

EXHIBIT 1

Initiate coverage with Neutral rating

**Bank of America
Merrill Lynch**



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Distribution push should drive meaningful growth

We are initiating coverage on Green Mountain Coffee Roasters (GMCR) with a Neutral Rating and \$72 price objective. Our rating reflects our view that the current share price anticipates a high level of future earnings growth. GMCR shares are up +155% year to date driven by accelerating EPS growth and c. 1000bps of multiple expansion. In our view, key factors supporting this re-rating. 1) Sales growth (we estimate +55% in FY10E) and EPS growth (we estimate +52% in FY10E) have accelerated due to increased demand for single-cup brewers and K-Cup portion packs. 2) Meaningful distribution opportunities for K-Cup (currently in less than one-third of targeted grocery accounts) 3) Penetration opportunity for Keurig single-cup brewers with an installed base of approximately 3mn households out of a universe of 90mn. Brewer manufacturing alliances should help increase installed brewer base. 4) Estimated year 5 earnings power of \$4-6 depending on household penetration levels. 5) Strong balance sheet.

Valuation the most prominent concern

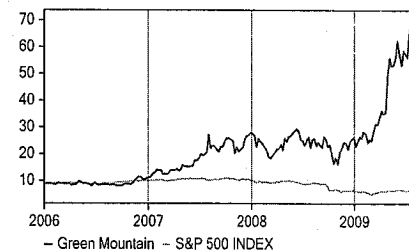
At 36.9x FY10E P/E, GMCR is currently trading at a P/E to growth of 1x, which we believe is appropriate given our estimated forward 3 year EPS CAGR of +36.5%. We calculate that the stock is pricing in an earnings plateau of approximately \$5, which would imply a 5x increase in the installed brewer base. To be more constructive we need to see a higher earnings plateau which is dependent upon upside to our 17.6%, base case, household brewer penetration estimate. Other risks include competition from larger rivals and patent expiration.

Neutral Rating and \$72 price objective

Our \$72 price objective is based on a target P/E ratio of 42.0x FY10E EPS, which implies a P/E to growth of 1.2x using our forecasted 3-year EPS CAGR of 36.5%.

Stock Data

Price	US\$63.37
Price Objective	US\$72.00
Date Established	17-Aug-2009
Investment Opinion	C-2-9
Volatility Risk	HIGH
52-Week Range	US\$15.34-72.00
Mrkt Val / Shares Out (mn)	US\$2,414 / 38.1
ML Symbol / Exchange	GMCR / NAS
Bloomberg / Reuters	GMCR US / GMCR.O
ROE (2009E)	13.5%
Total Dbt to Cap (Jun-2009A)	0%
Est. 5-Yr EPS / DPS Growth	46.2% / NA



Quarterly Earnings Estimates

	2008	2009
Q1	0.08A	0.10A
Q2	0.17A	0.33A
Q3	0.18A	0.36A
Q4	0.20A	0.33E

Estimates (Sep)

(US\$)	2007A	2008A	2009E	2010E	2011E
EPS	0.35	0.63	1.13	1.72	2.32
GAAP EPS	0.35	0.58	1.39	1.72	2.32
EPS Change (YoY)	34.6%	80.0%	79.4%	52.2%	34.9%
Consensus EPS (Bloomberg)			1.14	1.78	2.35
Dividend Rate	0	0	0	0	0

Valuation (Sep)

	2007A	2008A	2009E	2010E	2011E
P/E	181.1x	100.6x	56.1x	36.8x	27.3x
GAAP P/E	181.1x	109.3x	45.6x	36.8x	27.3x
Dividend Yield	0%	0%	0%	0%	0%
EV / EBITDA*	51.3x	34.7x	22.0x	13.4x	9.7x
Free Cash Flow Yield*	0.3%	-1.9%	1.7%	-2.4%	-0.4%

* For full definitions of iQmethod™ measures, see page 23.

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Refer to important disclosures on page 24 to 26. Analyst Certification on Page 22. Price Objective Basis/Risk on page 22.

17 August 2009

iQprofileSM Green Mountain Coffee Roasters

iQmethodSM – Bus Performance*

(US\$ Millions)	2007A	2008A	2009E	2010E	2011E
Return on Capital Employed	8.3%	11.4%	10.5%	11.9%	14.2%
Return on Equity	15.1%	20.4%	13.5%	13.8%	16.1%
Operating Margin	8.3%	9.1%	9.7%	10.4%	11.5%
Free Cash Flow	8	(47)	42	(58)	(10)

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2007A	2008A	2009E	2010E	2011E
Cash Realization Ratio	2.3x	0.1x	2.1x	0.9x	1.0x
Asset Replacement Ratio	1.4x	2.7x	2.2x	3.6x	2.5x
Tax Rate	40.5%	38.9%	37.8%	39.0%	39.0%
Net Debt-to-Equity Ratio	87.7%	87.9%	-39.9%	-26.2%	-21.6%
Interest Cover	4.6x	8.0x	17.3x	NM	NM

Income Statement Data (Sep)

(US\$ Millions)	2007A	2008A	2009E	2010E	2011E
Sales	342	500	804	1,259	1,568
% Change	51.6%	46.4%	60.7%	56.6%	24.5%
Gross Profit	131	177	252	391	491
% Change	59.8%	34.9%	42.6%	55.2%	25.5%
EBITDA	43	64	101	166	230
% Change	58.0%	47.7%	58.1%	64.4%	38.4%
Net Interest & Other Income	(6)	(6)	(5)	(1)	(1)
Net Income (Adjusted)	13	24	45	80	110
% Change	39.7%	85.0%	86.4%	75.8%	37.6%

Free Cash Flow Data (Sep)

(US\$ Millions)	2007A	2008A	2009E	2010E	2011E
Net Income from Cont Operations (GAAP)	13	24	45	80	110
Depreciation & Amortization	15	18	23	35	49
Change in Working Capital	(4)	(47)	8	(55)	(53)
Deferred Taxation Charge	0	1	(2)	0	0
Other Adjustments, Net	5	6	18	8	9
Capital Expenditure	(22)	(49)	(51)	(126)	(125)
Free Cash Flow	8	(47)	42	(58)	(10)
% Change	NM	NM	NM	NM	82.1%

Balance Sheet Data (Sep)

(US\$ Millions)	2007A	2008A	2009E	2010E	2011E
Cash & Equivalents	3	1	289	238	235
Trade Receivables	39	55	54	92	123
Other Current Assets	45	96	100	156	197
Property, Plant & Equipment	66	98	132	221	294
Other Non-Current Assets	111	108	140	134	129
Total Assets	265	358	715	841	977
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	57	73	83	122	141
Long-Term Debt	90	124	76	76	76
Other Non-Current Liabilities	18	22	23	23	23
Total Liabilities	165	218	182	221	240
Total Equity	99	140	534	620	737
Total Equity & Liabilities	265	358	715	841	977

* For full definitions of iQmethodSM measures, see page 23.

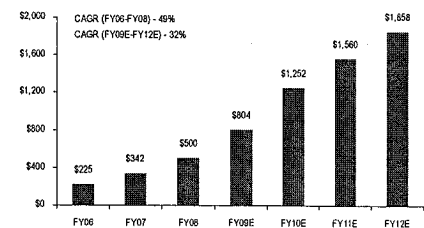
Company Description

Green Mountain Coffee Roasters is a leader in the specialty coffee industry, selling high-quality premium coffee and innovative coffee brewing systems. The company sells over 200 whole bean and ground coffee selections, hot coca, teas, and coffees in k-cup portion packs. The company also sells the patented single-cup Keurig brewing system.

Investment Thesis

Our Neutral reflects our view that the current share price anticipates a high level of future earnings growth. This is reasonable in our opinion given that the company plans to increase distribution, which should drive higher household penetration and usage rates for its Keurig single-cup brewing system. Upside to our target valuation would require faster than anticipated earnings growth from either greater than anticipated penetration rates or higher than expected operating leverage.

