LACHESIS
INVESTMENT STRATEGIES

RECOMMENDATION

Hansen's Natural Corporation

BUY

ANALYSTS

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

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Research as of 25 Oct 2011
Estimates as of 25 Oct 2011
Pricing data as of 25 Oct 2011
Rating as of 25 Oct 2011

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ANALYSTS' PERSPECTIVE

We recommend a buy of Hansen's Natural Corporation. Reviewing the firm's product portfolio and management's strategy for domestic and international growth, the company is currently trading at a 25% discount.

KEY CONSIDERATIONS

- ✓ About **90 percent of Hansen's revenue is derived from its energy drinks category**, particularly its Monster Energy brand. Across the beverage space, energy drink sales have remained strong and growing despite an unfavorable macroeconomic environment.

- ✓ Management has identified future expansion of Monster Energy products as the foundation of its growth strategy, particularly internationally. At the end of the 2Q 2011, management reported that sales outside the United States had increased 19 percent. **Comparing Hansen's to other companies that have realized increasing revenues in high growth beverage categories, like Starbucks, our model projects that Monster Energy will drive significant revenue increases (about 21.5 percent per year) for Hansen's over the next five years**.

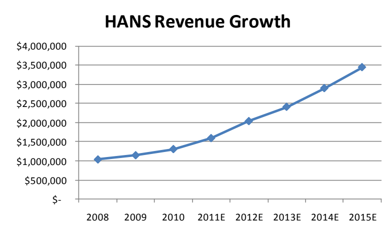
- ✓ Monster Energy outperformed Red Bull and all other competitors in the energy drink category as a whole YoY.

- ✓ Energy drinks strongest point-of-sales are convenience and gas (C&G) stores. While sales of its major competitors have been declining, Monster Energy's share of C&G has remained constant at just above 29 percent. **We supplemented management's earning calls, public filings and industry data with a brief field study**. Despite observations that Monster Energy generally has less shelf space than competitors, its sales are outperforming.

- ✓ **Direct store delivery (DSD) is Hansen's primary distribution model for its energy drinks**. Going forward, Hansen's will need to expand its own sales and marketing teams as its primary international customer targets are often smaller, independent retailers). Management has acknowledged it has limited experience in these new markets.

MAJOR STATISTICS

Ticker (NASDAQ)	**HANS**
Market capitalization	**$7.54B**
Shares outstanding	**88.6MM**
Last closing price	**$85.49**
Price target	**$103.53**
52 week range	**$48.28 - 96.94**
Credit rating (S&P)	**B**



Company Summary

Hansen Natural Corporation develops, markets, sells and distributes beverages internationally. It offers non-carbonated iced teas, lemonades, juices, dairy, coffee, energy, sports, sparkling and flavored beverages. The Company offers children's multi-vitamin juice drinks, ready-to-drink beauty beverages as well as organic and premium natural sodas. Products are sold via direct store delivery (DSD) and warehouse distributors to retail, grocery, specialty, wholesale, drug store, gas and convenience, health food and food service chains. The Company self-identifies its major brands as Monster Energy, Java Monster, Hansen's Natural Sodas, Blue Sky and Junior Juice. The majority of gross sales are derived from the Monster Energy brand. Supplementing gross sales growth is the Company's international expansion.

Revenue Analysis

Revenue and Risks at a Glance

Hansen's is a growing beverage company. Its revenue is almost exclusively derived from the energy drinks category, particularly its Monster Energy brand. Across the beverage space, energy drink sales are on the rise. Energy drinks are most commonly sold in convenience and gas (C&G) stores. Therefore, a company like Hansen's would be well-served to focus its attention on growing its Monster Brand and increasing its energy drink presence in the C&G space. Insofar as management has clearly articulated such a strategy thus far, Hansen's is well-positioned to see further revenue growth in the future. With this in mind, we explore two revenue growth drivers: 1) the energy drink category and Monster Energy brand specifically, and 2) C&G sales and growth opportunities. To project growth forward, we examine historical growth trends of another company in a high growth beverage category – Starbucks – during a comparable period in its domestic and international expansion (1998-2002).

Hansen Net Sales by Product Type (000s)

	2005	2006*	2007	2008	2009	2010	1H 2011
Energy	$ 271,845	$ 518,998	$ 811,609	$ 925,398	$ 1,038,572	$ 1,178,071	
Non-carb	$ 50,542	$ 60,151	$ 62,269	$ 65,713	$ 59,207	$ 80,537	$ 37,756
Carb	$ 26,499	$ 26,625	$ 28,671	$ 28,338	$ 32,538	$ 32,906	$ 17,701
Other			$ 1,916	$ 14,331	$ 12,982	$ 12,428	$ 4,636
Total	**$ 348,886**	**$ 605,774**	**$ 904,465**	**$ 1,033,780**	**$ 1,143,299**	**$ 1,303,942**	$ 60,093
Energy as % of Sales	77.92%	85.68%	89.73%	89.52%	90.84%	90.35%	92.61%

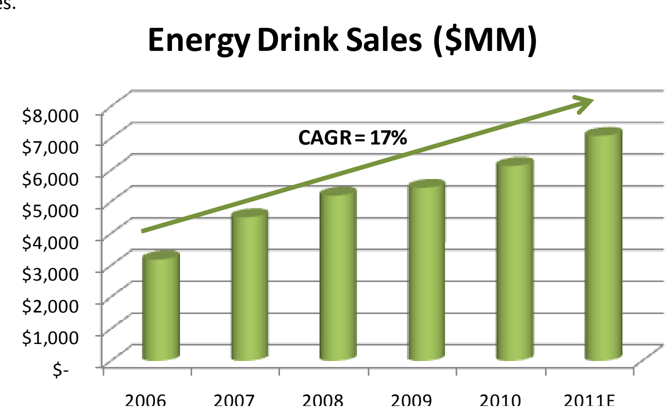
**Prior to 2007 rolls other into energy*

Source: Hansen's 10-Ks

Hansen's growth strategy is not without risks. First, the energy drink category has seen explosive growth for an extended period of time. At some point, there is a risk of saturation or a reversal in consumer sentiment (as in the case of carbonated soft drinks) with regard to health concerns. Second, Monster Energy brand sales rely largely on brand loyalty. Maintaining this loyalty is costly. Management has noted on earnings calls that it will continue to push an aggressive sponsorship budget centered around extreme sports celebrities and events. Monster Energy must make such significant investments to differentiate itself from its closet competitors, primarily Red Bull, but also Rockstar, Amp and 5-hour Energy. Third, on earnings calls management has outlined a strategy of targeting independent store owners, especially in new international markets where C&G chains are less dominant. This minimizes opportunities for economies of scale and requires Hansen's to invest in sales and direct store delivery infrastructure. Finally, consumer demographics and Monster Energy points of sale sources are risks. Primary consumers are teenage boys and blue collar workers. Rising or extended unemployment may affect sales. Also, rising gas prices may reduce traffic to C&G stores, thus decreasing opportunities for product sales.

Energy Drink Category Trends

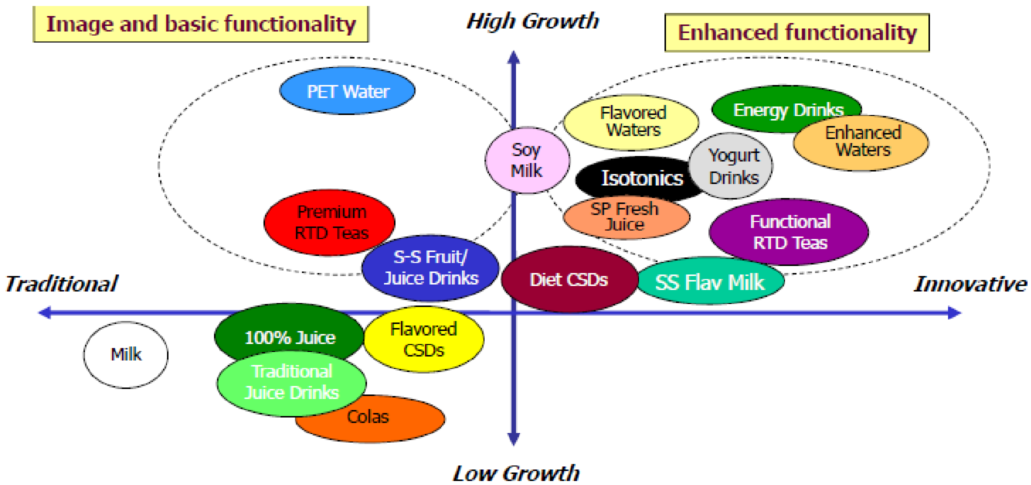
The energy drink category has defied expectations. Euromonitor, a market research firm, noted the category grew by 61 percent from 2000 to 2005; however, it projected only a 7 percent annual growth rate from 2006 to 2010. Research firms expected that slowing sales in convenience stores would lead to more moderate growth.[i] Performance has defied these expectations. Mintel research data reveals absolute growth of energy drink sales (through all channels) of 122 percent from 2006 to 2011E.



