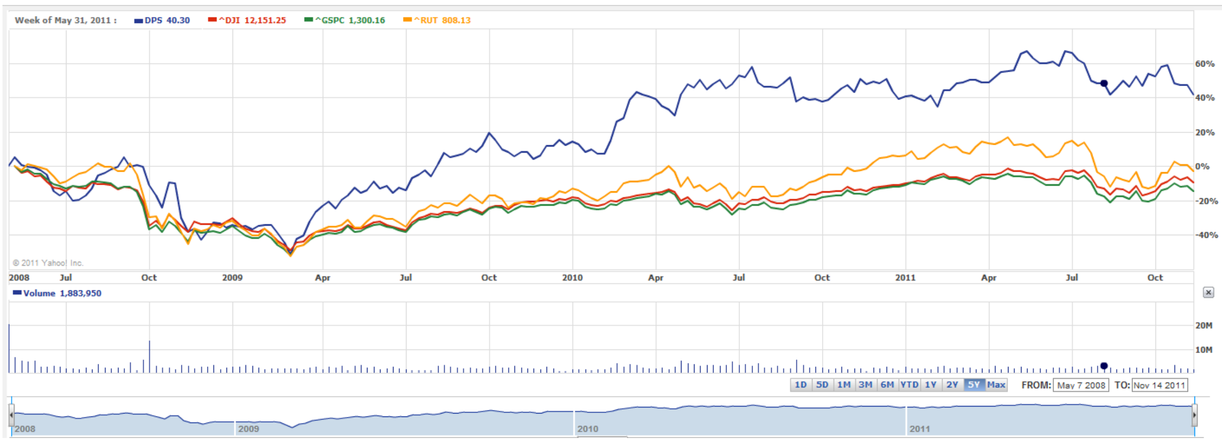
	TV Growth Rate	Implied Value
Minimum	0.73%	$ 33.56
Median	2.59%	$ 34.07
Maximum	3.14%	$ 39.16

As far as projecting cost of goods sold is concerned, we are confident that management will continue to keep input costs in check (as discussed previously in our Margin Analysis) through contracts and hedges. We thus grew this line item at the historical growth rate plus inflation.

Investment Summary

We recommend a hold with a positive outlook for Dr Pepper Snapple Group. Though the company has only existed as an independent, public entity for a few years, its growth strategy and performance is that of a mature, stable company. Management is committed to growing revenue via product innovation and product channels. Its approach is gradual, leaving room for more aggressive growth in the future. At this time, however, we do not believe management will be shifting to a more aggressive growth strategy. Because of this, there is a slight discount to the company's valuation. Our positive outlook stems from the opportunity to add a management premium if it changes its growth strategy. The company has the resources, a broad, time-tested brand portfolio and strong cash flow with which it could expand domestically and internationally. In this case, a large upside could be realized. Finally, management has been keeping major margin input costs – commodities, marketing and distribution – in check. If the company chooses to grow more rapidly, more significant investment in marketing and possibly distribution will be necessary. Furthermore, if management fails to push the company in terms of innovation, expansion and marketing, weakening performance may be seen.

We considered the company's stock performance based on two scenarios: its existing growth strategy and the opportunity for more substantial growth. Analyzing Dr Pepper Snapple from this perspective with a dividend discounting model shows that the company is appropriately valued by the market giving us a hold recommendation. On the other hand the company is young and has visible opportunities for growth. From this perspective, analyzing the company with an adjusted present value model shows that there is some upside value giving us a positive outlook recommendation.



Source: Yahoo Finance

For investors who are looking for consistent performance in the form of dividends, Dr Pepper Snapple Group's management has emphasized its commitment to returning value to shareholders. The stability of performance is reflected in the company's stock prices that have grown at rates exceeding major indexes. During the past few years, dividends have more than doubled (from the first quarterly dividend of $0.15 to the most recent quarterly dividend of $0.32). We are confident that the company will maintain stable sources of revenue so that there will be no lack of cash for paying dividends going forward.

Appendix

Financial Statement Projections

Dr Pepper Snapple Group's financial statements (balance sheet, income statement and cash flow) are projected out five years. Following each statement, a description of assumptions behind input growth rates is included. To conclude, we provide a sensitivity analysis of our terminal value growth rate and SG&A growth rate. We tested the sensitivity of SG&A as we believe investment in marketing will be key to driving future revenue growth.