Chart 1: GMCR Revenues, FY06-FY12E



Source: Company reports

Stock Data

Average Daily Volume 1,594,463

Overview

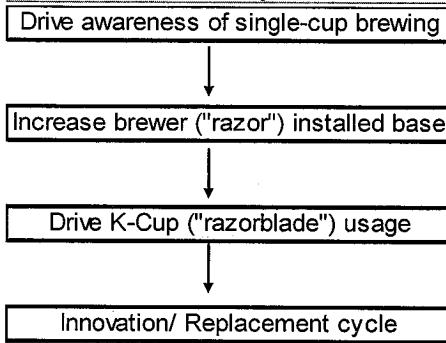
We are initiating coverage on Green Mountain Coffee Roasters (GMCR) with a Neutral Rating and \$72 price objective. Our rating reflects our view that the current share price anticipates a high level of future earnings growth. This is reasonable in our opinion given that the company's plans to increase distribution, which should drive higher household penetration and usage rates for its Keurig single-cup brewing system. Upside to our target valuation would require faster than anticipated earnings growth from either greater than anticipated penetration rates or higher than expected operating leverage.

Table 1: List of brands

Green Mountain Coffee	Tully's
Newman's Own Organics	Celestial Seasonings
Caribou	Diedrich
Gloria Jean's	Timothy's
Van Houtte	Bigelow
Twinings	Coffee People
Emeril's	

Source: Company reports

Chart 2: Business Model Objectives

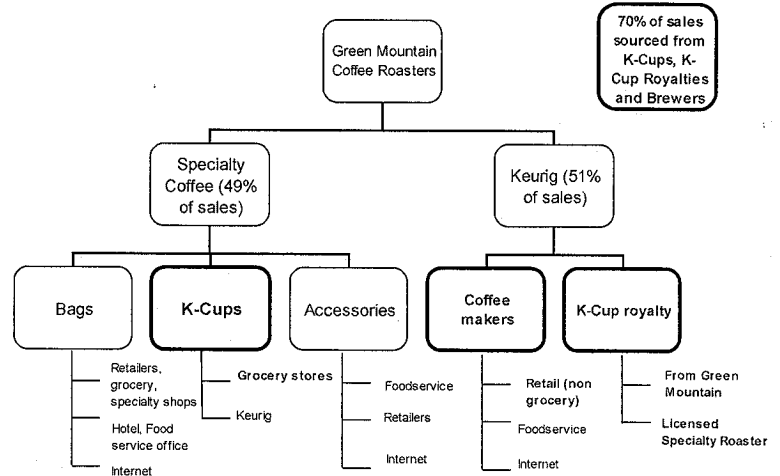


Source: Company reports

What is Green Mountain Coffee Roasters?

GMCR is a specialty coffee company, selling whole bean and ground coffee, hot coca, teas in K-Cup portion packs, Keurig brewers, and a variety of other products. Single-cup coffee brewing is the earnings and growth engine for the company. K-Cup portion packs and Keurig brewers account for virtually all of the growth and approximately 70% of consolidated net sales. Management's business plan is based on increasing household penetration of its coffee brewers and then profit from the recurring revenue stream of selling K-Cup portion packs as we outline in Chart 1.

Chart 3: GMCR Business Model

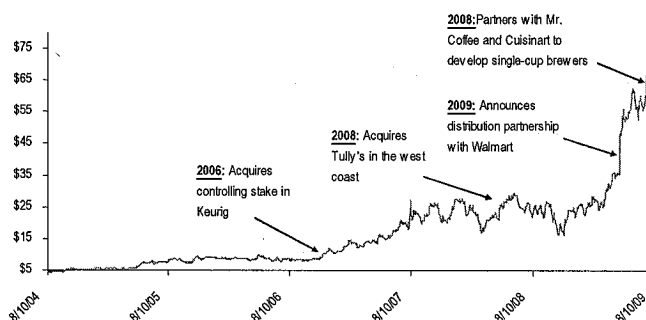


Source: Company reports, BAS-ML

Valuation

Chart 4: GMCR 5 year stock performance

GMCR Shares have increased more than four-fold since acquiring a controlling stake in Keurig in 2006.



Source: FactSet, company reports

\$72 price objective implies a 9.6% return

Our \$72 price objective is based on a target P/E ratio of 42.0x FY10E EPS, which implies a P/E to growth of 1.2x using our forward three years earnings CAGR of 36.5%. In our view, the high P/E multiple relative to the packaged food group is justified by the company's attractive growth potential.

Table 2: GMCR Valuation Summary

	FY08A	FY09E	FY10E	FY11E	FY12E
Net Sales	\$500.3	\$803.7	\$1,258.8	\$1,567.6	\$1,873.0
Sales Growth	46.4%	60.7%	56.6%	24.5%	19.5%
EBIT	45.7	77.7	131.5	181.0	228.4
EBIT Margin	9.1%	9.7%	10.4%	11.5%	12.2%
Diluted EPS	\$0.63	\$1.13	\$1.72	\$2.32	\$2.88
EPS CAGR (FY09-FY12)	36.6%				
Valuation Range					
Current Price	\$63.37				
Price/BAS-ML EPS	99.9x	56.1x	36.9x	27.3x	22.0x
PEG ratio	2.7x	1.5x	1.0x	0.7x	0.6x
BAS-ML Price Objective					
PO/BAS-ML EPS	\$72.00	63.7x	42.0x	31.0x	25.0x
PEG ratio	3.1x	1.7x	1.1x	0.8x	0.7x

Source: Company reports, BAS-ML estimates

Coffee Industry Overview

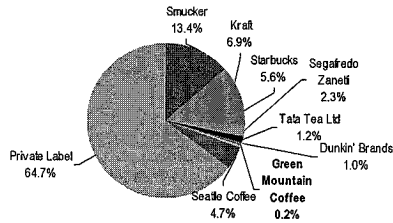
U.S. Coffee is a \$7.6 billion industry

According to Euromonitor, fresh ground coffee accounted for 92% of coffee sales in 2008 and generated approximately \$7.6 Billion in retail sales. Private label is the leading market share at nearly 65% of category sales dollars.

Annual unit growth is averaging +1.0%

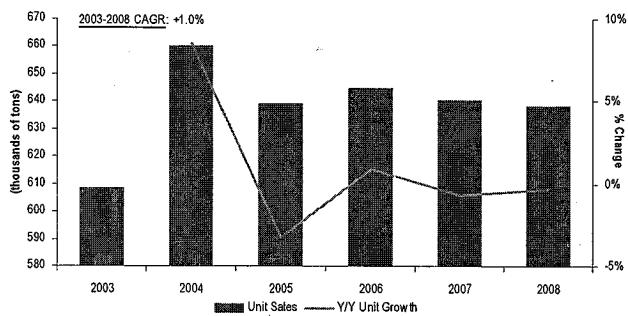
In the aggregate, fresh ground coffee is a slow growth industry with compound annual unit growth of +1.0% over the past five years as demonstrated in Chart 6. We also believe household penetration for coffee makers is high. While the unit growth has been +6.3% on average between 2002 and 2007, more recent trends have been closer to flat.

Chart 5: 2008 Fresh ground coffee dollar share



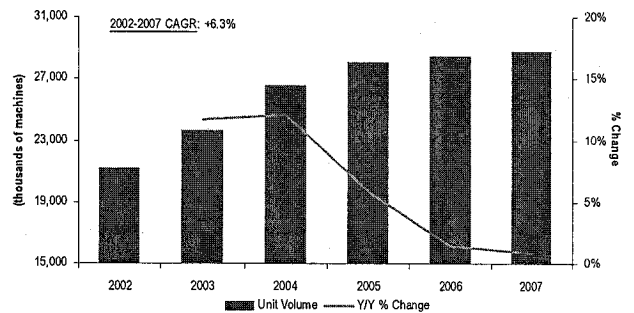
Source: Euromonitor

Chart 6: Fresh Ground Coffee unit sales



Source: Euromonitor

Chart 7: Coffeemaker unit sales

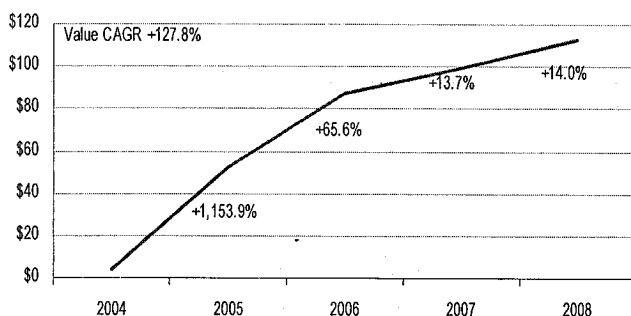


Source: Euromonitor

Single-cup brewing is growing faster than the industry.