Source: Mintel/based on SympnyIRI Group InfoScan Reviews; Convenience Store News; Beverage Spectrum

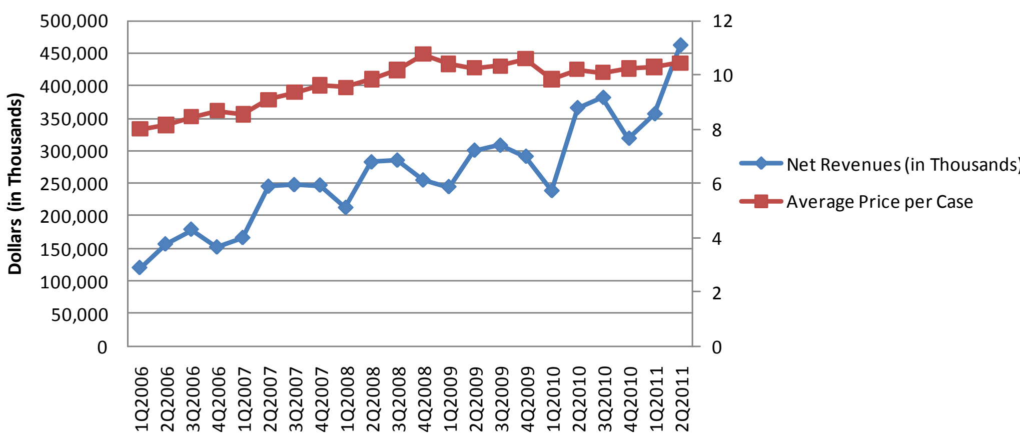
Supplementing this data and reinforcing our thesis that Hansen's growth strategy is appropriate to beverage growth trends, data from the Beverage Marketing Corporation reveals traditional soda and juice consumption fell in the U.S. by 3 percent, while consumption of products in the "enhanced functionality" category like flavored water and energy drink increased by 4 percent and 8 percent respectively.[ii] The fact energy drinks are at the frontier of both high growth and innovation is significant in terms of price elasticity. This positioning helps assure relative consumer price insensitivity to reasonable price increases. Management has gradually increased prices of some of its most popular Monster Energy products. This has not, however, had a detrimental impact on sales.

Innovation and growth in the beverage market[iii]



Source: Beverage Marketing Corporation – Hemphill (2009)

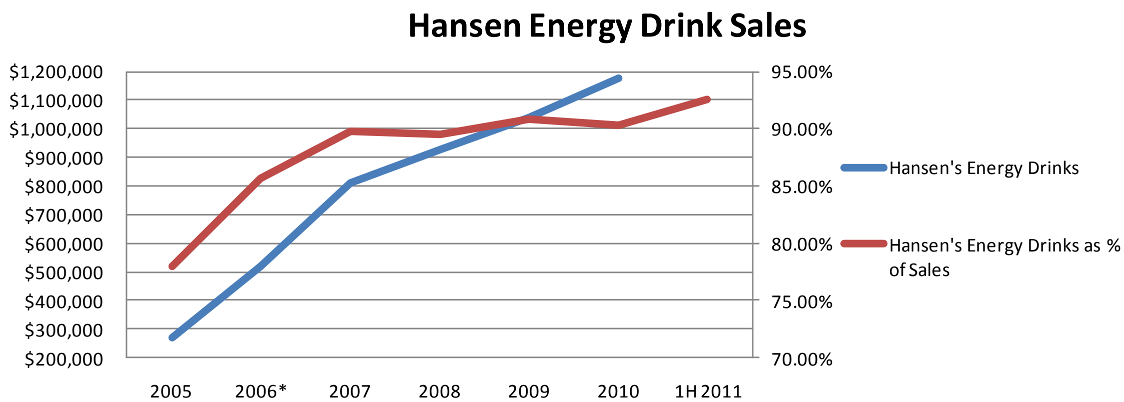
Net Revenue and Average Price per Case Sold



Source: Hansen's 10ks

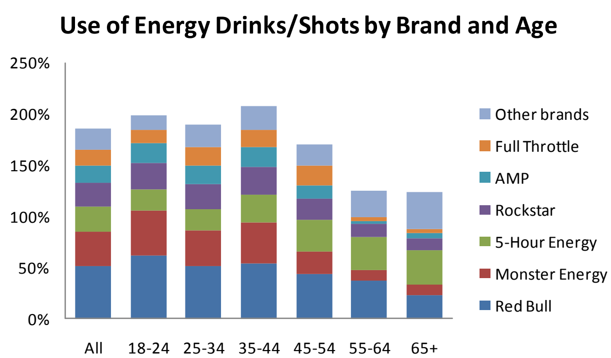
Hansen's Monster Brand

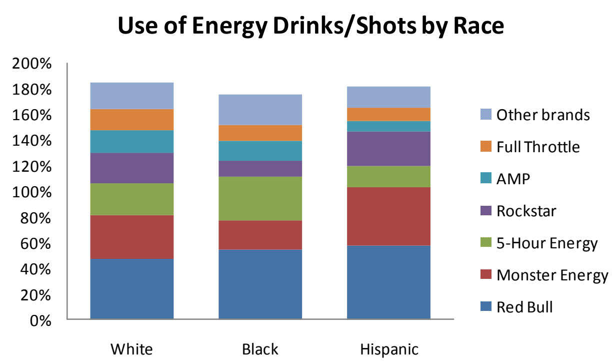
Monster Energy historically has accounted the majority of Hansen's sales and revenue. During the past four conference calls, management has expressed confidence that the energy drink space remains a market with room for significant growth. With that, the company has no plans to diminish its focus on Monster Energy sales. Given the revenue potential from the Monster Energy brand and its success to date, Hansen's strategy to focus attention in this space – both domestically and internationally – seems prudent.



Source: Hansen's 10ks

Consistent with management's Monster Energy's prime target audience, the data shows that the product is most popular with individuals 18-24 and 35-44. From a racial perspective, the drink is more popular with Hispanics than with white consumers. These trends hold with three of the four top performing brands; it is not surprising that 5-Hour Energy looks to be an anomaly given the brand's different target audience of slightly older professionals looking for a workday boost (as evidenced by its current TV marketing campaigns).





The data below reinforces the relative strength of Hansen's Monster Energy brand within the energy drink category. Monster Energy outperformed both Red Bull and competitors in the category as a whole YoY. Hansen's faces a risk in terms of competitors stealing market share; however, there is also an opportunity for Hansen's to expand its sales across all channels.

Sales of Energy Drinks by Leading Companies – All Channels ($MM)

Manufacturer	2010	%	2011	%	Δ'10-11
Red Bull North America Inc.	$ 402	39%	$ 446	38%	11%
Hansen's Natural Corp.	**$ 234**	**23%**	**$ 278**	**24%**	**19%**
Living Essentials	$ 101	10%	$ 158	13%	56%
Rockstar Inc.	$ 111	11%	$ 121	10%	9%
PepsiCo	$ 72	7%	$ 64	5%	-11%
Coca-Cola Co.	$ 40	4%	$ 33	3%	-18%
Private label	$ 12	1%	$ 15	1%	25%
Other	$ 57	6%	$ 59	5%	4%
Total	**$ 1,029**		**$ 1,175**		**14%**

Source: Mintel/based on SymphonyIRI Group InfoScan Reviews

For the near-term, management is focusing its strategy on expanding C&G sales. In fiscal year 2010, despite lower overall C&G sales, Monster Energy sales outperformed. Monster Energy's domestic C&G share grew 28.5% and moved up to #1 in terms of market share by units of sale. Not only is industry data evidence of continuing growth in the energy drink category, but more specifically, it also shows the relevance of management's focus on the C&G space. In terms of Monster Energy's primary consumer demographic (teenagers and blue collar workers), this makes sense. Consumers are likely to stop at C&G stores to purchase product on the way to school or work. The fact that the C&G market share for energy drinks has held steady over the past six years speaks to the resilience of this market, and supports a proposal that the space will not be materially impacted to the downside by any continued economic weakness.