APV Model

FCF ($mms)	2008	2009	2010	2011	2012	2013	2014	2015
Total Rev	**5,710**	**5,531**	**5,636**	**7,870**	**8,013**	**8,158**	**8,304**	**8,451**
COGS	**(2,590)**	**(2,234)**	**(2,243)**	**(3,247)**	**(3,362)**	**(3,480)**	**(3,603)**	**(3,730)**
Gross Profit	3,120	3,297	3,393	4,623	4,651	4,677	4,701	4,721
Operating expenses	*(3,175)*	*(2,095)*	*(2,241)*	*(3,542)*	*(3,618)*	*(3,697)*	*(3,777)*	*(3,860)*
Depreciation & Amortization	*(113)*	*(117)*	*(127)*	*(186)*	*(246)*	*(308)*	*(372)*	*(439)*
Operating Income (EBIT)	**(168)**	**1,085**	**1,025**	**895**	**787**	**672**	**551**	**422**
Taxes on EBIT	62	(404)	(381)	(333)	(293)	(250)	(205)	(157)
NOPLAT	**(106)**	**681**	**644**	**562**	**494**	**422**	**346**	**265**
Depreciation	113	117	127	186	246	308	372	439
Change in working capital	(60)	(66)	(20)	(50)	(51)	(51)	(35)	(36)
Net CAPEX	(304)	(317)	(246)	(369)	(375)	(382)	(389)	(396)
FCF	**(237)**	**547**	**545**	**430**	**416**	**400**	**365**	**344**
TV								11,391
Discount Factor				0.94	0.89	0.83	0.78	0.74
PV FCF				404	368	333	286	8,662
NPV FCF	10,053							

Debt (in $mms)		2011	2012	2013	2014	2015
Debt Balance		2,168	2,298	2,179	2,260	2,341
Interest on Debt		70	74	70	73	76
Tax Shield		**26.05**	**27.62**	**26.19**	**27.16**	**28.13**
TV						894.90
Discount Factor		0.97	0.94	0.91	0.88	0.85
PV Tax Shield		25.23	25.92	23.80	23.91	787.38
NPV Tax Shield	886.24					

Enterprise Value	$ 10,939	
Outstanding Debt	$2,167.73	
Equity Value	$ 8,772	
Market Value (11/15/11)	$ 7,800	
Price/Share	$ 36.72	
Price/Share - Diluted	$ 34.83	
Implied Sharecount	212	(in line with basic count from 10-K)
Actual Sharecount	224	diluted
Implied Price/Share	$ 39.16	

Recommendation	Hold
Premium	12%

Input	Value	Logic	Source
Tax Rate	37.2%	Average historic effective tax rate (ex 2008, which was unusually low due to limits on the tax benefit provided against goodwill).	10-K
MRP	6.82%	Excess returns of the iShares Dow Jones US Consumer Goods Sector Index Fund over the Wilshire 5000 from 2001-2007	http://web.wilshire.com/Indexes/calculator/; http://us.ishares.com/product_info/fund/performance/IYK.htm
Rf	2.00%	Most recent 10 yr Treasury yld (reflects analysts' view on 12 mo market trends and desire to be ultra-conservative)	http://research.stlouisfed.org/fred2/data/GS10.txt
Rd	3.23%	Weighted avg cost of DPS outstanding debt	Morningstar
Re	7.93%	Implied	
βd	0.18	Implied	
βa	0.62	Implied	
βe	0.87	Historic returns against value-weighted returns on NYSE/AMEX/Nasdaq portfolio	CRSP
D/E	79.47%	Implied from balance sheet (omits outlier year of 2008)	
WACC	4.94%	Implied	
Ra	6.26%	Implied	
Growth Rate - TV	3.14%	TV Growth Rate was calculated in two ways: 1) Avg 2010 growth rate across all major DPS brands (3.64%) and 2) Avg historical growth rate across Rev, COGS, SGA, D&A and Capex for transaction peer group (COH, HBI, KFT, DLM), adjusted for inflation (3.61%). Given a .5% haircut to reflect rising commodity costs	
E/V	55.56%	Implied	

