

First Cut Stock Study Report

Company Name:	Green Mountain Coffee Roaster	Ticker:	GMCR
Date of Study:	7/19/2013	Price:	\$ 73.86
Your Name:	Sean Pulrang		
City:	Fitchburg	State:	MA
Chapter Name (if applicable):	ICLUBcentral Staff		

Discuss why you consider this to be a high quality, growth company that should be investigated further. Please include comments on historical sales and EPS growth, pre-tax profit margin, return on equity, and debt.

What really caught my eye in this case was the consistent growth of Sales, PTP, and EPS over both the last 10, and 5 years. In fact, the growth rate has increased in the last 5 years, which given the economy, I find a more than pleasant surprise. While I do usually like to research companies with little to no debt, GMCR has begun paying their down, while retaining a good growth rate.

Briefly describe how the company makes money:

GMCR operates in three business units; Specialty Coffee, Keurig, and Canadian. The Specialty Coffee unit sources, produces and sells coffee, hot cocoa, teas and other beverages, to be prepared hot or cold, in K-Cup® portion packs and coffee in more traditional packaging including whole bean and ground coffee selections in bags and ground coffee in fractional packs. The Keurig unit sells Keurig K-Cup and Vue brewing systems primarily to retail for resale to customers. The Canadian unit operates similarly to the Specialty Coffee unit, with the difference being that it is responsible solely for products sold in Canada.

Projected growth rate for sales: 20%

Why did you select this rate? Discuss from where future growth will come.

GMCR has a history of acquiring smaller specialty coffee companies, and then expanding their brands to larger markets. This includes Tully's, Timothy's, and Diedrich Coffee. Given the variety of coffee beans, and preparation methods for both whole and pre-ground coffees, I think GMCR will be able to continue this process; taking smaller brands, increasing their production capacity, and bringing them to a wider market. On top of this, they own Keurig brand, which is a perfect companion to their wide variety of specialty coffees and teas. If they can keep the prices low on these machines,

I think that they will become more and more of a gateway for customers to experiment with different brews of coffee where they might otherwise balk at buying larger quantities of an unknown brand.

Taken all together, I think they have a good business model that will allow for continued growth over the next several years.

Projected growth rate for earnings per share: 20%

Why did you select this rate?

This was based mostly on not wanting to over-estimate the earnings growth. While it's certainly possible for EPS to grow faster than sales, I didn't want to estimate it doing so in the long term.

Projected High P/E: 30

Why did you select this value?

GMCR has had a P/E above 30 for 8 out of the last 10 years, with the five year average at 60.5. Even with that in mind, the High P/E dropped from almost 90 last year to just a little above 40. This is the second time in less than 10 years that the company has had a sharp drop in P/E. I believe with their business model, they will be able to recover from this dip as well, but I don't like to estimate higher than 30 for future growth.

Projected Low P/E: 12.8

Why did you select this value?

This was primarily from looking at the recent down-slope of the low P/E, and eliminating what seemed to be outliers from the last five years.

Projected Low Price: \$33.4

Why did you select this value?

While I usually go with 80% of the current price, GMCR is near it's high price for the year. I also noticed that through 2011, 2012, and so far this year, it's price has had rather extreme highs and lows. For this reason, I felt the almost 60.00 price that would come with using the 80% of current was too high. I decided instead to use the 33.4 calculated by (Low P/E * Estimated Low EPS)

At the current price, the stock is a (check one):

Buy or Hold or Sell

At the current price, the upside-downside ratio is: 2.4 to 1

Projected compounded rate of return: 18.2%

Your final recommendation (check one):

Buy or Hold or Sell



Explain:

The Hold suggestion is based on the assumption that the club bought in to GMCR on one of the lower price fluctuations. Given that assumption, I think that this is a solid Hold until the club can sell at a 15% return.

Anyone interested in buying into GMCR should put this on a watch list, and could easily put this on a watch list, and wait for the price to drop a bit before investing.