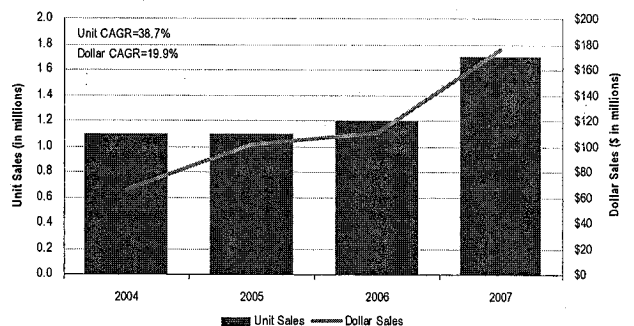
Single-cup brewing systems, like Green Mountain's Keurig and the associated K-Cups, offer consumers an alternative to drip coffee. Unit sales of single serve coffee makers have increased +38.7% since 2004, faster than overall industry average. Single-cup coffee portion pack sales are currently growing at a double-digit rate as more consumers have adopted the product.

Chart 8: Retail sales growth of coffee portion packs



Source: Euromonitor

Chart 9: Retail sales of single-serve coffee makers



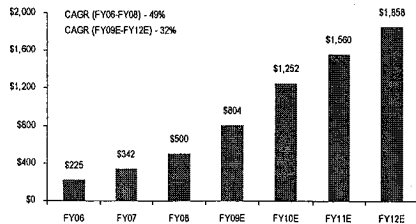
Source: Home World

Investment positives

Strong sales momentum

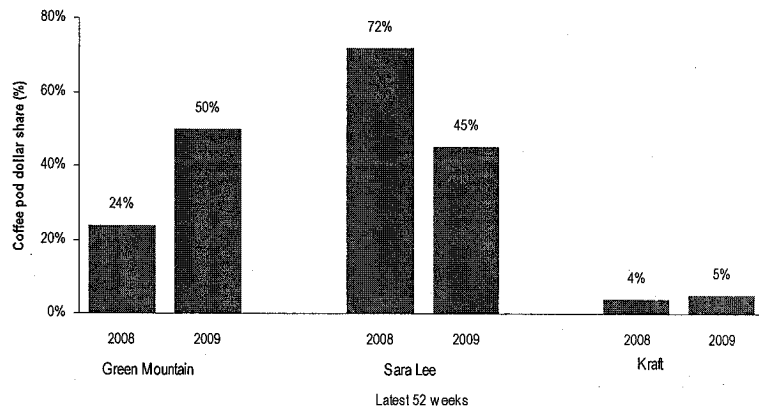
GMCR is growing sales at a 50%-60% rate due largely to market share gains in its single-cup brewing business. While Sara Lee's Senseo and Kraft's Tassimo garnered much of the early popularity in single-cup brewing, the Keurig K-Cup system has recently emerged as the industry leader. Of the approximate 9 million homes that utilize single-cup brewers in the U.S. (10% of the total coffeemaker market), 3.2 million homes own a Keurig machine, which equates to 36% of total single-serve coffeemakers and 3.5% of overall coffeemakers. Additionally, Green Mountain captured a 50% dollar share in single-cup coffee pods business with its featured K-Cups for the 52 weeks ended July 12, 2009, up significantly from the year-ago period when it was only 24% of the market.

Chart 10: GMCR Revenues, FY06-FY12E



Source: Company reports

Chart 11: Coffee pods dollar shares, latest 52 weeks



Source: IRI,

Best execution of single-cup business model

Snapple, Vitamin Water, Cliff Bar and Sam Adams are examples of consumer packaged goods brands that were able to take market share from larger, more entrenched competitors. Green Mountain Coffee has had similar success in at home, single-cup coffee brewing, taking market share from Kraft (Tassimo), Sara Lee (Senseo) and Nestle (Nespresso). In our view there are two important factors that have differentiated GMCR from the competition in single-cup brewing that have helped it win market share.

GMCR sells coffee makers and coffee

Maximizing this business model involves driving household penetration of coffee makers and then capturing the recurring revenue stream from selling K-Cup portion packs. GMCR is the only company that controls production and distribution of the coffee and the brewer. This has allowed it to more aggressively pursue selling and merchandising its machines, in our view. The company aims to just break even on the machines. It also recently licensed the technology to Mr. Coffee and Cuisinart, which should aid in building household penetration. In our view, because the competitors have licensing relationships with appliance makers that need to make a profit on the machine, the selling effort is less effective.

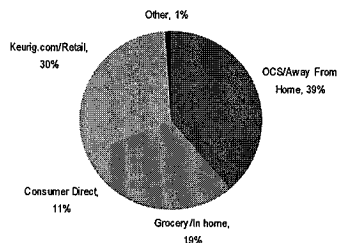
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Table 3: Single-serve coffee consumer value proposition by manufacturer

Company	Brewer	Machines offered	Brewer ranges	Varieties of products	Pricing structure	Avg. Price per coffee pod
Green Mountain	Keurig	5	\$89.95-\$249.95	over 200	\$11.95/24 k-cups	\$0.50
Kraft	Tassimo	2	\$129.99/\$169.99	18	5.99/16 t-discs--\$10.49/12 t-discs	\$0.37 (Maxwell)--\$0.87 (Starbucks)
Sara Lee	Senseo	2	\$69.99/\$139.99	15	\$31.99/108 coffee pods	\$0.30

Source: Company reports, BAS-ML research

Chart 12: GMCR K-Cup unit sales by channel



Source: Company reports, BAS-ML estimates

Aligned interests with non-grocery retailers.

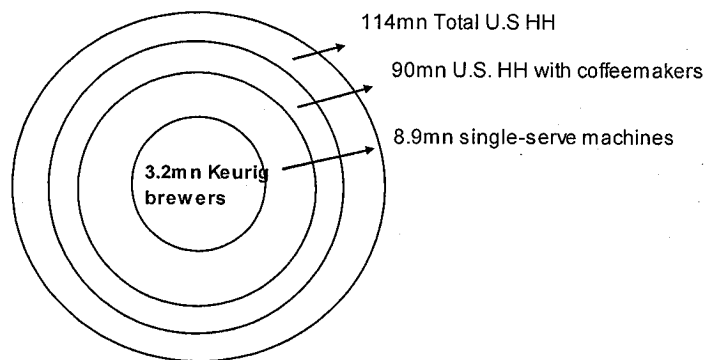
It is standard practice that GMCR focused on department stores and mass merchandisers to maximize distribution of coffee makers. A less obvious but potentially more important strategy is that the company also sold K-Cups in these same stores and not the grocery channel. As a result, retailer goals are aligned with the company. Selling more coffee brewers means getting a share of the recurring revenue stream associated with K-Cups, driving more customers in the store. This differentiated GMCR from its competitors as the competition made its coffee portion packs more widely available in grocery stores, rather than the brewer retailer. This has enabled GMCR to gain retailer mindshare in the way that Hansen (Monster Energy Drinks) did with convenience store operators and Snapple in 1990's with bodega owners in New York.

Opportunities for increased distribution

Plans in place to increase household penetration of brewers

There are approximately 90 million U.S. households with coffeemakers. Single-cup brewing represents roughly 10% of all the coffeemakers sold in the U.S. Specifically, Keurig represents 3.2 million of the total 8.9 brewers, or 36% of the single-serve brewer market. In our view the segment and Keurig's share of the segment is poised for growth as consumers are looking for improved brewing systems that are able to offer quality and convenient alternatives for drinking coffee.

Chart 13: Keurig Brewer Penetration



Source: Company reports

GMCR is currently in less than 4% of households.

Clear initiatives to increase brewer penetration

The company recently increased the size of its target market from 40 million middle to upper income households to 64 million that drink two or more cups of coffee per day, driven by its expectation for future brewer growth. Growth in installed brewers should be aided by brewer licensing partnerships established in June 2009. Green Mountain entered into a licensing and distribution agreement with Cuisinart (a leading maker of kitchen appliances that sells primarily in department stores) that will enable the company to sell single-cup coffeemakers under the Cuisinart name.

The brewers, which will be co branded as Cuisinart and Keurig, are expected to launch in spring 2010. Green Mountain also partnered with Mr. Coffee (the largest coffeemaker in the country) also announced its intention to jointly develop Keurig single-cup coffeemakers. The contracts with Mr. Coffee and Cuisinart will help to broaden the breadth of price points offered, with Mr. Coffee coming in below the price of the Mini and Cuisinart offering a more premium product. These partnerships will help drive penetration into Green Mountain's target market. Additionally, these partnerships indicate that single-cup coffee technology is penetrating mainstream consumer tastes.