Balance Sheet

Balance Sheet (in $MMs)	2007	2008	2009	2010	2011E	2012E	2013E	2014E	2015E
ASSETS									
Current Assets:		-2%	-2%	0%					
Cash & cash equivalents	$ 67	$ 214	$ 280	$ 315	$ 531	$ 716	$ 807	$ 811	$ 739
Accounts Receivable	$ 597	$ 583	$ 572	$ 571	$ 563	$ 554	$ 546	$ 538	$ 530
Related party receivable	$ 66	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Note receivable from related parties	$ 1,527	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Inventories	$ 325	$ 263	$ 262	$ 244	$ 227	$ 211	$ 194	$ 194	$ 194
Deferred tax assests	$ 81	$ 93	$ 53	$ 57	$ 99	$ 101	$ 102	$ 104	$ 106
Prepaid expenses and other current assets	$ 76	$ 84	$ 112	$ 122	$ 129	$ 143	$ 149	$ 149	$ 142
Total current assets	$ 2,739	$ 1,237	$ 1,279	$ 1,309	$ 1,549	$ 1,725	$ 1,799	$ 1,797	$ 1,711
Property & equipment, net	$ 868	$ 990	$ 1,109	$ 1,168	$ 1,693	$ 2,237	$ 2,801	$ 3,386	$ 3,993
Investments in unconsolidated subsidiaries	$ 13	$ 12	$ 9	$ 11	$ 11	$ 11	$ 11	$ 11	$ 11
Goodwill	$ 3,183	$ 2,983	$ 2,983	$ 2,984	$ 2,984	$ 2,984	$ 2,984	$ 2,984	$ 2,984
Other intangible assets, net	$ 3,617	$ 2,712	$ 2,702	$ 2,691	$ 2,691	$ 2,691	$ 2,691	$ 2,691	$ 2,691
Other non-current assets	$ 100	$ 564	$ 543	$ 552	$ (3,255)	$ (3,684)	$ (4,355)	$ (4,848)	$ (5,361)
Non-current deferred tax assets	$ 8	$ 140	$ 151	$ 144	$ 203	$ 207	$ 210	$ 214	$ 218
Total Assets	**$ 10,528**	**$ 8,638**	**$ 8,776**	**$ 8,859**	**$ 5,875**	**$ 6,170**	**$ 6,141**	**$ 6,235**	**$ 6,247**
LIABILITIES AND SHAREHOLDERS' EQUITY									
Current Liabilities:									
Accounts payable and accrued expenses	$ 812	$ 796	$ 850	$ 851	$ 876	$ 902	$ 928	$ 956	$ 984
Deferred revenue	$ 175	$ -	$ -	$ 65	$ 130	$ 194	$ 259	$ 323	$ 388
Current portion of long-term obligations	$ 126	$ -	$ -	$ 404	$ 400	$ 450	$ 250	$ 250	$ 250
Income taxes payable	$ 22	$ 5	$ 4	$ 18	$ 11	$ 12	$ 10	$ 7	$ 5
Total current liabilities	$ 1,135	$ 801	$ 854	$ 1,338	$ 1,417	$ 1,558	$ 1,447	$ 1,536	$ 1,627
Long-term obligations	$ 2,912	$ 3,522	$ 2,960	$ 1,687	$ 1,768	$ 1,848	$ 1,929	$ 2,010	$ 2,091
Non-current deferred tax liabilities	$ 1,324	$ 981	$ 1,038	$ 1,083	$ 1,138	$ 1,196	$ 1,256	$ 1,320	$ 1,387
Non-current deferred revenue		$ -	$ -	$ 1,515	$ 1,450	$ 1,386	$ 1,321	$ 1,257	$ 1,192
Other non-current liabilities	$ 136	$ 727	$ 737	$ 777	$ 803	$ 831	$ 859	$ 888	$ 918
Total Liabilities	$ 5,507	$ 6,031	$ 5,589	$ 6,400	$ 6,577	$ 6,818	$ 6,812	$ 7,011	$ 7,215
Shareholders' Equity									
Cadbury's net investment	5,001	-	-	-	0	0	0	0	0
Common stock	-	3	3	2	2	2	2	2	2
APIC	-	3,140	3,156	2,085	2,277	2,277	2,277	2,277	2,277
Retained earnings	-	(430)	87	400	$ 475	$ 549	$ 550	$ 474	$ 315
Accumulated other comprehensive loss	20	(106)	(59)	(28)	(64)	(64)	(64)	(64)	(64)
Total shareholders equity	5,021	2,607	3,187	2,459	2,690	2,764	2,765	2,689	2,530
Total Liabilities and Shareholders' Equity	**$ 10,528**	**$ 8,638**	**$ 8,776**	**$ 8,859**	**$ 5,875**	**$ 6,170**	**$ 6,141**	**$ 6,235**	**$ 6,247**