Sales of Energy Drinks and Shots - By Channel ($mm)				
Year	Grocery	C&G	Other	Total
2006	$ 511	$2,523	$ 157	$3,191
2007	$ 629	$3,655	$ 238	$4,522
2008	$ 666	$4,233	$ 295	$5,194
2009	$ 691	$4,439	$ 313	$5,443
2010	$ 776	$5,014	$ 347	$6,137
2011E	$ 888	$5,793	$ 399	$7,080

Share of Energy Drinks and Shots - By Channel			
Year	Grocery	C&G	Other
2006	16.0%	79.1%	4.9%
2007	13.9%	80.8%	5.3%
2008	12.8%	81.5%	5.7%
2009	12.7%	81.6%	5.8%
2010	12.6%	81.7%	5.7%
2011E	12.5%	81.8%	5.6%

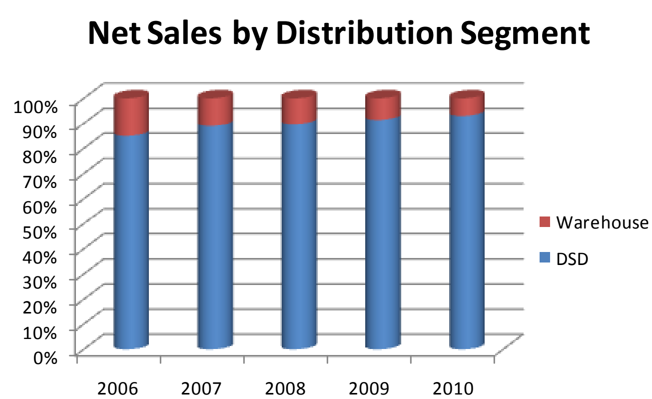
Source: Mintel/based on SymphonyIRI Group InfoScan® Reviews; Convenience Store News; Beverage Spectrum; Convenience Store Decisions

Sales and Distribution at a Glance

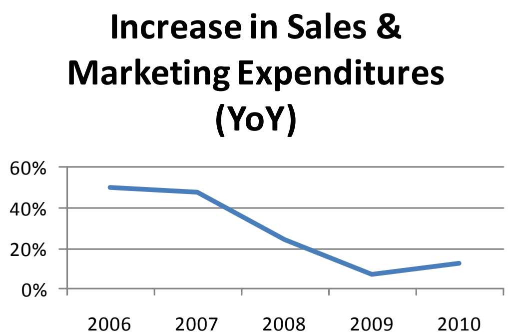
Hansen's reports two distribution segments: direct store delivery (DSD) and warehouse. DSD net sales are driven primarily by Hansen's energy drinks while warehouse net sales are driven by juice-based products and soda drinks. One single DSD customer – CCR (formerly known as CCE) – accounts for a significant portion of Hansen's net sales (28 percent and 27 percent in fiscal year 2010 and 2009 respectively). Before 2008, a second large DSD customer – The DPS Group – accounted for 13 percent of net sales. Upon termination of that distribution agreement, Hansen successfully transferred that share of DSD sales to customers including Consolidated, TCC North American Bottlers including United, AB Distributors, Coca-Cola Hellenic, Jumex, Kalil Bottling Group, Trader Joe's, John Lenore & Company, Swire Coca-Cola, Costco, The Kroger Co. and Safeway, Inc. (Wal-Mart, a DSD and warehouse customer, accounted for less than 11 percent of net sales in 2008 and less than 10 percent in 2009 and 2010.) As Monster Energy sales have increased, DSD sales' already disproportionate significance to warehouse sales has increased. This makes sense as Monster Energy is sold primarily via convenience and gas (C&G) stores, which require just-in-time inventory and frequent inventory updates and corporate oversight of promotional activity.

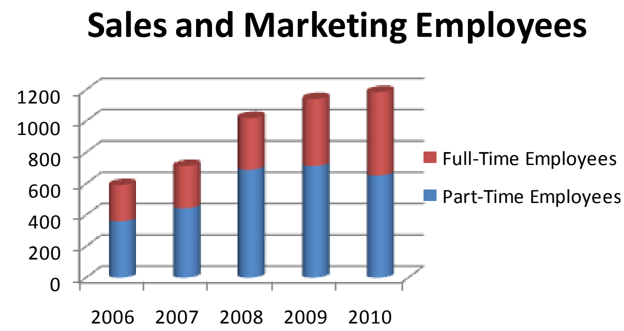
C&G Sales and Distribution Growth

Management extensively discusses growth of, trends regarding and planned expansion of C&G store sales. Annual earnings calls revealed that 81.6% of energy drink sales came from C&G in 2008, Monster Energy and Red Bull dominated energy drink sales with 60% C&G market share in 2009 (the third largest energy drink brand had only 11% market share), and Monster Energy had 28.5% C&G market share in 2010 (making it the #1 brand in terms of market share by units). During 2Q 2011, Nielsen data reveals continued strong growth in the energy drink category at 15.8%. Despite the aforementioned observation that Monster Energy had half the C&G shelf space of competitors like Rockstar and Amp, dominance of the category remains a race between Monster Energy and Red Bull.



While reliance on full service distributors has remained quite steady since 2005, Hansen has increased its reliance on its own sales force. Gross sales to international customers have been 9, 9, 13 and 16 percent in 2007, 2008, 2009 and 2010 respectively. Management has noted on earnings calls that not all international distributors have sales teams. Therefore, Hansen's needs to supplement distributors' services with Hansen's own sales team. Looking at the data the year Hansen first expanded internationally (2006), sales and marketing expenditures increased by 50 percent. Since 2008, in year over year sales and marketing expenditures have leveled at an average of 15 percent. On its first quarter 2011 earnings call, management noted that it will need to continue expanding its sales team to facilitate further international sales. This is because not all international DSD customers have their own sales team. Hansen's therefore needs to supplement the resources of its DSD customers with Hansen's sales and marketing employees.



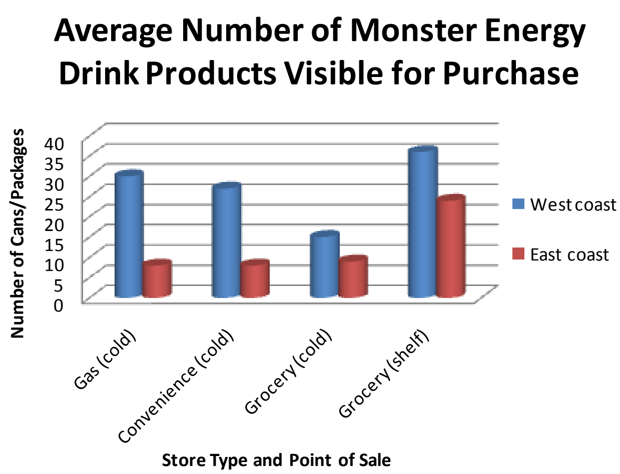


Sales and Distribution Opportunities

Typical metrics for evaluating sales and distribution including numbers of stores, store penetration, shelf space, dollars spent on promotional activity by store or region were not appropriate for analysis of Hansen's performance due to a lack of publicly filed data. Hansen's sells directly to DSD distributors as customers. Hansen's therefore does not have robust information regarding secondary sales made by DSD customers. Hansen's public filings reveal only sales to general DSD customer types as the company does "not have complete details of the sales of [its] products" by full service distributors and distributors' respective customers. (Given the DSD customer model, this lack of data is not inconsistent with other major players in the space. This is not necessarily a sign of poor management oversight.) Gross sales to full service distributor customers have ranged from 65 to 69 percent since 2005.

Given the nature of Hansen's DSD-dominated distribution model and, as noted previously, the limited tracking data, we believe that Hansen may have opportunities to improve its inventory management. (Inventories reported on balance sheet have increased by 388% from 2005 to 2010.) Unlike many competitors with broad and deep product portfolios, a single energy drink brand dominates as the major source of Hansen's revenue. Furthermore, given the fact that management acknowledges that keeping up with consumer preferences is important to maintaining brand identity and market share, we are surprised that more robust data tracking is not in place.

To better understand point-of-service sales of Hansen's major growth brand, Monster Energy, we conducted field research at 24 sites on the East and West coasts: eight gas stations, eight convenience stores and eight grocery stores. Monster Energy was more widely available on the West coast. Additionally, inventory stocking was more robust at West coast sites across the board. On the East coast, half the sampled gas stations had only half the available rows stocked with any product at all. (This was in contrast to competitor brands like Red Bull, Amp and Rockstar that were fully stocked.)



Source: Analysts' Research in Connecticut, New Jersey, Arizona and California as of 25 October 2011

Beyond Monster Energy, a final observation regarding Hansen's soda was that it was not widely carried on the East coast. It was not sold at any of the sites visited. On the West coast, Hansen's soda was available in grocery stores on the shelf. It was sold not in the soda aisle, but in the "nutrition" aisle.

C&G Scenario Analysis

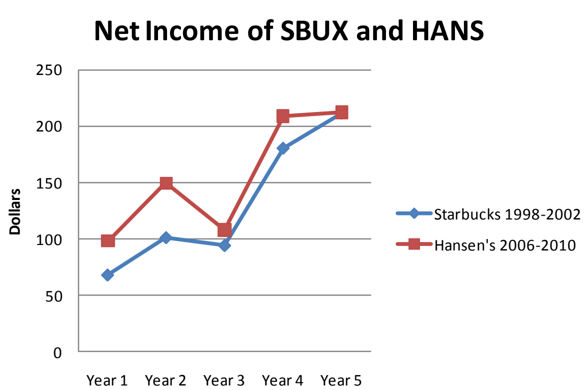
To continue expansion of C&G sales, Monster Energy must either gain market share from competitors or expand store penetration. In the former scenario, given the lack of Hansen data and only relying on a limited field research study, this strategy will only be effective if inventory levels are appropriately adjusted by distributors to keep pace with purchase increases. In the latter scenario, seemingly the preference of management, points of sale must increase. Therefore, Hansen must expand its DSD customer base (or rely more heavily on their warehouse system). We project C&G sales expansion based on three scenarios.