Table 4: Distribution Channels

Retailers	Grocery Stores
Wal-mart	Kroger
Target	Safeway
Costco	Stop & Shop
Sam's club	Hannaford
BJ's	Shaw's
Williams-Sonoma	Albertson's
Bed Bath & Beyond	Wegmans
Macy's	Market Basket
Kohl's	Fred Meyer
JCPenney	Roche Bros

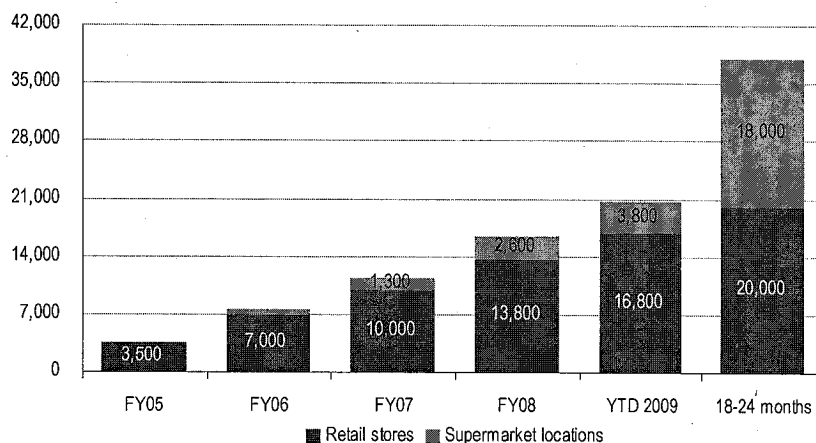
Source: Company reports

Plans are in place to add approximately 15,000 new points of distribution over then next 18-24 months.

K-Cup distribution expansion plans in grocery and non grocery channels

Most of the coffee sold in the U.S. is sold in grocery stores, yet grocery accounts for only 19% of total K-Cup sales. As a result, in our view grocery store penetration is an enormous market opportunity for GMCR. Several initiatives have made Green Mountain's target goal of 18,000 grocery locations (currently in less than 5,000) and 20,000 retail stores (currently in 16,800) achievable. The company announced the acquisition of Tully's in September 2008, which added the brand, infrastructure and grocery distribution in the West. Additionally, Green Mountain recently entered into a distribution agreement with over 3,000 Wal-Mart stores to sell its Keurig brewers as well as its K-Cups. Both of these opportunities dramatically accelerate GMCR's expansion plans and provide opportunity to tap the underexploited K-Cup potential. These initiatives also introduce a single-cup product to a new demographic.

Chart 14: GMCR Target locations, retail and supermarkets



Source: Company reports

Table 5: Key Base Case Assumptions

	Current	Base Case
Single-Cup Share	9.3%	29.1%
Keurig	3.1%	16.0%
Usage -Total	1.7x	0.85x
At Home	1.2x	0.75x
Away from Home	4.1x	2.4x
Price per K-Cup	\$0.35	\$0.32

Source: Company reports, BAS-ML estimates

Measuring the market opportunity Up to \$6 of earnings power in five years

Single-cup brewing is the principal driver behind GMCR's earnings growth. The growth potential in this segment of the coffee industry underpins the company's current valuation and investor expectations for earnings growth. Inputs to measure the potential size of the market include industry size, GMCR share, K-Cup pricing, and consumer usage rates. In our analysis below, we forecast a potential earnings range around the number of at home installed brewers, while holding other assumptions constant. In our base-case scenario, we estimate that full penetration of 17.6 million at home brewers could generate about \$5 of earnings per share by year 5.

Table 6: Earnings Potential in 3 At Home Brewer Scenarios

	Scenarios		
	Low	Base	High
Keurig brewers install base			
At home	12.5	17.6	22.5
At Home share	11.4%	16.0%	20.5%
Away from Home	1.1	1.1	1.1
Total Brewer Base	13.6	18.7	23.6
Brewers sold			
At Home	1.9	2.6	3.4
Away from Home	0.2	0.2	0.2
Total Keurig brewers sold	2.1	2.9	3.6
K-Cups sold			
At Home	3,424	4,821	6,164
Away from Home	959	959	959
Total K-Cups sold	4,383	5,780	7,123
Revenue			
Brewers			
At Home	131	185	236
Away from Home	32	32	32
Total Brewer Revenue	164	217	269
K-Cups			
At Home	1096	1543	1972
Away from Home	288	288	288
Total K-Cups Revenue	1383	1831	2260
Other Revenue	200	200	200
Total Revenue	1,747	2,248	2,729
Operating Profit			
Brewers	0.8	1.1	1.3
K-Cups	287.6	385.4	479.4
Other	20.0	20.0	20.0
Total operating profit	308.5	406.5	500.7
Net Income			
EPS	\$3.75	\$4.95	\$6.10

Source: BAS-ML estimates

A key question is whether single-cup brewing will become the coffee making standard the same way drip-coffee did in the 1970's

Total size of single-cup brewing will determine growth opportunity

In our view, meeting or exceeding the High scenario would require single-cup brewing to take a substantial share from drip coffee brewers, or would require Keurig brewers to build a greater share of the single-cup brewer installed base. Downside to our forecasts would imply that the single-cup brewing system remains a niche industry, with installed brewers not reaching our forecasts. We are also forecasting that the company can essentially maintain operating margins; however, downside could also be driven by lower profitability on K-Cup sales. If single-cup brewing grows to our forecasts, it could attract more competition and increase the risk of lower margins on K-Cup sales.

Increasing the installed brewer base is critical

GMCR's long-term sales opportunity can be estimated by forecasting the potential for total installed brewers and the average rate of K-Cup use per brewer. In our view, the company recognizes the importance of getting Keurig brewers placed in homes, offices, hotels, and convenience stores to drive trial and adoption of its K-Cup system. The company's aggressive expansion plans highlight management's understanding of the need to make the K-Cup assessable to consumers in order to translate brewer sales into recurring K-Cup revenue.

Our base case assumes that single-cup brewers penetrate 29.0% of households in 5 years.

Base case assumes single-serve brewers reaches 29% of total brewers
We estimate the total installed Keurig single-serve brewer opportunity to be about 18.7 million installed brewers as a base case. GMCR has shipped about 4.3 million Keurig brewers cumulatively since 2004, and we estimate about 3.2 million units are installed at the end of FY09 (assuming an obsolescence and replacement rate). Our estimated opportunity is broken down by At Home and Away from Home channels in Table 6.

Table 7: Current and Potential Installed Brewer Estimates

At Home	Current	Potential	Away from Home	Current	Potential
United States			Office		
Keurig Brewers	3.214	14.850	Keurig Brewers	0.182	0.338
SS share of total brewers	9.9%	30.0%	SS share of total brewers	12.0%	20.0%
Keurig share of total brewers	3.6%	16.5%	Keurig share of total brewers	7.5%	13.0%
Keurig share of SS brewers	36.0%	55.0%	Keurig share of SS brewers	62.5%	65.0%
Canada			Hotel		
Keurig Brewers	0.150	2.750	Keurig Brewers	0.060	0.700
SS share of total brewers	6.3%	25.0%	SS share of total brewers	2.9%	35.0%
Keurig share of total brewers	0.8%	13.8%	Keurig share of total brewers	1.5%	17.5%
Keurig share of SS brewers	12.0%	55.0%	Keurig share of SS brewers	52.2%	50.0%
North America			Foodservice		
Keurig Brewers	3.364	17.600	Keurig Brewers	0.008	0.041
SS share of total brewers	9.3%	29.1%	SS share of total brewers	13.3%	50.0%
Keurig share of total brewers	3.1%	16.0%	Keurig share of total brewers	5.0%	27.5%
Keurig share of SS brewers	33.0%	55.0%	Keurig share of SS brewers	37.5%	55.0%
			Total		
			Keurig Brewers	0.250	1.079
			SS share of total brewers	6.3%	29.6%
			Keurig share of total brewers	3.7%	16.0%
			Keurig share of SS brewers	58.4%	54.1%

Source: Company reports, BAS-ML estimates

We estimate Keurig could achieve 55% of the installed single-cup brewer base.