Input	Growth Rate	Rationale
Accounts Receivable	-1%	Mgmt provides no guidance as to timing of A/R, responsible parties, etc. Therefore, grown at historical avgerage
Related party receivable	0%	Related party items relating to the relationship with Cadbury have all been completed
Note receivable from related parties	0%	Related party items relating to the relationship with Cadbury have all been completed
Inventories	$ 16.67	Company determines its inventory levels off of historic demand. Are also placing an emphasis on RCI (Rapid Continual Improvement), and plan on attaining $150mm in productivity savings in the next 3 years across three factors (one of which is inventory). Therefore, reduce inventory levels by 1/3 of $150 over the next 3 years, and carry that value forward for 2014 and 2015
Deferred tax assests	1%	Management evaluates deferred tax assets as a % of net sales, which is a constant 1% historically
Prepaid expenses and other current assets	9%	Has historically been an avg of 9% of all other assets
Investments in unconsolidated subsidiaries	$ 11	Average historical value given management's guidance
Goodwill	0%	Goodwill has been flat since the IPO has settled
Other intangible assets, net	0%	Other intangible assets consist mostly of brands. Post IPO level of other intangible assets has been flat, and based on the company's growth strategy it seems that this level will hold.
Non-current deferred tax assets	3%	Management evaluates deferred tax assets as a % of net sales, which is a constant 1% historically
Accounts payable and accrued expenses	3%	Accounts payable attributable primarily to employee compensation and promotion. Growth rate reflects YoY weighted avg growth in these two factors
Deferred revenue	$ 64.60	Deferred revenue comes from the $715 and $900 payments from Coca-Cola and PepsiCo turned into revenue over 25 years
Current portion of long-term obligations		Value of senior notes due in given years through 2013; held constant for remaining projected years due to lack of guidance
Income taxes payable	3%	Average historical % of net income, ex outlier of 2008
Long-term obligations	$ 80.73	Avg annual value of outstanding LT debt based on its maturity
Non-current deferred tax liabilities	5%	Primarily attributable to an increase in Mexican state tax rates; no guidance provided around how this item might be impacted moving forward. Therefore, grow at the historic avg since IPO
Non-current deferred revenue	$ (64.60)	Reflects annual movement of gains from PEP and KO transactions to net sales
Other non-current liabilities	3%	Consists mostly of swap and futures contracts. Assumed to be consistently managed, and therefore grown at historical avg
Cadbury's net investment	0%	No residual impact of Cadbury transaction
Common stock	0%	Company has placed emphasis on continuing to return cash to shareholders moving forward (having hit their targets for doing so since IPO), but have yet to outline a strategy for doing so
APIC		APIC reduction derived from share repurchases. Because no strategy has emerged for these purchases, we keep APIC at its implied 2011 level (based on Q1 - Q3)
Accumulated other comprehensive loss	(64)	Largely driven by pension and postretirement medical plan responsibilities. This number appears to be erratic for both DPS and PEP/KO. Therefore, use a historic average level