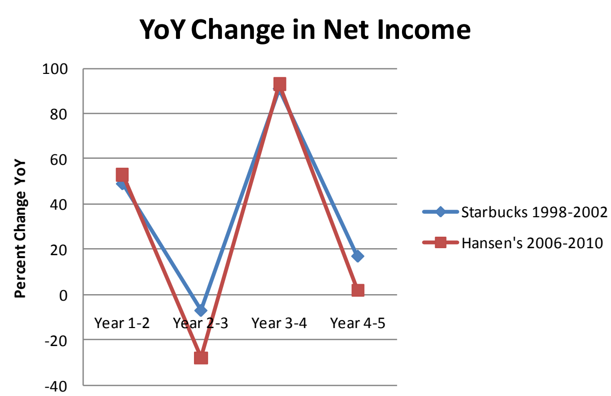
Scenario	Circumstance	Calculation of Input	Share Value
Additional large DSD customer is gained	C&G sales increase due to strong economic recovery	Gain a contract of value. New DSD customer increases net sales 5% over baseline case. Weights the DSD segment by its average size with regard to warehouse (90% over the past 5 years)	$239.76
DSD customer base maintained	Economy begins to recover; gas prices remain steady	We assume there are no significant DSD customer changes. Therefore, increases in revenues will be driven at our model's base case projected revenue levels (discussed in "Margin Analysis.")	$103.53
Single largest DSD customer is lost	C&G sales decline due to increased level or extended period of unemployment or extreme rise in gas prices	Erring conservatively towards the worst case, assumes loss of a contract like that in 2008 that accounted for 13% of net sales. Assumes DSD is the single distribution segment. Lose 13% of Monster Energy net sales.	$82.73

Margin Analysis

Hansen's has a well-established brand identity in Monster Energy, has an extensive domestic distribution network and a burgeoning international distribution network. To forecast future growth, we looked for comparable beverage companies during the timeframe when the comparable company was in a similar growth phase. (Logical comparables like Red Bull and Rockstar are private. Other possible comparables, like Snapple, Powerade, Gatorade, Perrier were private at the time of their expansion or were part of a larger company's portfolio of products.)

We settled on Starbucks and used its data beginning in 1998. Starbucks began its international expansion in 1996. Therefore, like Hansen's, it had begun showing high earnings growth from a few years of expanded market sales. Starbucks was also operating in a high-growth category (coffee) similar to Hansen's significant source of revenue today (in the explosive growth category of energy drinks). Looking at Hansen's net income from the past five years compared to net income of Starbucks from 1998-2002, a strong relationship was seen.





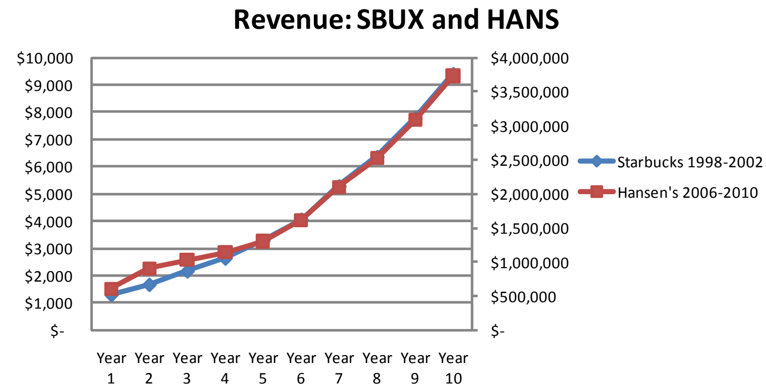
With Starbuck's growth rates for corresponding years into their respective strategies for domestic growth and international expansion, we forecasted out Hansen's revenue and COGS. We took Hansen's historical data from the past five years and then projected the next five years forward using the corresponding Starbucks rate of growth with a slight haircut. For SG&A, there was a large drop in 2009. To forecast out year six and onward, we used an average of Hansen's SG&A expenses in 2008 and 2010 and then projected expenses out using Starbuck's SG&A rate of growth.

Regarding the growth rate haircut, given uncertainty around current company practices as they head into a critical phase of international development (i.e. lack of inventory management systems and hedging for primary inputs as well as the high marketing and sales spending required to grow abroad in the way management has articulated), we ultimately decided to take a small haircut off of the Starbucks' revenue and COGS growth rates. Our base case haircut was 2%. Because revenue/COGS growth rates and TV growth rates proved to be the greatest drivers of our model, we ran our sensitivity analysis on a range of 0-5% haircut and 1.4-5.4% TV growth.

Rate of Growth	
Starbucks 1998-2008	
Year 1-2	29
Year 2-3	29
Year 3-4	22
Year 4-5	24
Year 5-6	24
Year 6-7	30
Year 7-8	20
Year 8-9	22
Year 9-10	21

	Starbucks 1998-2002	Hansen's 2006-2010
Year 1	$ 1,309	$ 605,774
Year 2	$ 1,687	$ 904,465
Year 3	$ 2,178	$ 1,033,780
Year 4	$ 2,649	$ 1,143,299
Year 5	$ 3,289	$ 1,303,942
Year 6	$ 4,076	$ 1,615,952
Year 7	$ 5,294	$ 2,098,835
Year 8	$ 6,369	$ 2,525,025
Year 9	$ 7,787	$ 3,087,199
Year 10	$ 9,412	$ 3,731,439

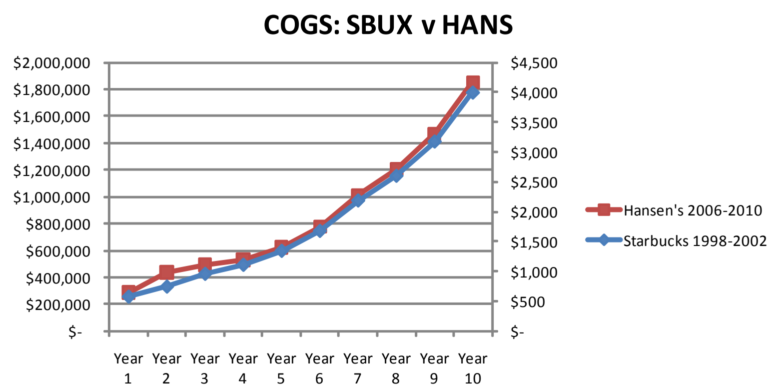
*Projected



COGS Rate of Growth	
Starbucks 1998-2008	
Year 1-2	29%
Year 2-3	29%
Year 3-4	16%
Year 4-5	21%
Year 5-6	25%
Year 6-7	30%
Year 7-8	19%
Year 8-9	22%
Year 9-10	26%

	Starbucks 1998-2002	Hansen's 2006-2010
Year 1	$ 579	$ 289,180
Year 2	$ 748	$ 436,452
Year 3	$ 962	$ 494,986
Year 4	$ 1,113	$ 530,983
Year 5	$ 1,347	$ 623,702
Year 6	$ 1,681	$ 778,354
Year 7	$ 2,191	$ 1,014,500
Year 8	$ 2,605	$ 1,206,194
Year 9	$ 3,179	$ 1,471,974
Year 10	$ 3,999	$ 1,851,659

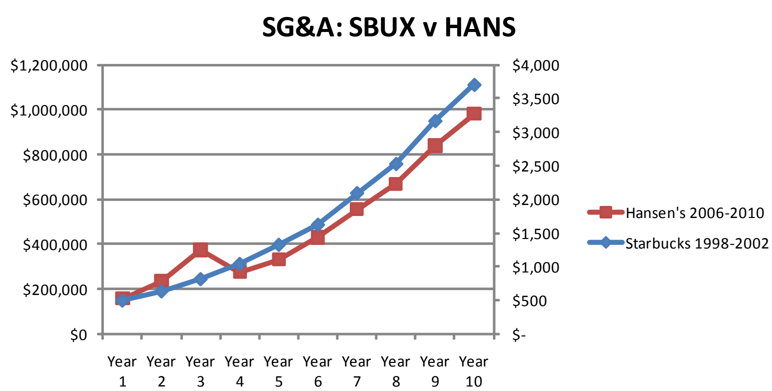
*Projected



SG&A Rate of Growth	
Starbucks 1998-2008	
Year 1-2	28%
Year 2-3	29%
Year 3-4	28%
Year 4-5	27%
Year 5-6	22%
Year 6-7	29%
Year 7-8	21%
Year 8-9	25%
Year 9-10	17%