Keurig At Home brewers could reach 17.6 million installed base
The At Home market is the largest opportunity for GMCR's Keurig brewers. We estimate that the total opportunity for single-serve coffee brewers At Home in North America could reach 32.0 million, or about 29% of the total brewer installed base. Keurig brewers, in our view, could reach a 55% share of the single serve brewer market (from about 36% currently), or about 17.6 million Keurig brewers installed At Home, including about 14.9 million in the U.S. and 2.8 million in Canada. Our estimates imply that single serve brewers reach a 30% share of total brewers in the U.S. (from about 10% now) and a 25% share in Canada (from 6.3% now). We also estimate that Keurig brewers could represent about 55% of the single serve brewer industry in U.S. and Canada, or about 16.5% and 13.8% if the total At Home brewer industries in the U.S. and Canada, respectively.

Table 8: U.S. Brewer Sensitivity

	14.9	Keurig Share of SS Brewers				
		35%	45%	55%	65%	75%
Single	10%	3.2	4.1	5.0	5.9	6.8
Serve	20%	6.3	8.1	9.9	11.7	13.5
Share of	30%	9.5	12.2	14.9	17.6	20.3
Total	40%	12.6	16.2	19.8	23.4	27.0
Brewers	50%	15.8	20.3	24.8	29.3	33.8

Source: BAS-ML estimates

Table 9: Canada Brewer Sensitivity

	2.8	Keurig Share of SS Brewers				
		35%	45%	55%	65%	75%
Single	15%	1.1	1.4	1.7	2.0	2.3
Serve	20%	1.4	1.8	2.2	2.6	3.0
Share of	25%	1.8	2.3	2.8	3.3	3.8
Total	30%	2.1	2.7	3.3	3.9	4.5
Brewers	35%	2.5	3.2	3.9	4.6	5.3

Source: BAS-ML estimates

Table 10: North America Brewer Sensitivity

		Keurig Share of SS Brewers				
		35%	45%	55%	65%	75%
Single	11%	4.2	5.4	6.6	7.8	9.0
Serve	20%	7.7	9.9	12.1	14.3	16.5
Share of	29%	11.2	14.4	17.6	20.8	24.0
Total	38%	14.7	18.9	23.1	27.3	31.5
Brewers	47%	18.2	23.4	28.6	33.8	39.0

Source: BAS-ML estimates

Replacements drive annual sales of 2.5-3.0 million brewers

We estimate that a total of 18-19million brewers are sold in the U.S. annually. If Keurig can capture slightly over 15% of total brewer sales (c. 3 million units annually), we estimate GMCR can reach full penetration in about 5 years. At its steady-state installed base, we estimate annual Keurig brewer sales could trend between 2.5 and 3.0 million assuming replacement rates and the potential for increasing market size (through more households or multiple brewers per household).

Away from home sales will take a back seat to at home sales over the next 5 years.

Away from home brewer opportunity is smaller

The Away from Home opportunity is smaller, but still important because the machines have high usage and are a good trial vehicle. This can have a positive influence on a consumer's intention to buy an At Home machine for personal use. We estimate that the single serve coffee maker market could be about 2 million brewers, or about 30% of the total brewers installed Away from Home. Despite the relatively small number of brewers, we expect it could take over 5 years to reach full distribution of the Away from Home market, given the current economic conditions. This segment is likely more economically cyclical, as discretionary consumer spending declines in convenience stores and hotels and offices may be less likely to invest in brewers until conditions improve. Higher vacancy and unemployment could also lower the rates of K-Cup usage per brewer in hotels and offices.

Table 11: Summary Away from Home Brewer Opportunity

	Target Locations	Keurig Brewer Share of Target	Keurig Brewer Opportunity
Office	~2.6mn	10-15%	250-400k
Hotel	~4mn	15-20%	600-800k
Foodservice	~150k	15-20%	~25-50k
Total	~6.75mn	10-20%	0.9-1.2mn

Source: BAS-ML estimates

Economic, jobs and travel recovery will be critical to restarting away from home sales.

We estimate Keurig Away from Home brewers could grow 4x

We estimate Keurig Away from Home brewer penetration can grow from about 250k installed brewers to 1.1 million, or about 16% of the total brewer market. Office: We forecast Keurig can install about 340k office brewers. We estimate there are approximately 2.6 million offices serviced by an office coffee distributor, with single serve brewers currently in about 12% and about 150-200k GMCR brewers installed (c. 7% share of total office and about 60% of single serve). Our estimate implies that single serve brewers reach a 20% share of the office coffee brewers and GMCR brewers account for about 65% of single serve brewers. Hotel: The hotel segment has the largest number of target locations, with about 4 million hotel rooms with a coffee maker. We expect GMCR would be targeting a sub-segment of this, primarily the c. 1.5 million premium hotel rooms in the U.S. We expect GMCR could install about 700k brewers in hotel rooms, implying about

17.5% of the total hotel room brewer opportunity and over 45% of the company's target rooms. **Foodservice:** The foodservice channel is the smallest of the Away from Home segment in terms of aggregate locations; however, we expect the company could build high share in the channel as the product is very profitable for the store owners. We estimate GMCR could install about 40k brewers, representing about 27.5% of the 150k convenience store locations in the U.S. This implies that single serve brewers enter about half of the c-store locations, and GMCR brewers represent about 55% of the single-serve brewers. We estimate the company is currently in 5-10k locations, mostly Exxon/Mobile *On the Run* locations and some college campuses.

Table 12: Office Brewer Sensitivity

		Office Brewer Target Base					
		0.3	2.0	2.3	2.6	2.9	3.2
Keurig	7.5%	0.150	0.173	0.195	0.218	0.240	
Share	10.0%	0.200	0.230	0.260	0.290	0.320	
of	12.5%	0.250	0.288	0.323	0.363	0.400	
Total	15.0%	0.300	0.345	0.390	0.435	0.480	
Brewers	17.5%	0.350	0.403	0.455	0.508	0.560	

Source: BAS-ML estimates

Table 13: Hotel Brewer Sensitivity

		Hotel Brewer Target Base					
		0.5	2.0	3.0	4.0	5.0	6.0
Keurig	7.5%	0.150	0.225	0.300	0.375	0.450	
Share	12.5%	0.250	0.375	0.500	0.625	0.750	
of	17.5%	0.350	0.525	0.700	0.875	1.050	
Total	22.5%	0.450	0.675	0.900	1.125	1.350	
Brewers	27.5%	0.550	0.825	1.100	1.375	1.650	

Source: BAS-ML estimates

Table 14: Foodservice Brewer Sensitivity

		Foodservice Brewer Target Base					
		0.0	0.100	0.125	0.150	0.175	0.200
Keurig	7.5%	0.008	0.009	0.011	0.013	0.015	
Share	12.5%	0.013	0.016	0.019	0.022	0.025	
of	17.5%	0.018	0.022	0.026	0.031	0.035	
Total	22.5%	0.023	0.028	0.034	0.039	0.045	
Brewers	27.5%	0.028	0.034	0.041	0.048	0.055	

Source: BAS-ML estimates

Brewer placements must drive K-Cup sales

As we discussed earlier, GMCR sells brewers at essentially breakeven, as strong margins on K-Cups drive the company profitability. The company's razor/razor-blade model requires the brewer customer to become a repeat K-Cup customer. It is equally important for GMCR to maintain a strong margin on K-Cup sales, either by maintaining wholesale pricing or by reducing costs. Therefore, the company's success in driving consumer usage once the brewer is installed as well as its ability to maintain its margin while increasing distribution will determine the ultimate run-rate profitability of the company once growth slows.

At Home K-Cups could be \$1.5bn of revenue

We estimate At Home brewers could drive about \$1.5bn of revenue for GMCR on a steady-state basis. This is based on our base-case where the company can sell about 4.8bn K-Cups annually at a \$0.32 per K-Cup wholesale price. This implies a net reduction to the current wholesale price of K-Cups At Home, which we think is appropriate as the company grows distribution in the more price-sensitive grocery channel. Our K-Cup unit sales implies 17.6 million installed At Home brewers and 0.75 K-Cups per brewer per day. We view this reduction from the current 1.0+ cups per day as appropriately conservative as incremental brewers sold may be bought as gifts or secondary brewers, or by a more marginal coffee drinker than the early adaptors, lowering the average usage per brewer.

Maintaining retail price points could be a challenge as the grocery channel becomes a more prominent piece of the mix.