Income Statement (in mms)										
	2006	2007	2008	2009	2010	2011E	2012E	2013E	2014E	2015E
Net sales	$4,700	$5,695	$5,710	$5,531	$5,636	$ 7,870	$ 8,013	$ 8,158	$ 8,304	$ 8,451
Cost of sales	$1,959	$2,564	$2,590	$2,234	$2,243	$ 3,247	$ 3,362	$ 3,480	$ 3,603	$ 3,730
Gross profit	**$2,741**	**$3,131**	**$3,120**	**$3,297**	**$3,393**	**$ 4,623**	**$ 4,651**	**$ 4,677**	**$ 4,701**	**$ 4,721**
SG&A	$1,659	$2,018	$2,075	$2,135	$2,233	$ 3,017	$ 3,074	$ 3,133	$ 3,192	$ 3,253
D&A	$69	$98	$113	$117	$127	$ 186	$ 246	$ 308	$ 372	$ 439
Impairment of goodwill and intangibles	$0	$6	$1,039	$0	$0	$ -	$ -	$ -	$ -	$ -
Restructuring costs	$27	$76	$57	$0	$0	$ -	$ -	$ -	$ -	$ -
Other operating expense (income), net	($32)	($71)	$4	($40)	$8	$ 525	$ 544	$ 564	$ 585	$ 607
Income (loss) from operations	**$1,018**	**$1,004**	**($168)**	**$1,085**	**$1,025**	**$ 895**	**$787**	**$672**	**$551**	**$422**
Interest expense	$257	$253	$257	$243	$128	159	155.82	152.7036	149.6495	146.6565
Interest income	($46)	($64)	($32)	($4)	($3)	($4)	$ -	$ -	$ -	$ -
Loss on early extinguishment of debt	$0	$0	$0	$0	$100	$ -	$ -	$ -	$ -	$ -
Other income, net	$2	($2)	($18)	($22)	($21)	($31)	($12)	($12)	($12)	($12)
Income (loss) before provision for income taxes and equity in earnings of unconsolidated subsidiaries	$805	$817	($375)	$868	$821	$771	$643	$532	$413	$288
Provision for income taxes	$298	$322	($61)	$315	$294	$369	$239	$198	$154	$107
Income (loss) before equity in earnings of unconsolidated subsidiaries	$507	$495	($314)	$553	$527	$402	$404	$334	$260	$181
Equity in earnings of unconsolidated subsidiaries, net of tax	$3	$2	$2	$2	$1	$1	$1	$1	$1	$1
Net Income (loss)	***$510***	***$497***	***($312)***	***$555***	***$528***	***$403***	***$405***	***$335***	***$261***	***$182***
Earnings (loss) per common share:										
Basic	$2.01	$1.96	(1.23)	$2.18	$2.19	$1.81	$1.84	$1.54	$1.21	$0.85
Diluted	$2.01	$1.96	(1.23)	$2.17	$2.17	$1.80	$1.82	$1.52	$1.20	$0.84
Weighted avgerage common shares outstanding:										
Basic	255	253.7	254.0	254.2	240.4	222.0	220	218	215	213
Diluted	254	253.7	254.0	255.2	242.6	224.3	222	220	218	215
Cash dividends declared per common share	$ -	$ -	$ -	$ 0.15	$0.90	$1.46	$1.49	$1.52	$1.55	$1.58

Income Statement (in $MMs)		
Input	*Growth Rate*	*Rationale*
Net sales	1%	Avg net sales since spinoff, also includes shift of funds from deferred revenue to net sales per the PEP and KO agreements
Cost of sales	3.5%	Grown at rate of inflation given strong COGS hedging and management
SG&A	1.9%	Weighted avg of historical growth rates for SGA inputs broken out in 10-K by their % of total SGA
D&A	11%	PPE is depreciated using straight line method over the useful life of the asset; historically 80% of D&A has been attributable to the packaged beverage business. However, management provides no guidance around the contribution of the constituent parts of this business line (e.g. manufacturing plant vs distribution tools), and as such we have used the historic value of D&A as a % of PPE to project forward, which has been extremely flat around 11%
Impairment of goodwill and intangibles	$ -	DPS's goodwill and intangible assets are broken into 3 categories: brands, bottler agreements and customer contracts (useful lives of 10-15, 5-15 and 5-10 years respectively). Given that the last two were redrawn in 2010, and the DPS brands have been unchanged since before the IPO, there is no reason to believe that there will be impairment in the coming years. What's more, any brand-related impairment would likely be derived from Dr Pepper 10, which is as yet an immaterial portion of the company's revenue.
Restructuring costs	$ -	10-K outlines that there will be no more restructuring costs
Interest expense	-2%	Historical avg and median
Interest income	$ -	Historical interest income was earned from party balances with Cadbury (who had full access to DPS's cash). Because these balances have been settled, and management plans to fund liquity needs with cash flow from operations, interest income is anticipated to be nominal moving forward.
Loss on early extinguishment of debt	$ -	2010 number reflects an anomoly due to a one time refinancing of debt
Other income, net	($12)	Other income is derived primarily from DPS's JV with private Mexican water company, Acqua Mineral San Benedetto. They give no guidance as to how this company performs or what it's fair market value is, and historic values show no clear pattern. As such, we keep the projected value of other income at its historic average in order to try and normalize potential earnings from this partnership
Provision for income taxes	37.20%	Average historic effective tax rate (ex 2008, which was unusually low due to limits on the tax benefit provided against goodwill).
Equity in earnings of unconsolidated subsidiaries, net of tax	2%	Represents a 50% stake in JV with a private Mexican water company (Acqua Mineral San Benedetto). Because the equity investment does not have a discernable fair value, and because DPS received a $5mm dividend in 4Q 09 that was recorded as a write down in DPS's stake, we take this as the 2011 value, which we grow at the Rf of 2%
Weighted avgerage common shares outstanding:		
Basic	-1.0%	Avg growth rate; mgmt has been focused on returning cash to investors via common share repurchases
Diluted	-1.0%	Avg growth rate; mgmt has been focused on returning cash to investors via common share repurchases
Cash dividends declared per common share	implied	Avg rate of growth of quarterly dividends; derived from net sales*(.042 rate of dividend growth)/diluted shares