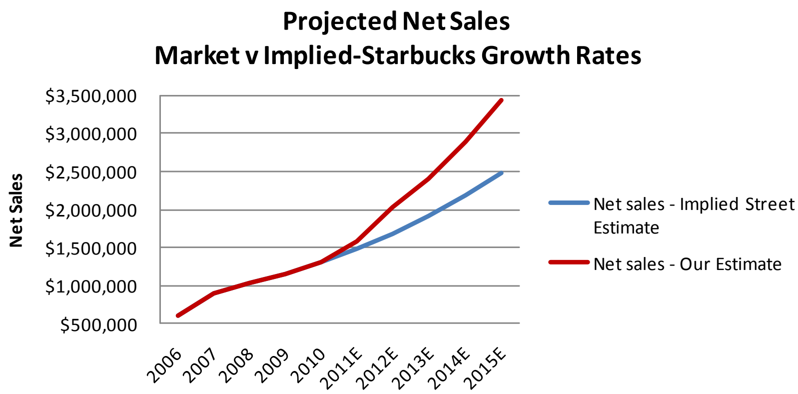
	Starbucks 1998-2002	Hansen's 2006-2010
Year 1	$ 496	$ 158,015
Year 2	$ 633	$ 237,027
Year 3	$ 815	$ 375,203
Year 4	$ 1,041	$ 275,007
Year 5	$ 1,326	$ 332,426
Year 6	$ 1,624	$ 430,340
Year 7	$ 2,095	$ 555,150
Year 8	$ 2,528	$ 669,889
Year 9	$ 3,167	$ 839,217
Year 10	$ 3,705	$ 981,780

*Projected



Finally, given our optimistic view of the company and the potentially unexpected comparable company used to project our sales, COGS and SG&A growth rates, we further stress tested the output of our model by comparing our projections to those of the Street. That is, we began with Hansen's current market capitalization and used backwards induction to find the revenue growth rate implied by the Street's current valuation. Maintaining Hansen's historical average COGS/Sales and SG&A/Sales ratios allowed us to look solely at the rate at which the revenue would have to grow to hit the current market value based on the company's own fundamentals (rather than those of Starbucks). The implied revenue growth rate was 13.71 percent, which is solidly below the historical average growth rate of 22.06 percent and our model's average growth rate of 23 percent.

Looking at the data more closely, the 13.71 percent implied growth rate is in line with the actual average revenue growth rate of 12.98 percent for the past three years. The growth rate for 2006-2007 (the first year of major international expansion) was 49 percent, which skewed the rate of growth upwards. Given that Hansen's is on the precipice of its next major international expansion effort (namely, South America and Asia), we feel comfortable that the Street is inappropriately valuing future revenue growth.



Investment Summary

We recommend a buy for Hansen's Natural Corporation. The firm has recorded strong growth over the past few years. Furthermore, Hansen's primary source of revenue, its Monster Energy drinks, is in a beverage category that continues to outperform despite macroeconomic headwinds. Monster Energy is a high performing brand in the sector, consistently ranking first or second in the category, and maintaining (if not growing) its marketshare. Finally, the company is poised to realize significant growth as it expands its domestic and international sales. Looking at other companies in high growth beverage categories and their revenue as sales demographics increased, Hansen's is well-positioned to acquire new marketshare and realize new sources of revenue. We acknowledge risks to the downside, including extended periods of economic uncertainty and unemployment, investment costs in marketing and sales teams in new markets and management's possible lack of sufficient distribution and inventory information. Nevertheless, the energy drink category appears relatively resilient to economic downturns and management has thus far successfully kept marketing and sales costs in line. As Hansen's is more involved with DSD distribution as it expands, its information about distribution and inventory will likely increase and improve in quality

Appendix

This section describes our inputs and includes our models for Hansen's Natural Corporation.

Baseline Statement Projections and APV Calculation

Input	Value	Logic	Source
Tax Rate	37.8%	Median effective tax rate for past 5 yrs has been 37.8% - in line with the actual value for 2008 and 2009. The slight rise in the 2010 value was largely due to a one-off deferred tax asset of a foreign subsidiary, and thus using the 2010 value did not seem appropriate	10-K and mgmt's report on earning calls
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	1.98%	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	1.98%	Implied	
Re	6.21%	Implied	
βd	0.00%	Hansen's has almost no debt, and as such the little they do have is essentially riskless due to sufficient cash on hand to cover debt service	
βa	0.62	Implied	
βe	0.62	Avg of Google Finance value and value computed by regressing historical returns onto a broad market	
D/E	0.0013	Implied from Balance Sheet	
WACC	6.20%	Implied	
Ra	6.21%	Implied	
Growth Rate - TV	2.40%	Weighted avg growth rate of Starbucks' Revenue, COGS, SG&A and Capex for 2000-2010; inflation adjusted and given haircut to reflect concerns about current business model	

Working Capital Calculations

FCF (in $mm)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
A/R	$ 54,624	$ 76,123	$ 45,233	$ 104,206	$ 101,222	**$ 116,042**	**$ 130,862**	**$ 145,682**	**$ 160,502**	**$ 175,322**
Δ A/R		$ 21,499	$ (30,890)	$ 58,973	$ (2,984)	$ 14,820	$ 14,820	$ 14,820	$ 14,820	$ 14,820
Inventory	$ 77,013	$ 98,140	$ 116,326	$ 108,143	$ 153,241	**$ 204,164**	**$ 261,824**	**$ 327,112**	**$ 401,039**	**$ 484,745**
Δ Inventory		$ 21,127	$ 18,186	$ (8,183)	$ 45,098	$ 50,923	$ 57,660	$ 65,288	$ 73,926	$ 83,707
A/P	$ 34,362	$ 56,766	$ 64,787	$ 48,863	$ 85,674	**$ 121,657**	**$ 156,561**	**$ 190,417**	**$ 223,258**	**$ 255,114**
Δ A/P		$ 22,404	$ 8,021	$ (15,924)	$ 36,811	$ 35,983	$ 34,904	$ 33,857	$ 32,841	$ 31,856
Change in working capital		$ 20,222	$ (20,725)	$ 66,714	$ 5,303	$ 29,760	$ 37,576	$ 46,252	$ 55,905	$ 66,671
Net CAPEX*	$ (2)	$ (2)	$ (3)	$ (14)	$ (7)	**$ (7)**	**$ (8)**	**$ (9)**	**$ (9)**	**$ (10)**

**Both Hansens and Starbucks display 2001-2011 historical Capex growth rates of 9% (per Compustat)*

Financial Statements and Projections

The following pages contain our financial statements and projections. After each statement, a description of the inputs is included. Next, a sensitivity analysis is given for our major drivers of growth.