Table 15: At Home K-Cup Usage Sensitivity

		Keurig Brewers Installed Base				
		7.6	12.6	17.6	22.6	27.6
K-Cups	0.25x	694	1,151	1,607	2,064	2,520
per	0.50x	1,388	2,301	3,214	4,127	5,040
Unit	0.75x	2,082	3,452	4,821	6,191	7,561
per	1.00x	2,776	4,602	6,428	8,255	10,081
Day	1.25x	3,470	5,753	8,036	10,318	12,601

Source: BAS-ML estimates

Table 16: At Home K-Cup Unit and Pricing Sensitivity

		K-Cup Unit Sales					
		3,500	2,321	3,571	4,821	6,071	7,321
Wholesale	\$0.26	\$604	\$929	\$1,254	\$1,579	\$1,904	
Price	\$0.29	\$673	\$1,036	\$1,398	\$1,761	\$2,123	
per	\$0.32	\$743	\$1,143	\$1,543	\$1,943	\$2,343	
K-Cup	\$0.35	\$812	\$1,250	\$1,687	\$2,125	\$2,562	
	\$0.38	\$882	\$1,357	\$1,832	\$2,307	\$2,782	

Source: BAS-ML estimates

Away from Home K-Cup sales could reach \$300 million

We estimate full penetration of Away from Home brewers could generate almost \$300 million of sales. This assumes installed Away from Home brewers reach our base-case 1.1 million unit level, with about 2.4 K-Cups used per brewer per day at an average wholesale price of \$0.30. Our per-day usage assumes about 5.0 per day in Office, 0.75 per day in Hotel, and 10.0 per day in Foodservice.

Table 17: Away from Home K-Cup Usage Sensitivity

		Keurig Brewers Installed Base				
		0.869	0.974	1.079	1.184	1.289
K-Cups	1.3x	384	454	524	594	665
per	1.9x	548	645	741	838	935
Unit	2.4x	712	836	959	1,082	1,205
per	3.0x	877	1,026	1,176	1,326	1,476
Day	3.5x	1,041	1,217	1,393	1,570	1,746

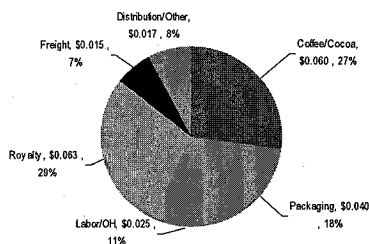
Source: BAS-ML estimates

Table 18: Away from Home K-Cup Unit and Pricing Sensitivity

		K-Cup Unit Sales				
		649	804	959	1,114	1,269
Wholesale	\$0.24	\$156	\$193	\$230	\$267	\$305
Price	\$0.27	\$175	\$217	\$259	\$301	\$343
per	\$0.30	\$195	\$241	\$288	\$334	\$381
K-Cup	\$0.33	\$214	\$265	\$316	\$368	\$419
	\$0.36	\$234	\$289	\$345	\$401	\$457

Source: BAS-ML estimates

Chart 15: K-cup input costs



Source: Company reports

Estimates sensitive to small changes in wholesale price & usage

As we've discussed, our base case for about \$5 of earnings is based on a number of assumptions. The actual earnings potential is very sensitive to these assumptions, especially usage rates and wholesale price of K-Cups. Below, we calculate the earnings potential adjusting two key factors. While we currently estimate the average At Home wholesale price per K-Cup is about \$0.35 and total (operating) cost is about \$0.25. In our base-case forecast, we are assuming that the wholesale price of At Home K-Cup declines modestly as Grocery becomes a larger percent of sales. We are keeping cost per K-Cup flat, expecting production efficiencies to be offset by higher sales and merchandising costs in the grocery channel. We estimate usage rates are currently about 1.7 cups per brewer per day in At Home and about 4.0 per day in Away from Home brewers. We are assuming that both decline over time, as At Home brewers are bought as secondary brewers or by less consumptive consumers while the decline in Away from Home usage is driven primarily from a shift from higher usage channels (office and foodservice) to a greater brewer mix in hotels.

Table 19: Earnings Sensitivity to At Home K-Cup Profitability

		Wholesale price of At Home K-Cup				
		\$0.28	\$0.30	\$0.32	\$0.34	\$0.36
Cost	\$0.21	\$5.42	\$6.59	\$7.77	\$8.94	\$10.12
per	\$0.23	\$4.01	\$5.18	\$6.36	\$7.53	\$8.71
K-Cup	\$0.25	\$2.59	\$3.77	\$4.95	\$6.12	\$7.30
	\$0.27	\$1.18	\$2.36	\$3.54	\$4.71	\$5.89
	\$0.29	(\$0.23)	\$0.95	\$2.13	\$3.30	\$4.48

Source: BAS-ML estimates

Table 20: Earnings Sensitivity to Usage Rates

		At Home K-Cup per Brewer per Day				
		0.25x	0.50x	0.75x	1.00x	1.25x
A.fr. Home	1.6x	\$2.01	\$3.38	\$4.76	\$6.13	\$7.50
K-Cup	2.0x	\$2.11	\$3.48	\$4.85	\$6.22	\$7.60
per	2.4x	\$2.20	\$3.57	\$4.95	\$6.32	\$7.69
Brewer	2.8x	\$2.30	\$3.67	\$5.04	\$6.42	\$7.79
per Day	3.2x	\$2.39	\$3.77	\$5.14	\$6.51	\$7.88

Source: BAS-ML estimates

With a net cash position GMCR should have adequate funds for expansion plans.

Well-capitalized balance sheet

Green Mountain has a solid balance sheet, with debt accounting for 42.7% of total capital before the equity offering. We note that debt increased from \$90mn to \$118mn in 2Q due to the acquisition of Tully's; however, debt ratios continue to be healthy. Post the secondary transaction, debt/capital is expected to go down to 12%, creating a net cash position for the company. The excess cash is expected to be used to fund growth and add long-term permanent capital.

Table 21: Pro forma capitalization

(\$ in millions)	Pre deal	Adjustments	Post deal
Cash	\$4	\$270	\$274
Credit facility due December 2012	\$99	(\$75)	\$24
Term loan A due december 2012	\$50	\$0	\$50
Total stockholder's equity	\$200	\$345	\$545
Total capitalization	\$349		\$619
Total debt/total capitalization	42.7%		12.0%

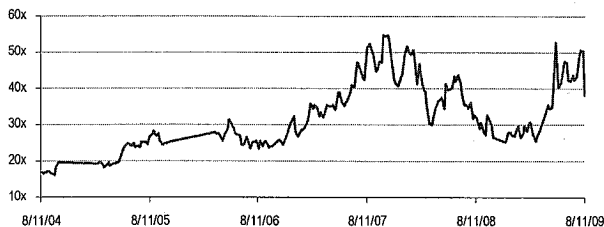
Source: Company reports, BAS-ML estimates

Investment negatives

High growth expectations

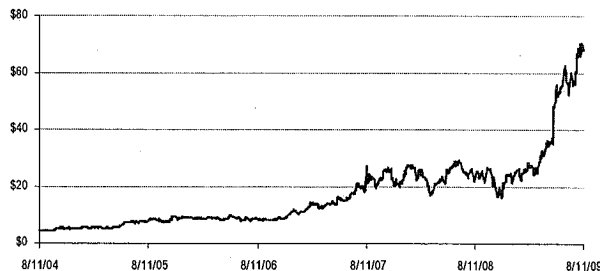
GMCR shares are up +155% versus the S&P 500, which is up +12.0% year to date. The P/E multiple is currently 38.5x forward 12-month consensus estimates. This almost 10 point higher than where it was in January and 20 points above where it stood in 2006 before the company purchased its controlling stake in Keurig. By our calculations, the stock already anticipates a 35% three-year earnings growth CAGR and a normalized earnings base of \$4-\$6. Bottom line: with think expectations are already high.

Chart 16: GMCR 5 year forward P/E multiple



Source: FactSet

Chart 17: GMCR 5 year price chart



Source: FactSet

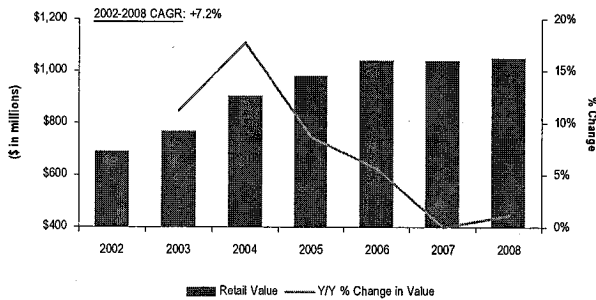
At some point single-cup brewing will hit a saturation point.