Cash Flow

Cash Flow (in $MMs)	2006	2007	2008	2009	2010	2011E	2012E	2013E	2014E	2015E
OPERATING ACTIVITIES										
Net income	$ 510	$ 497	$ (312)	$ 555	$ 528	$ 403	$ 405	$ 335	$ 261	$ 182
Adjustments to reconcile net income (loss) to net cash provided by operating activitis:										
Depreciation expense	$ 94	$ 120	$ 141	$ 167	$ 185	$ 261	$ 308	$ 363	$ 429	$ 506
Amortization expense	$ 45	$ 49	$ 54	$ 40	$ 38	$ 115	$ 109	$ 104	$ 99	$ 94
Amortization of deferred financing costs	$ -	$ -	$ 13	$ 17	$ 5	$ -	$ -	$ -	$ -	$ -
Write-off of deferred loan costs	$ -	$ -	$ 21	$ 30	$ -	$ -	$ -	$ -	$ -	$ -
Amortization of deferred revenue	$ -	0	$ -	$ -	$ (37)	$ -	$ -	$ -	$ -	$ -
Loss on early extinguishment of debt	$ -	$ -	$ -	$ -	$ 100	$ -	$ -	$ -	$ -	$ -
Impairment of goodwill and intangible assets	$ -	$ 6	$ 1,039	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Provision for doubtful accounts	$ 4	$ 11	$ 5	$ 3	$ 1	$ 1	$ 1	$ 1	$ 1	$ 1
Employee stock-based compensation expense	$ 17	$ 21	$ 9	$ 19	$ 29	$ 43	$ 52.03	$ 62.96	$ 76.18	$ 92.17
Deferred income taxes	$ 14	$ 55	$ (241)	$ 103	$ 37	$ -	$ -	$ -	$ -	$ -
Loss (gain) on property and and intangible assets	$ (32)	$ (71)	$ 12	$ (39)	$ 8	$ 17	$ 17	$ 17	$ 17	$ 17
Unrealized (gain) loss on derivatives	$ -	$ -	$ 8	$ (18)	$ (1)	$ -	$ -	$ -	$ -	$ -
Other, net	$ (10)	$ (6)	$ (3)	$ 10	$ (1)	$ -	$ -	$ -	$ -	$ -
Changes in assets and liabilities:										
Current and non-current deferred revenue	$ -	$ -	$ -	$ -	$ 1,614	$ 952	$ 887	$ 823	$ 758	$ 694
Net change in other operating asset and liabilities	$ (61)	$ (79)	$ (37)	$ (22)	$ 29	$ -	$ -	$ -	$ -	$ -
Net cash provided by operating activities	**$ 581**	**$ 603**	**$ 709**	**$ 865**	**$ 2,535**	**$ 1,792**	**$ 1,780**	**$ 1,706**	**$ 1,640**	**$ 1,585**
INVESTING ACTIVITIES										
Purchase of PPE	$ (158)	$ (230)	$ (304)	$ (317)	$ (246)	$ (502)	$ (521)	$ (541)	$ (562)	$ (584)
Investments in unconsolidated subsidiaries	$ (435)	$ (30)	$ -	$ -	$ (1)	$ 1	$ 1	$ 1	$ 1	$ 1
Purchase of intangible assets	$ (53)	$ (2)	$ (1)	$ (8)	$ -	$ (6)	$ (6)	$ (6)	$ (6)	$ (6)