Balance Sheet (in 1000s)	2006	2007	2008	2009	2010	2011E	2012E	2013E	2014E	2015E
ASSETS										
Current Assets										
Cash & cash equivalents	$ 35,129	$ 12,440	$256,801	$ 328,349	$ 354,842	$ 486,371	$ 673,432	$ 825,599	$ 1,117,170	$ 1,441,380
Short-term investments	$ 101,667	$ 63,125	$ 29,145	$ 18,487	$ 244,649	$ 250,442	$ 256,372	$ 262,442	$ 268,656	$ 275,017
Trade accounts receivable, net	$ 54,624	$ 76,123	$ 45,233	$ 104,206	$ 101,222	$ 116,042	$ 130,862	$ 145,682	$ 160,502	$ 175,322
Distributor receivables**		$ 5,374	$ 90,722	$ 4,699	$ 413	$ 413	$ 413	$ 413	$ 413	$ 413
Inventories	$ 77,013	$ 98,140	$116,326	$ 108,143	$ 153,241	$ 204,164	$ 261,824	$ 327,112	$ 401,039	$ 484,745
Prepaid expenses and other current assets	$ 771	$ 3,755	$ 8,379	$ 11,270	$ 17,022	$ 20,981	$ 26,089	$ 32,251	$ 39,972	$ 49,005
Prepaid income taxes	$ -	$ -	$ 4,977	$ -	$ 9,992	$ 1,871	$ 1,871	$ 1,871	$ 1,871	$ 1,871
Deferred income taxes	$ 5,953	$ 11,192	$ 9,741	$ 10,350	$ 16,772	$ 5,988	$ 7,524	$ 8,908	$ 10,236	$ 11,372
Total current assets	$ 275,157	$270,149	$561,324	$ 585,504	$ 898,153	$ 1,086,272	$ 1,358,386	$ 1,604,278	$ 1,999,859	$ 2,439,125
Investments	$ -	$227,085	$ 89,567	$ 80,836	$ 44,189	$ 172,092	$ 199,748	$ 259,283	$ 250,725	$ 240,380
Property & equipment, net	$ 5,565	$ 8,567	$ 14,389	$ 33,314	$ 34,551	$ 46,981	$ 57,830	$ 69,045	$ 80,629	$ 92,587
Deferred income taxes	$ 5,001	$ 14,006	$ 65,748	$ 65,678	$ 58,475	$ 129,622	$ 154,000	$ 194,100	$ 202,319	$ 209,999
Intangibles, net	$ 21,202	$ 24,066	$ 28,365	$ 33,512	$ 43,316	$ 54,391	$ 67,316	$ 81,166	$ 95,479	$ 110,069
Other Assets	$ 1,447	$ 730	$ 2,444	$ 1,226	$ 3,447	$ 7,150	$ 147,220	$ 257,768	$ 479,844	$ 730,021
Total Assets	**$ 308,372**	**$544,603**	**$761,837**	**$ 800,070**	**$1,082,131**	**$ 1,496,508**	**$ 1,984,499**	**$ 2,465,640**	**$ 3,108,854**	**$ 3,822,181**
LIABILITIES AND SHAREHOLDERS' EQUITY										
Current Liabilities										
Accounts payable	$ 34,362	$ 56,766	$ 64,787	$ 48,863	$ 85,674	$ 121,657	$ 156,561	$ 190,417	$ 223,258	$ 255,114
Accrued liabilities*	$ 12,789	$ 9,019	$ 12,524	$ 14,174	$ 23,811	$ 33,337	$ 42,959	$ 52,677	$ 62,492	$ 72,405
Accrued distributor terminations	$ 7,024	$ 4,312	$102,282	$ 2,977	$ 407	$ 407	$ -	$ -	$ -	$ -
Accrued compensation	$ 4,378	$ 5,827	$ 6,782	$ 7,623	$ 7,603	$ 8,340	$ 8,282	$ 8,931	$ 8,880	$ 9,451
Current portion of debt	$ 299	$ 663	$ 959	$ 206	$ 274	$ 274	$ 281	$ 289	$ 296	$ 304
Income taxes payable	$ 3,991	$ 6,294	$ -	$ 761	$ 925	$ 1,292	$ 1,803	$ 2,518	$ 3,516	$ 4,909
Total current liabilities	$ 62,843	$ 82,881	$187,334	$ 74,604	$ 118,694	$ 165,307	$ 209,887	$ 254,832	$ 298,442	$ 342,183
Deferred revenue	$ 20,441	$ 39,555	$138,187	$ 140,513	$ 135,039	$ 130,605	$ 127,014	$ 124,104	$ 121,748	$ 119,839
Long term debt, less current portion[ŧ]	$ 4	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Shareholders' Equity										
Common stock (shares in 000s)- $.005 par value; 120,000shares authorized; 98,731 shares issued and 88,980 outstanding a/o 12/31/10; 97,285 shares issued and 88,159 outstanding a/o 12/31/09; 96,851 shares issued and 90,328 outstanding as of	464	479	484	486	494	502	510	518	526	534
Additional paid-in capital	48,892	96,749	117,106	137,040	187,040	$ 233,800	$ 292,250	$ 365,313	$ 456,641	$ 570,801
Retained earnings	204,242	353,648	461,680	670,396	882,425	1,128,474	1,437,638	1,803,671	2,224,294	2,691,618
Accumulated other comprehensive income (	-	(47)	(10,825)	(4,667)	281	$ 282	$ 283	$ 285	$ 286	$ 287
Common stock in treasury, at cost; 9,751 sha	(28,514)	(28,662)	(132,129)	(218,302)	(241,842)	(162,462)	(83,082)	(83,082)	6,918	96,918
Total shareholders equity	225,084	422,167	436,316	584,953	828,398	1,200,596	1,647,599	2,086,704	2,688,664	3,360,158
Total Liabilities and Shareholders' Equity	**$ 308,372**	**$544,603**	**$761,837**	**$ 800,070**	**$1,082,131**	**$ 1,496,508**	**$ 1,984,499**	**$ 2,465,640**	**$ 3,108,854**	**$ 3,822,181**

*prior to 2009, deferred revenues and accrued liabilities were rolled into accrued liabilities line item
**prior to 2007, distributor receivables and accounts receivable were rolled into accounts receivable line item
ŧlong term debt less current portion not broken out after 2006

Balance Sheet (in 1000s)		
Line Item	***Historical Growth Rate***	***Rationale***
Cash & cash equivalents		From Cash Flow Statement
Short-term investments	2.37%	Short-term investments are mostly municipal bonds and US Treasuries. Therefore, we took a weighted avg of the yield on 10 yr treasury bonds and 10 yr municipal bonds. Management expects that the Company will continue to use a portion of its cash in excess of its requirements for operations for purchasing short- and long-term investments. Held to maturity securities are recorded at amortized cost which approximates fair market value
Trade accounts receivable, net	$Level_{t-1}$ - Cash $Flow_t$	Implied from Cash Flow
Distributor receivables**	$Level_{t-1}$ - Cash $Flow_t$	Implied from Cash Flow
Inventories	$Level_{t-1}$ + $Purchase_t$	Implied from Cash Flow
Prepaid expenses and other current assets	$Level_{t-1}$ - Cash $Flow_t$	Implied from Cash Flow
Prepaid income taxes	-Cash Outflow	Implied from Cash Flow

Deferred income taxes	4%	Company provides no guidance around deferred income taxes, and numbers display no strong patterns or constant ratios. Therefore, we used the avg deferred inc tax/inc tax ratio for Starbucks
Investments	44%	Cash and Investments have historically been 44% of total assets on avg. Because there are no clear trends with regards to investments balance sheet performance, and the Company has such a tenuous investment strategy (i.e. 1/3 of cash in ARS's) this ratio serves as our best estimate of investment levels
Property & equipment, net	Level$_{t-1}$ - Purchase$_{t-1}$ - Sale$_{t-1}$	Implied from Cash Flow
Deferred income taxes	47.40%	Company provides no guidance around deferred income taxes. Since 2008, have been fairly even as % of Σ(investments, PPE and net intangibles)
Intangibles, net	Level$_{t-1}$ - Cash Flow$_{t}$	Intangibles are largely trademarks; values implied from cash flow
Accounts payable	Level$_{t-1}$ + Cash Flow$_{t}$	Implied from Cash Flow
Accrued liabilities*	Level$_{t-1}$ + Cash Flow$_{t}$	Implied from Cash Flow
Accrued distributor terminations	$ -	Given the enormity of the recent overhaul and management's stance against any more major changes, it is unlikely that any material terminations will occur in the next few years
Accrued compensation	Level$_{t-1}$ + Cash Flow$_{t}$	Implied from Cash Flow
Current portion of debt	2.63%	Assume that new debt issuances are nominal. Growth rate reflects theweighted avg YTM for CCE outstanding debt (one of Hansen's largest distributors); BBB rated
Income taxes payable	40%	No guidance provided around income tax payment plans. Therefore, grown at avg rate from 2006-2007 and 2009-2010
Deferred revenue	Level$_{t-1}$ + Cash Flow$_{t}$	Implied from Cash Flow
Long term debt, less current portion^{t}		Company provides no reason to believe that they will begin issuing LT debt
Common stock (shares in 000s)	1.58%	Avg historic growth rate (given flatness of this rate)
Additional paid-in capital	25%	Avg historic growth rate 2008-2010
Retained earnings	Re$_{t-1}$+Net Income	Implied
Accumulated other comprehensive income (loss)	0.42%	=Loss on available-for-sale securities, net of tax benefit + foreign currency translation adjustments. It is unclear what these adjustments will have to be moving forward given an uncertain exchange rate space (esp wrt the Euro) and a lack of clarity around the future of the ARS market. As such, we use the FX risk growth rate of .42% as calculated in cash flow statement to be hyper conservative.
Common stock in treasury, at cost; 9,751 shares and 9,126 shares as of 12/31 2010 and 2009	Level$_{t-1}$ + Cash Flow$_{t}$	Impliled from Cash Flow

Income Statement (in 1000s)										
	2006	**2007**	**2008**	**2009**	**2010**	**2011E**	**2012E**	**2013E**	**2014E**	**2015E**
Net sales	$ 605,774	$ 904,465	$ 1,033,780	$ 1,143,299	$ 1,303,942	$ 1,589,896	$ 2,033,160	$ 2,405,431	$ 2,892,771	$ 3,438,637
Cost of sales	$ 289,180	$ 436,452	$ 494,986	$ 530,983	$ 623,702	$ 765,880	$ 982,924	$ 1,148,993	$ 1,379,189	$ 1,707,357
Gross profit	$ 316,594	$ 468,013	$ 538,794	$ 612,316	$ 680,240	$ 824,016	$ 1,050,236	$ 1,256,438	$ 1,513,583	$ 1,731,281
Operating expenses	$158,015	$237,027	$375,203	$275,007	$332,426	$ 430,340	$ 555,150	$ 669,889	$ 839,217	$ 981,780
Operating income	**$158,579**	**$230,986**	**$163,591**	**$337,309**	**$347,814**	**$393,676**	**$495,086**	**$586,548**	**$674,366**	**$749,500**
Other Income (expense):										
Interest and other income, net	$3,660	$8,770	$10,413	$2,273	$2,246	$2,224	$2,201	$2,179	$2,157	$2,136
Loss on investments and put option, net	$0	$0	($527)	($3,887)	($758)	($159)	($33)	($7)	($1)	($0)
Total other income (expense)	**$3,660**	**$8,770**	**$9,886**	**($1,614)**	**$1,488**	**$2,064**	**$2,168**	**$2,172**	**$2,156**	**$2,136**
Income before income taxes	**$162,239**	**$239,756**	**$173,477**	**$335,695**	**$349,302**	**$395,740**	**$497,254**	**$588,721**	**$676,522**	**$751,636**
Provision for income taxes	$64,290	$90,350	$65,445	$126,979	$137,273	$149,692	$188,090	$222,688	$255,899	$284,312
Net Income	***$97,949***	***$149,406***	***$108,032***	***$208,716***	***$212,029***	***$246,049***	***$309,164***	***$366,033***	***$420,623***	***$467,324***