Sustaining growth in a low growth industry

GMCR sales growth has accelerated to 50%+ over the past two years due the growth in its Keurig/K-Cup sales. The relatively low household penetration rates of single-cup brewing systems in general (about 8.5% of households) and Keurig specifically (about 3.5% of households) leave room for growth if more households convert to single-cup brewing. Ultimately this growth is limited by the modest per

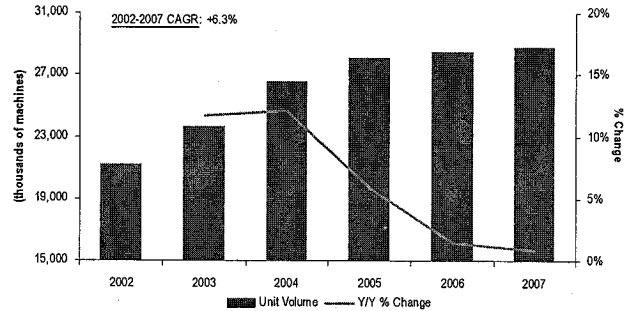
capita consumption trends for coffee and tea. Management is working on pushing for alternative usage occasions (e.g., iced tea); however, at some point, we view the opportunity pool to be defined by coffee consumption. As a result, we believe a critical factor will be getting a mainstream conversion from drip to single-cup brewing in a way that was similar to consumer changing from VCR's to DVD players.

Chart 18: U.S coffee machine dollar sales, 2002-2008



Source: Euromonitor

Chart 19: U.S coffee machine unit sales, 2002-2007



Source: Euromonitor

If single-cup brewing gains significant share, competitors are likely to step up marketing efforts.

Even if K-Cup patents expire, manufacturing equipment is still exclusive.

Continuing to take share from larger competitors

As GMCR expands distribution into the grocery channel, it will be natural for the non-grocery retailers to be concerned about cannibalization. In addition, at some point, if single-cup brewing becomes a big enough share of the overall industry, rivals could be incentivised to underwrite increased penetration of their coffee systems to compete more effectively with GMCR. A similar scenario has played out in recent years in iced tea and energy drinks.

Patent expirations

Green Mountain, via Keurig, currently has 32 U.S. patents and 69 international patents related to its single-cup brewing technology. Green Mountain's brewing system relies on three key technologies.

1. The patented K-Cup portion packs, which contain specific portion of ground coffee packed and sealed air-tight with a combination of plastic and foil lid
2. The brewer which punctures the foil lid at the bottom of the K-Cup and forces hot water through the K-Cup and into the mug
3. The packaging lines which manufacture K-Cups at the roaster's facilities

Of the total 101 patents, 80% are utility patents and the rest are design patents. The two principal patents linked to K-Cups are set to expire in 2012; one is pending, which if approved would extend protection through 2023. The company has an exclusive agreement with the manufacturer of the K-Cup filling equipment that prohibits them from selling equipment to anyone other than GMCR or its licensed roasters. In addition, licensed roasters could break their royalty arrangements; however they are then prohibited from using their K-Cup production lines.

Management overview

Since its inception GMCR has probed the U.S. coffee market for seams of unmet demand. Management has had a relationship with Keurig since 1994 and has patiently converted the single-cup brewing concept into a profitable reality. With Keurig now such a critical piece driving success, thinking our view it was appropriate to bring President and CEO Larry Blandford on to enhance its odds for success penetrating the coffee maker market. It is also important to note that, by our calculations a change of control at GMCR is worth more than \$500 million to the chairman, \$20 million to the president and CEO and \$15 million to the CFO.

Chart 20: GMCR Executive Officers

Management	Age	Position	Position since	Previous experience
Larry Blandford	55	President and CEO	May 2007	CEO at Royal Group Technologies (which was sold to Georgia Golf), President and CEO of Philips Consumer Electronics North America, Management positions at PPG and P&G
Kathryn S. Brooks	53	VP of HR and Organizational Dev.	Apr 2001	Senior VP of HR at Webster Bank, VP of HR at Bombardier Capital, and Training Consultant for Mutual of Omaha
R. Scott McCreary	49	Chief Operating Officer	Sep 2004	Employed by Unilever North America, Senior Director of Ops at Ben & Jerry's
Frances G. Rathke	48	Chief Financial Officer	Oct 2003	Financial consultant with various food manufacturers,
Stephen J. Sabol	47	Vice President of Development	Oct 2001	VP of sales, VP of Branded Sales, General Manager of Roasters

Source: Company reports

Chart 21: GMCR Board of directors

Name	Age	Director since	Additional roles
Barbara D. Carlini	49	2002	Active member of the Society for Information Management (SIM)
David E. Moran	55	1995	President and Founder of Marketing Driven Solutions
Hinda Miller	58	1999	President of DeForest Concepts, a consulting firm specializing in small business and promotion of women entrepreneurs
Jules A. del Vecchio	65	1993	First Vice President in the Agency Department of New York Life Insurance company
Lawrence J. Blandford	55	2007	President and CEO of Green Mountain, also serving as Director on the Board
Michael J. Mardy	60	2007	EVP and CFO of Tumi, Inc, a retailer of prestige luggage and travel accessories
Robert P. Stiller	65	1993	Chairman of the Board, founder of Green Mountain Coffee Roasters
William D. Davis	59	1993	President and CEO of Learning Care Group

Source: Company reports

Corporate history/timeline

Green Mountain was founded by Robert Stiller in 1981. After selling his founding stake in the company that created EZ-Wider rolling papers, Stiller was spending time in Vermont and came across the Green Mountain coffee shop and eventually bought the entire company. At the time, Green Mountain was a small specialty store whose customer base was a few restaurants and the public. By the mid 1980's, Stiller convinced a convenience store owner to sell Green Mountain coffee. He then took it one step further by selling Green Mountain coffee in Mobil Corporation's 1,000 stores nationwide.

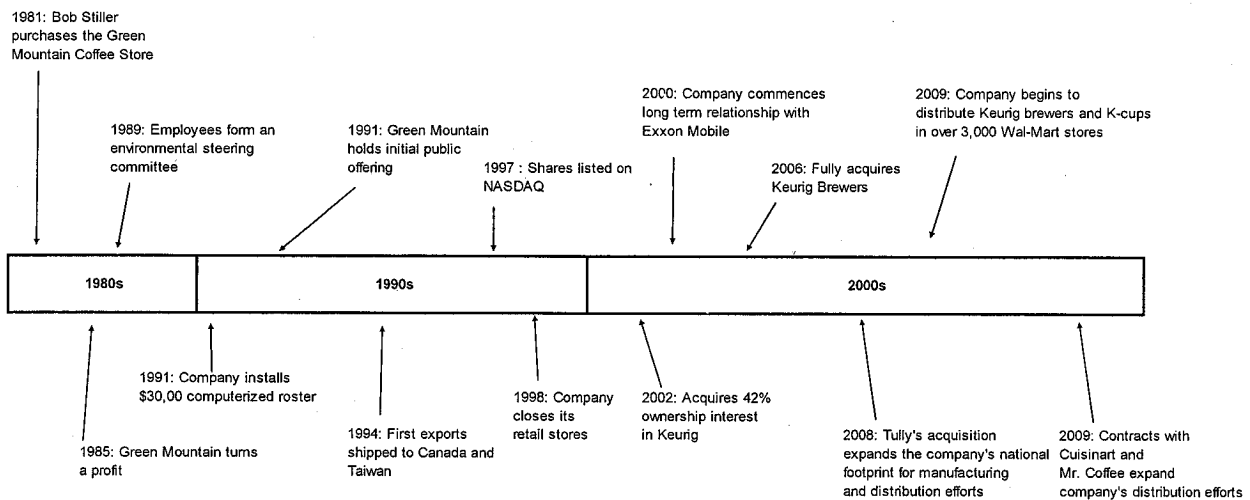
By the early 1990's, Green Mountain completed its initial public offering (1993). Net proceeds from the offering were used primarily for expansion. At the time, the company was serving 2,400 wholesale accounts and was selling 80 varieties of coffee. A relationship with a New England food service distributor helped cement Green Mountain's position amongst restaurants and institutions. Furthermore, Green Mountain continued to make an aggressive push into foodservice, primarily gas stations in the northeast.