Proceeds from disposal of property and equipment	$ 16	$ 6	$ 4	$ 5	$ 18	$ 6	$ 6	$ 6	$ 6	$ 6
Proceeds from disposal of intangible assets	$ 53	$ 98	$ -	$ 69	$ -	$ -	$ -	$ -	$ -	$ -
Issuance of related party notes receivables	$ (91)	$ (1,937)	$ (165)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Repayment of related party notes receivables	$ 166	$ 1,008	$ 1,540	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other, net	$ -	$ -	$ -	$ -	$ 4	$ -	$ -	$ -	$ -	$ -
Net cash (used in) provided by investing activities	**$ (502)**	**$ (1,087)**	**$ 1,074**	**$ (251)**	**$ (225)**	**$ (501)**	**$ (520)**	**$ (541)**	**$ (561)**	**$ (583)**
FINANCING ACTIVITIES										
Proceeds from debt		$ 2,845	$ 7,215	$ 1,255	$ -	$ 500	$ 500	$ 500	$ 500	$ 500
Repayment of debt		$ (3,455)	$ (6,759)	$ (1,805)	$ (978)	$ (978)	$ (978)	$ (978)	$ (978)	$ (978)
Proceeds from stock options exercised	$ -	$ -	$ -	$ 1	$ 6	$ 12	$ 12	$ 12	$ 12	$ 12
Repurchase of shares of common stock	$ -	$ -	$ -	$ -	$ (1,113)	$ (425)	$ (425)	$ (425)	$ (425)	$ (425)
Dividends paid	$ -	$ -	$ -	$ -	$ (194)	$ (183)	$ (183)	$ (183)	$ (183)	$ (183)
Deferred financing charges and debt reacquisition costs paid	$ -	$ -	$ (106)	$ (2)	$ (1)	$ (1)	$ (1)	$ (1)	$ (1)	$ (1)
Cash distributions to Cadbury	$ (80)	$ (213)	$ (2,065)	$ -	$ -	-	-	-	-	-
Change in Cadbury's net investment	$ (23)	$ 1,334	$ 94	$ -	$ -	-	-	-	-	-
Other, net	$ 1	$ 4	$ (4)	$ (3)	$ -	$ (5)	$ (5)	$ (5)	$ (5)	$ (5)
Net cash (used in) provided by financing activities	**$ (102)**	**$ 515**	**$ (1,625)**	**$ (554)**	**$ (2,280)**	**$ (1,080)**	**$ (1,080)**	**$ (1,080)**	**$ (1,080)**	**$ (1,080)**
Cash and cash equivalents - net change from:										
Operating, investing and financing activities	$ 7	$ 31	$ 158	$ 60	$ 30	$ 211	$ 179	$ 85	$ (1)	$ (78)
Currency translation	$ -	$ 1	$ (11)	$ 6	$ 5	$ 6	$ 6	$ 6	$ 6	$ 6
Cash and cash equivalents at beginning of period	$ 28	$ 35	$ 67	$ 214	$ 280	$ 315	$ 531	$ 716	$ 807	$ 811
Cash and case equivalents, end of year	***$ 35***	***$ 67***	***$ 214***	***$ 280***	***$ 315***	***$ 531***	***$ 716***	***$ 807***	***$ 811***	***$ 739***