Income Statement		
Line Item	***Growth Rate***	***Rationale***
Net sales	Schedule provided previously in "margin analysis"	Grown at the Starbucks rate of growth for yrs 6-10 of their international expansion period. As noted in the report, a small haircut was made to account for management's lack of international experience, limited inventory management and a lack of input hedging.
Cost of sales	Schedule provided previously in "margin analysis"	Grown at the Starbucks rate of growth for yrs 6-10 of their international expansion period
Operating expenses	Schedule provided previously in "margin analysis"	Grown at the Starbucks rate of growth for yrs 6-10 of their international expansion period
Interest and other income, net	-1%	To be conservative, we use the average rate of interest earned during the past two full fiscal years since 15 September 2008. We do not have information on hand that leads us to believe interest rates will increase in the foreseeable future.
Loss on investments and put option, net	-79%	Hansen's investment portfolio has significant exposure to auction rate securities. Losses were incurred during 2008, 2009 and 2010 when auctions failed. Hansen's has recently acquired a put option on about half the current fair value of these securities it owns. With that in mind, we subtracted the one time put option purchase amount from 2009 and then projected the average rate of change for the past three years of losses.
Provision for income taxes	37.8%	Median effective tax rate for past 5 yrs has been 37.8% - in line with the actual value for 2008 and 2009. The slight rise in the 2010 value was largely due to a one-off deferred tax asset of a foreign subsidiary, and thus using the 2010 value did not seem appropriate

Cash Flow (in 1000s)										
	2006	2007	2008	2009	2010	2011E	2012E	2013E	2014E	2015E
OPERATING ACTIVITIES										
Net income	$ 97,949	$ 149,406	$ 108,032	$ 208,716	$ 212,029	$ 246,049	$ 309,164	$ 366,033	$ 420,623	$ 467,324
Adjustments to reconcile net income to net cash provided by operating activitis:										
Amortization of trademark	$ 56	$ 56	$ 55	$ 68	$ 48	$ 47	$ 46	$ 45	$ 44	$ 43
Depreciation & amortization	$ 1,538	$ 2,128	$ 3,417	$ 5,839	$ 11,728	$ 18,049	$ 25,362	$ 32,445	$ 39,581	$ 46,882
s (gain) on disposal of property and equipment	$ 174	$ 120	$ 101	$ (144)	$ 194	$ 206	$ 218	$ 231	$ 245	$ 260
Stock-based compensation	$ 8,346	$ 10,246	$ 13,899	$ 14,040	$ 16,862	$ 14,788	$ 14,788	$ 14,788	$ 14,788	$ 14,788
Gain on put option			$ -	$ -	$ (3,768)	$ (686)	$ (686)	$ (686)	$ (686)	$ (686)
Loss on investments, net	$ -	$ -	$ 527	$ 3,887	$ 4,526	$ 5,270	$ 6,136	$ 7,145	$ 8,320	$ 9,688
Deferred income taxes	$ (10,863)	$ (14,244)	$ (44,594)	$ (3,163)	$ (1,361)	$ (5,988)	$ (7,524)	$ (8,908)	$ (10,236)	$ (11,372)
Tax benefit from exercise of stock options	$ (17,284)	$ (29,454)	$ (4,334)	$ (3,131)	$ (12,374)	$ (14,973)	$ (18,117)	$ (21,921)	$ (26,525)	$ (32,095)
Provision (benefit) for doubtful accounts	$ 73	$ (120)	$ (33)	$ 671	$ 1,659	$ 1,741.95	$ 1,829.05	$ 1,920.50	$ 2,016.52	$ 2,117.35
of changes in operating assets and liabilities:										
Accounts receivable	$ (21,445)	$ (25,879)	$ 30,609	$ (59,418)	$ 2,031	$ (14,820)	$ (14,820)	$ (14,820)	$ (14,820)	$ (14,820)
Distributor receivables	$ (4,500)	$ (874)	$ (85,348)	$ 86,023	$ 4,286	$ -	$ -	$ -	$ -	$ -
Inventories	$ (45,613)	$ (21,127)	$ (19,671)	$ 8,545	$ (44,973)	$ (50,923)	$ (57,660)	$ (65,288)	$ (73,926)	$ (83,707)
Prepaid expenses & other current assets	$ (294)	$ (3,049)	$ (4,686)	$ (2,872)	$ (2,774)	$ (3,959)	$ (5,107)	$ (6,163)	$ (7,721)	$ (9,032)
Prepaid income taxes	$ 638	$ -	$ (4,977)	$ 4,977	$ (9,992)	$ (1,871)	$ (1,871)	$ (1,871)	$ (1,871)	$ (1,871)
Accounts payable	$ 7,748	$ 22,404	$ 7,517	$ (15,786)	$ 37,096	$ 35,983	$ 34,904	$ 33,857	$ 32,841	$ 31,856
Accrued liabilities	$ 10,307	$ (3,770)	$ 3,272	$ 9,341	$ 9,432	$ 9,526	$ 9,622	$ 9,718	$ 9,815	$ 9,913
Accrued distributor terminations	$ 7,024	$ (2,712)	$ 98,082	$ (99,332)	$ (2,570)	$ (407)	$ -	$ -	$ -	$ -
Accrued compensation	$ 1,032	$ 1,449	$ 956	$ 838	$ (66)	$ 737	$ (58)	$ 649	$ (51)	$ 571
Income taxes payable	$ 21,087	$ 31,757	$ (1,960)	$ 3,892	$ 12,505	$ 12,780	$ 13,061	$ 13,349	$ 13,642	$ 13,942
Deferred revenue	$ 20,441	$ 19,114	$ 98,632	$ (6,799)	$ (5,474)	$ (4,434)	$ (3,591)	$ (2,909)	$ (2,356)	$ (1,909)
Net cash provided by operating activities	**$ 76,414**	**$ 135,451**	**$ 199,496**	**$ 156,192**	**$ 229,044**	**$ 247,117**	**$ 305,695**	**$ 357,613**	**$ 403,723**	**$ 441,892**
INVESTING ACTIVITIES										
Maturities of held-to-maturity investments	$ 26,489	$ 3,528	$ 4,997	$ 79,919	$ 107,992	$ 110,549	$ 113,167	$ 115,846	$ 118,589	$ 121,397
Sales of available-for-sale investments	$ 132,719	$ 169,529	$ 283,241	$ 17,254	$ 13,201	$ 5,058	$ 5,039	$ 5,039	$ 5,039	$ 5,039
Sales of trading investments		$ -	$ -	$ -	$ 7,400	$ 8,542	$ 5,111	$ 5,111	$ 5,111	$ 5,111
Purchases of held-to-maturity investments	$ (24,857)	$ -	$ (24,938)	$ (74,976)	$ (257,474)	$ (263,570)	$ (269,811)	$ (276,200)	$ (282,739)	$ (289,434)
Purchases of available-for-sale investments	$ (224,157)	$ (361,600)	$ (106,685)	$ -	$ (59,907)	$ (61,340)	$ (62,807)	$ (64,310)	$ (65,848)	$ (67,423)
Purchases of PPE	$ (2,746)	$ (4,108)	$ (6,718)	$ (23,554)	$ (12,545)	$ (10,929)	$ (11,270)	$ (11,622)	$ (11,984)	$ (12,359)
Proceeds from sale of property and equipment	$ 354	$ 261	$ 159	$ 877	$ 115	$ 79	$ 55	$ 38	$ 26	$ 18
Additions to trademarks	$ (2,155)	$ (2,920)	$ (4,354)	$ (5,215)	$ (9,852)	$ (11,075)	$ (12,925)	$ (13,850)	$ (14,313)	$ (14,590)
(Increase) Decrease in other assets	$ (878)	$ 583	$ (1,720)	$ 1,226	$ (1,440)	$ (2,227)	$ 2,334	$ (2,399)	$ 2,461	$ (2,522)
et cash (used in) provided by investing activities	**$ (95,231)**	**$ (194,727)**	**$ 143,982**	**$ (4,469)**	**$ (212,510)**	**$ (224,912)**	**$ (231,107)**	**$ (242,346)**	**$ (243,658)**	**$ (254,763)**
FINANCING ACTIVITIES	303	663	959	206	274					
Principal payments on debt	$ (1,176)	$ (910)	$ (1,170)	$ (1,539)	$ (420)	$ 3,333	$ 3,333	$ 3,333	$ 3,333	$ 3,333
Tax benefit from exercise of stock options	$ 17,284	$ 29,454	$ 4,334	$ 3,131	$ 12,374	$ 14,973	$ 18,117	$ 21,921	$ 26,525	$ 32,095
Issuance of common stock	$ 3,883	$ 8,191	$ 2,257	$ 2,502	$ 20,824	$ 10,915	$ 10,915	$ 10,915	$ 10,915	$ 10,915
Purchases of common stock held in treasury	$ (27,699)	$ (148)	$ (103,467)	$ (86,173)	$ (23,540)	$ 79,380	$ 79,380	$ -	$ 90,000	$ 90,000
t cash (used in) provided by financing activities	**$ (7,708)**	**$ 36,587**	**$ (98,046)**	**$ (82,079)**	**$ 9,238**	**$ 108,601**	**$ 111,745**	**$ 36,170**	**$ 130,773**	**$ 136,344**
Effect of exchange rate changes on cash and ca	$ -	$ -	$ (1,071)	$ 1,904	$ 721	$ 724	$ 727	$ 730	$ 733	$ 736
Net increase in cash and cash equivalents	$ (26,525)	$ (22,689)	$ 244,361	$ 71,548	$ 26,493	$ 131,529	$ 187,060	$ 152,167	$ 291,572	$ 324,209
Cash and case equivalents, beginning of year	$ 61,654	$ 35,129	$ 12,440	$ 256,801	$ 328,349	$ 354,842	$ 486,371	$ 673,432	$ 825,599	$ 1,117,170
Cash and case equivalents, end of year	***$ 35,129***	***$ 12,440***	***$ 256,801***	***$ 328,349***	***$ 354,842***	***$ 486,371***	***$ 673,432***	***$ 825,599***	***$ 1,117,170***	***$ 1,441,380***