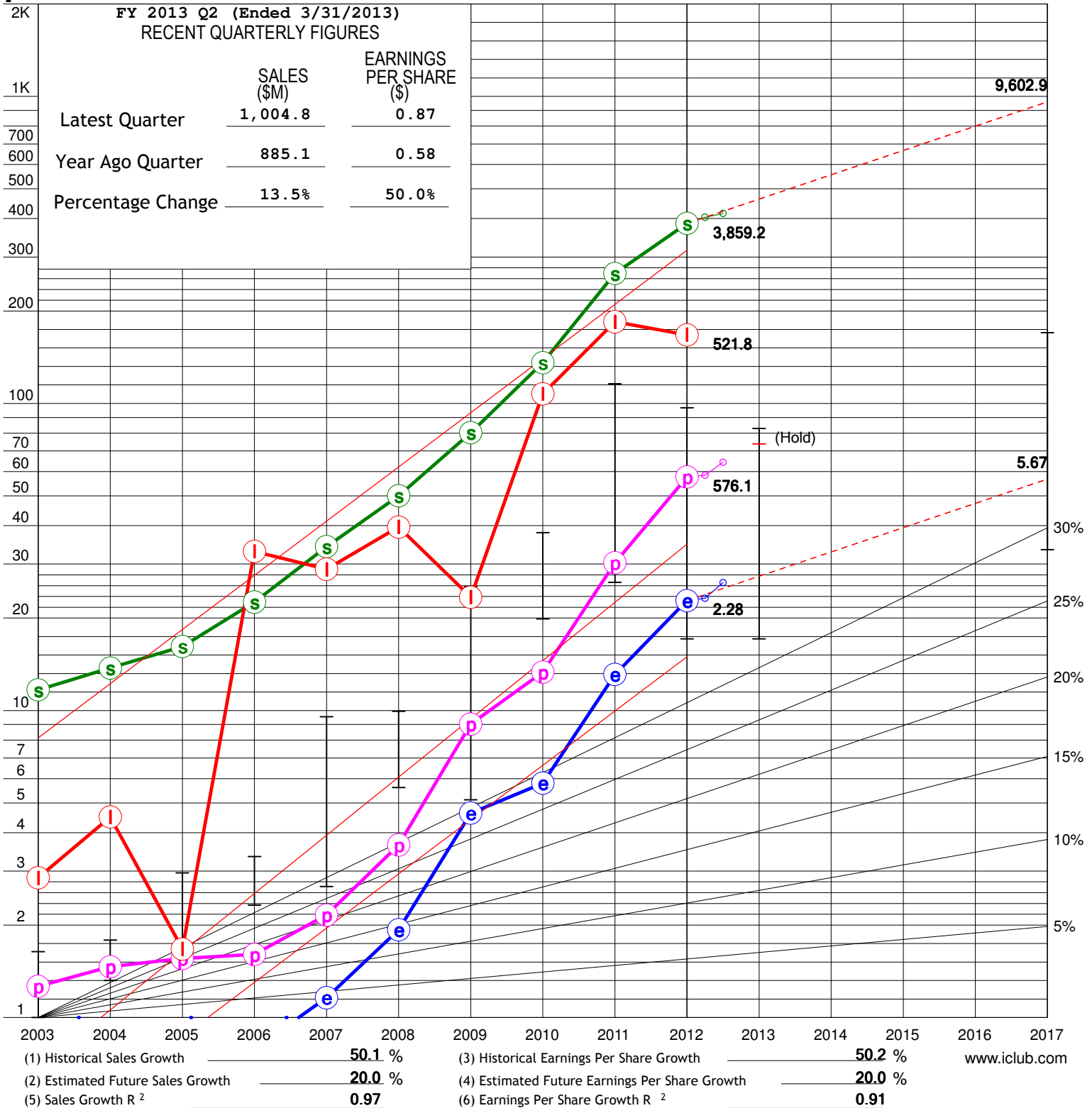


Stock Selection Guide

Company	Green Mtn Coffee Roa..	Price Date	07/18/13
Study by	Sean	Data Date	07/18/13
Sector	Consumer Defensive	Data Source	StkCntr1
Industry	Packaged Foods	Reference	Morningstar
Preferred(\$M)	0.0		
Common(M Shares)	148.8	% Insiders	6.3
Debt(\$M)	350.8	% Institutions	96.0
% Debt to Tot.Cap.	14.0	Quality	

1 Growth Analysis

NAS: GMCR



2 QUALITY ANALYSIS

Company **Green Mntn Coffee Roaster**

(GMCR)