Cash Flow (in $MMs)		
	Growth Rate	***Rationale***
Net income	Implied	From Income Statement
Depreciation expense	18%	Median rate of growth
Amortization expense	-5%	2010 rate
Amortization of deferred financing costs	0%	Mgmt provides no guidance or gives any indication around this one-off line item
Write-off of deferred loan costs	0%	Mgmt provides no guidance or gives any indication around this one-off line item
Amortization of deferred revenue	0%	Mgmt provides no guidance or gives any indication around this one-off line item
Loss on early extinguishment of debt	0%	Mgmt provides no guidance or gives any indication around this one-off line item
Impairment of goodwill and intangible assets	0%	Mgmt provides no guidance or gives any indication around this one-off line item
Provision for doubtful accounts	0%	Provision set aside for the past two years
Employee stock-based compensation expense	21%	Average rate of growth from 2008-2010
Deferred income taxes	0%	Mgmt provides no guidance or gives any indication around this one-off line item
Loss (gain) on property and and intangible assets	0%	Mgmt provides no guidance or gives any indication around this one-off line item
Unrealized (gain) loss on derivatives	0%	Mgmt provides no guidance or gives any indication around this one-off line item
Other, net	0%	Mgmt provides no guidance or gives any indication around this one-off line item
Current and non-current deferred revenue	$ (64.60)	Writing down the $715 and $900 repatriation payments from Coca-Cola and PepsiCo over 25 years
Net change in other operating asset and liabilities	0%	Mgmt provides no guidance or gives any indication around this one-off line item
Purchase of PPE	3.8	Per the PPE schedule; 2011 value is implied weighted PPE spend/yr based on given PPE levels per item. This initial value is grown at the avg ytd
Investments in unconsolidated subsidiaries	2.00%	Grown at the Rf of 2% in line with Income Statement line item
Purchase of intangible assets	$ 6.40	Weighted avg useful life of intangible assets is 10 yrs (consists almost entirely of brands, with a small % attributable to bottler and customer agreements). Carryforward value represents the avg annual expense based on historic payment over this useful life and the expectation that DPS will seek largely to build out existing brands rather than acquire or build many new ones in the next five years
Proceeds from disposal of property and equipment	$ 6	No guidance was provided as to future PPE plans. As such, we used the median historical value
Proceeds from disposal of intangible assets	0.00%	Based on growth strategy, it seems unlikely that DPS will dispose of any intangible assets (which are predominantly composed of brands) in the near future
Issuance of related party notes receivables	0.00%	Related party notes receivable pertain to the 2008 separation from Cadbury. However, all residual financial transactions related to the spinoff have been completed; as such, there should be no further issuance or repayment of these notes
Repayment of related party notes receivables	0.00%	Related party notes receivable pertain to the 2008 separation from Cadbury. However, all residual financial transactions related to the spinoff have been completed; as such, there should be no further issuance or repayment of these notes
Other, net	0.00%	Management has not presented any guidance around, or proposal for, material investing activities in the short term. As such, we keep this at the historic level of $0
Proceeds from debt		Firm refinanced debt in 2011; general debt/equity ratios are decreasing
Repayment of debt		Projected flat at 2011 values due to lack of guidance
Proceeds from stock options exercised		Projected flat at 2011 values due to lack of guidance
Repurchase of shares of common stock		Projected flat at 2011 values due to lack of guidance
Dividends paid		Projected flat at 2011 values due to lack of guidance
Deferred financing charges and debt reacquisition costs paid		Projected flat at 2011 values due to lack of guidance
Cash distributions to Cadbury		Projected flat at 2011 values due to lack of guidance
Change in Cadbury's net investment		Projected flat at 2011 values due to lack of guidance
Other, net		Projected flat at 2011 values due to lack of guidance
Currency translation	$ 5.5	Median impact since settlement of IPO

Sensitivity Analysis

Equity Value - Sensitivity Analysis						
		TV Growth Rate				
		1.14%	2.14%	3.14%	4.14%	5.14%
SG&A Growth Rate	0.9%	$ 35.85	$ 38.49	$ 48.46	$ 69.99	$ 131.81
	1.4%	$ 32.96	$ 34.94	$ 43.85	$ 63.30	$ 119.36
	1.9%	$ 30.03	$ 31.35	$ 39.16	$ 56.52	$ 106.72
	2.4%	$ 27.05	$ 27.71	$ 34.42	$ 49.64	$ 93.89
	2.9%	$ 24.04	$ 24.01	$ 29.60	$ 42.66	$ 80.88
	3.4%	$ 20.98	$ 20.26	$ 24.71	$ 35.58	$ 67.67

Div Growth Rate	Implied Value
3.0%	$ 18.82
4.0%	$ 23.84
5.0%	$ 32.29
6.0%	$ 49.52
7.0%	$ 103.94

Important Disclaimer

Please read this document before reading this report.

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