Cash Flow		
Line Item	***Growth Rate***	***Rationale***
Amortization of trademark	-2%	Avg amortization rate of past 5 yrs
Depreciation & amortization	39% of PPE	Capital is amortized at its useful life using straight line method . Based on avg useful life values for the PPE items given, there should be full D&A for the 5 yr projection period. What's more, Hansens provides no detail around their depreciation analysis process. Therefore, we use the avg historical D&A as % of PPE value of 39%
Loss (gain) on disposal of property and equipment	6%	Avg of past 5 yrs ex 2009 represents a growth in loss of 6%. This is in line with the bulk of PPE coming from vehicles and equipment, which they will need more of (and will wear down more quickly) as sales and marketing efforts continue to ramp up
Stock-based compensation	$ 14,787.66	As of 12/31/10, total shares available under stock-based compensation = 9.75mm. Employee options vest over 5 yrs. Therefore, assume straightline amortization of the outstanding options, accounting for the given expected 11.7% forfeiture rate and weighted avg exercise price of $17.18.
Gain on put option	$ 686.00	In December 2010, Hansen's had $288.8million in short- and long- term investments.

Deferred income taxes	4%	Company provides no guidance around deferred income taxes, and numbers display no strong patterns or constant ratios. Therefore, we used the avg deferred inc tax/inc tax ratio for Starbucks
Tax benefit from exercise of stock options	21%	Median tax benefit rate of change for the past 5 years
Provision (benefit) for doubtful accounts	5%	First considered using the average provision since 15 September 2008 to reflect the current economic environment. Looking at 10Q filings for 2011, only 5% of 2010's comparable quarter provision has been set aside. We decided to grow the provision at a rate of 5%.
Accounts receivable	$ (14,820)	The company evaluates customers' likelihood of payment and adjusts accordingly. Accounts receivable has shown inconsistent trends over the past five years. We project forward the average of the past five years.
Distributor receivables	$ 45,155	Like accounts receivable, this line item shows inconsistent trends. Looking at the data for full fiscal years since 15 September 2008, we used the average of 2009 and 2010 and project it forward.
Inventories	13%	Avg historic growth rate for sales from Hansen energy drinks
Prepaid expenses & other current assets	0.92%	Company provides no guidance around prepaid expenses & other current assets. However, prepaid expenses as % of operating expenses is relatively constant historically; therefore, we use the avg historical rate of .92%
Prepaid income taxes	$ (1,871)	Average of the past five years
Accounts payable	-3%	Rate of change between 2006 and 2008
Accrued liabilities	1%	Rate of change since 15 September 2008
Accrued distributor terminations	$ -	Given the enormity of the recent overhaul and management's stance against any more major changes, it is unlikely that any material terminations will occur in the next few years
Accrued compensation	-12%	Median rate of change for last five years excluding 2010. Projected based off of 2009's data.
Income taxes payable	2%	Average rate since 15 September 2008
Deferred revenue	-19%	Average rate since 15 September 2008

FCF (000s)	2008	2009	2010	2011	2012	2013	2014	2015
Total Revenue	**1,033,780**	**1,143,299**	**1,303,942**	**1,589,896**	**2,033,160**	**2,405,431**	**2,892,771**	**3,438,637**
COGS	**(494,986)**	**(530,983)**	**(623,702)**	**(765,880)**	**(982,924)**	**(1,148,993)**	**(1,379,189)**	**(1,707,357)**
Gross Profit	538,794	612,316	680,240	824,016	1,050,236	1,256,438	1,513,583	1,731,281
Operating expenses	(375,203)	(275,007)	(332,426)	(430,340)	(555,150)	(669,889)	(839,217)	(981,780)
D&A	(3,417)	(5,839)	(11,728)	(18,049)	(25,362)	(32,445)	(39,581)	(46,882)
Operating Income (EBIT)	**160,174**	**331,470**	**336,086**	**375,627**	**469,725**	**554,104**	**634,785**	**702,618**
Taxes on EBIT	(60,546)	(125,296)	(127,041)	(141,987)	(177,556)	(209,451)	(239,949)	(265,590)
NOPLAT	**99,628**	**206,174**	**209,045**	**233,640**	**292,169**	**344,652**	**394,836**	**437,029**
Depreciation	3,417	5,839	11,728	18,049	25,362	32,445	39,581	46,882
Change in working capital	(20,725)	66,714	5,303	29,760	37,576	46,252	55,905	66,671
Net CAPEX	(3.47)	(13.51)	(6.58)	(7.18)	(7.82)	(8.53)	(9.29)	(10.13)
FCF	**123,767**	**145,286**	**215,464**	**221,922**	**279,946**	**330,837**	**378,503**	**417,230**
TV								11,205,579
Discount Factor				0.94	0.89	0.83	0.79	0.74
PV FCF				208,949	248,173	276,143	297,460	8,600,253
NPV FCF	9,630,978							
Debt (in $000s)				**2011**	**2012**	**2013**	**2014**	**2015**
Debt Balance				274	281	289	296	304
Interest on Debt				5	6	6	6	6
Tax Shield				**2.05**	**2.10**	**2.16**	**2.22**	**2.28**
TV								94.95
Discount Factor				0.98	0.96	0.94	0.92	0.91
PV Tax Shield				2.01	2.02	2.04	2.05	88.15
NPV Tax Shield	96.27							
Enterprise Value	$ 9,631,074							
Outstanding Debt	$ 274.00							
Equity Value	$ 9,630,800							
Market Value (10/29/11)	$ 7,680,000							
Price/Share	$ 86.72							
Price/Share - Diluted	$ 82.56							
Implied Sharecount	88,561	(in line with basic count from 10-K)						
Actual Sharecount	93,021	diluted						
Implied Price/Share	$ 103.53							
Recommendation	**Buy**							
Currently trading at a discount	25%							

Equity Value - Sensitivity Analysis

		TV Growth Rate				
		1.4%	**2.4%**	**3.4%**	**4.4%**	**5.4%**
Rev/COGS Growth Rate Haircut	**0.0%**	$ 9,468,345	$ 11,655,098	$ 15,399,076	$ 23,283,127	$ 50,666,008
	1.0%	$ 8,645,997	$ 10,631,253	$ 14,030,251	$ 21,187,848	$ 46,047,615
	2.0%	$ 7,849,443	**$ 9,630,800**	$ 12,704,916	$ 19,159,583	$ 41,577,940
	3.0%	$ 7,078,062	$ 8,679,738	$ 11,422,017	$ 17,196,703	$ 37,253,354
	4.0%	$ 6,331,244	$ 7,750,521	$ 10,180,517	$ 15,297,605	$ 33,070,286
	5.0%	$ 5,608,390	$ 6,851,321	$ 8,979,399	$ 13,460,713	$ 29,025,226

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[i] Matthew Boyle. "An Energy Drink with a Monster of a Stock." CNN Money. 15 December 2006. Accessed 26 October 2011. <http://money.cnn.com/magazines/fortune/fortune_archive/2006/12/25/8396769/index.htm>

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[iii] Ibid.