07/18/13

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	5 YEAR AVG.	TREND UP / DOWN
A % Pre-tax Profit on Sales	10.8	10.6	9.6	7.1	6.3	7.3	11.3	9.8	11.4	14.9	10.9	UP
B % Return on Equity	17.2	17.0	14.4	10.8	12.3	15.1	10.3	11.0	10.6	15.7	12.5	UP
C % Debt to Equity	25.8	31.9	8.9	138.3	91.6	89.5	14.3	48.5	31.8	23.2	41.4	DOWN

3 PRICE, PRICE/EARNINGS RATIO and DIVIDEND ANALYSIS

CURRENT PRICE (P/E) 73.86 (28.3) 52-WEEK HIGH (P/E) 82.95 (31.8) 52-WEEK LOW (P/E) 17.11 (6.6)

Fiscal Year	High Price	Low Price	EPS	High P/E	Low P/E	Dividend	% Payout	% High Yield
1 2008	9.9	5.6	0.19	51.3	29.0	0.000	0.0	0.0
2 2009	25.3	5.1	0.46	54.6	11.0	0.000	0.0	0.0
3 2010	38.0	19.9	0.58	65.5	34.3	0.000	0.0	0.0
4 2011	116.0	26.1	1.31	88.5	19.9	0.000	0.0	0.0
5 2012	96.8	17.1	2.28	42.5	7.5	0.000	0.0	0.0
6 AVERAGE		14.8		60.5	12.8		0.0	
AVERAGE P/E RATIO		40.4 36.7	PROJECTED P/E RATIO		23.6	TTM EPS		2.61
CURRENT P/E RATIO		28.3	PEG RATIO		1.2	FTM EPS		3.13
RELATIVE VALUE		70.0% 77.1%	PROJ. RELATIVE VALUE		58.4% 64.3%	AVG TTM + FTM EPS		2.87

4 EVALUATING REWARD and RISK over the next 5 years

A FUTURE HIGH PRICE ANALYSIS -- NEXT 5 YEARS

Selected High P/E ~~60.5~~ 30.0 X Estimated High Earnings/Share 5.67 = Forecast High Price \$ 170.1

B FUTURE LOW PRICE ANALYSIS -- NEXT 5 YEARS

(a) Sel. Low P/E 12.8 (as adj.) X Estimated Low Earnings/Share ~~2.28~~ 2.61 = \$ 33.4

(b) Average 5-Year Low Price = 14.8

(c) Recent Severe Low Price = 17.1

(d) Price Dividend Will Support = Present Divd. + High Yield = 0.000 + 0.000 = 0.0

Selected Estimated Low Price = \$ 33.4

C PRICE RANGES

Forecast High Price 170.1 - Estimated Low Price 33.4 = Range 136.7 25% of Range = 34.2

BUY (Lower 25% of Range) = 33.4 to 67.6

MAYBE (Middle 50% of Range) = 67.6 to 135.9

SELL (Upper 25% of Range) = 135.9 to 170.1

Current Price 73.860 is in the Hold Range

D UPSIDE/DOWNSIDE ANALYSIS (Potential Gain vs. Risk of Loss)

(Forecast High Price 170.1 - Current Price 73.860) ÷ (Current Price 73.860 - Estimated Low Price 33.4) = 2.4 To 1

5 TOTAL RETURN ANALYSIS

A CURRENT YIELD

Present Full Year's Dividend \$ 0.000 ÷ Current Price of Stock \$ 73.860 = 0.0 % Present Yield or % Returned on Purchase Price

B AVERAGE YIELD - USING FORECAST HIGH P/E

Avg. % Payout 0.0 ÷ Forecast High P/E 30.0 = Avg. Yield 0.0

AVERAGE YIELD - USING FORECAST AVERAGE P/E

Avg. % Payout 0.0 ÷ Forecast Avg P/E 21.4 = Avg. Yield 0.0

C % COMPOUND ANNUAL TOTAL RETURN - USING FORECAST HIGH P/E

Average Yield 0.0 % + Annual Appreciation 18.2 % = Compound Annual Total Return 18.2 %

D % PROJECTED AVERAGE RETURN - USING FORECAST AVERAGE P/E

Average Yield 0.0 % + Annual Appreciation 10.4 % = Projected Average Total Return 10.4 %