In 1997, Green Mountain began trading on the NASDAQ. By this time, the company's retail store presence peaked at nearly a dozen stores and the company continued to establish a wholesale presence that included customers such as Weight Watchers International and L.L. Bean Catalog. With booming wholesale prospects, Green Mountain announced its intention to leave the retail operations in May 1998. By 2000, the company commenced its long-term relationship with Exxon Mobil, distributing its coffee to their convenience stores.

In FY2002, Green Mountain acquired a 42% ownership interest in Keurig, a manufacturer of brewing equipment (Note: the company fully acquired Keurig in June 2006) Green Mountain had ties with Keurig since 1994, supporting the development of a single-cup brewing system. That year further marked the beginning of Green Mountain's aggressive expansion into new products and customers. It signed a licensing agreement with Newman's Own Organics, Inc, distributing all Fair Trade/organic coffees co-branded under both companies' names. Furthermore, by the end of the year, Green Mountain was selected as the exclusive supplier of bulk certified Fair Trade and organic coffees for Wild Oats Market. In 2004, the company initiated an agreement with Bruegger's to source, roast, and package coffee for all of the chain's bakery-cafes. In 2005, the company began selling Newman's Own Organic Blend in more than 600 McDonald's restaurants in the Northeast. In 2008, the Tully's brand and wholesale acquisition expanded the company's national footprint for its manufacturing and distribution efforts.

Today, the majority of Green Mountain Coffee's revenues are derived from nearly 8,000 wholesale customer accounts, which service supermarkets, supermarket, specialty food store, convenience store, food service, hotel, restaurant, university, travel and office coffee service customers. In addition to its extensive wholesale operation, Green Mountain has a direct mail operation and e-commerce website. Most recently, the company began to distribute Keurig's gourmet single-cup brewers and K-Cup portion packs in over 3000 Wal-Mart stores. Furthermore, Green Mountain entered into licensing and distribution agreements with Cuisinart and Mr. Coffee, enabling the companies sell single-cup coffeemakers.

Chart 22: GMCR historical timeline



Source: Company reports

17 August 2009

Table 22: GMCR Quarterly Income Statement

Year Ended December Quarter Ended	2008PF					2009E					2010E
	DecA	MarA	JunA	SepA	YearA	DecA	MarA	JunA	SepE	YearE	YearE
Income Statement											
Net sales	126.445	120.877	118.120	134.835	500.277	196.980	193.351	190.509	222.876	803.716	1,258.830
Cost of sales	83.156	76.164	75.626	88.426	323.372	143.630	131.370	126.428	150.064	551.492	867.487
Gross profit	43.289	44.713	42.494	46.409	176.905	53.350	61.981	64.081	72.812	252.224	391.343
Selling and operating expenses	27.034	21.841	20.620	22.687	92.182	36.181	28.094	28.597	33.043	125.915	183.287
General and administrative expenses	9.259	10.246	9.772	9.734	39.011	9.211	11.245	12.708	15.434	48.598	76.513
Operating profit	6.996	12.626	12.102	13.988	45.712	7.958	22.642	22.776	24.335	77.711	131.542
Other expense	(0.114)	(0.089)	(0.025)	(0.007)	(0.235)	(0.043)	(0.242)	(0.039)	(0.050)	(0.374)	(0.374)
Interest expense	(1.544)	(1.495)	(1.376)	(1.290)	(5.705)	(1.382)	(1.032)	(1.080)	(1.000)	(4.494)	(0.561)
Income before income taxes	5.338	11.042	10.701	12.691	39.772	6.533	21.368	21.657	23.285	72.843	130.607
Taxes	(2.134)	(4.472)	(3.879)	(4.970)	(15.455)	(2.540)	(8.385)	(7.517)	(9.081)	(27.523)	(50.937)
Net income	3.204	6.570	6.822	7.721	24.317	3.993	12.983	14.140	14.204	45.320	79.670
Diluted shares outstanding	38.137	38.201	38.493	38.558	38.347	38.628	39.020	39.670	43.045	40.091	46.420
Diluted EPS	\$0.08	\$0.17	\$0.18	\$0.20	\$0.63	\$0.10	\$0.33	\$0.36	\$0.33	\$1.13	\$1.72
Growth Analysis (%)											
Net sales	51.7%	45.9%	43.3%	45.0%	46.4%	55.8%	60.0%	61.3%	65.3%	60.7%	56.6%
Gross profit	36.6%	37.6%	24.5%	41.4%	34.9%	23.2%	38.6%	50.8%	56.9%	42.6%	55.2%
Operating profit	20.2%	73.9%	64.6%	80.1%	62.1%	13.8%	79.3%	88.2%	74.0%	70.0%	69.3%
Net income	31.2%	101.2%	85.1%	106.0%	85.0%	24.6%	97.6%	107.3%	84.0%	86.4%	75.8%
Diluted E.P.S.	25.0%	94.5%	79.4%	102.5%	79.3%	23.0%	93.5%	101.1%	64.8%	78.3%	51.8%
Profitability (% sales)											
Gross profit margin	34.2%	37.0%	36.0%	34.4%	35.4%	27.1%	32.1%	33.6%	32.7%	31.4%	31.1%
bp change	-378 bp	-220 bp	-544 bp	-86 bp	-302 bp	-715 bp	-493 bp	-234 bp	-175 bp	-398 bp	-29 bp
Operating profit margin	5.5%	10.4%	10.2%	10.4%	9.1%	4.0%	11.7%	12.0%	10.9%	9.7%	10.4%
bp change	-145 bp	169 bp	132 bp	203 bp	88 bp	-149 bp	126 bp	171 bp	54 bp	53 bp	78 bp
EBITDA margin	9.0%	14.2%	14.2%	14.0%	12.8%	6.8%	14.6%	15.1%	13.9%	12.6%	13.2%
bp change	-231 bp	96 bp	61 bp	125 bp	11 bp	-220 bp	41 bp	96 bp	-10 bp	-21 bp	63 bp
Cost Analysis (%)											
COGS % sales	65.8%	63.0%	64.0%	65.6%	64.6%	72.9%	67.9%	66.4%	67.3%	68.6%	68.9%
MS&A expenses % sales	21.4%	18.1%	17.5%	16.8%	18.4%	18.4%	14.5%	15.0%	14.8%	15.7%	14.6%
A&P expenses % sales	7.3%	8.5%	8.3%	7.2%	7.8%	4.7%	5.8%	6.7%	6.9%	6.0%	6.1%
Other expenses % of sales	(0.1%)	(0.1%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.1%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)
Apparent interest rate	6.4%	5.9%	5.7%	4.7%	5.4%	5.3%	3.6%	3.6%	(8.8%)	(9.9%)	(0.3%)
Effective tax rate	40.0%	40.5%	36.3%	39.2%	38.9%	38.9%	39.2%	34.7%	39.0%	37.8%	39.0%

Source: Company reports, BAS-ML estimates

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Table 23: GMCRC Annual Income Statement

Year Ended December	2006	2007	2008	2009E	2010E	2011E	2012E
Income Statement							
Net sales	225.323	341.651	500.277	803.716	1,258.830	1,567.605	1,873.036
Cost of sales	143.289	210.530	323.372	551.492	867.487	1,076.355	1,281.503
Gross profit	82.034	131.121	176.905	252.224	391.343	491.250	591.532
Selling and operating expenses	46.808	72.641	92.182	125.915	183.287	224.322	263.416
General and administrative expenses	17.112	30.281	39.011	48.598	76.513	85.887	99.704
Operating profit	18.114	28.199	45.712	77.711	131.542	181.042	228.412
Other expense	0.202	0.054	(0.235)	(0.374)	(0.374)	(0.374)	(0.374)
Interest expense	(2.261)	(6.176)	(5.705)	(4.494)	(0.561)	(0.974)	(0.973)
Income before income taxes	16.055	22.077	39.772	72.843	130.607	179.694	227.065
Taxes	(6.649)	(8.936)	(15.455)	(27.523)	(50.937)	(70.081)	(88.555)
Net income	9.406	13.141	24.317	45.320	79.670	109.613	138.510
Diluted shares outstanding	35.591	37.160	38.347	40.091	46.420	47.220	48.020
Diluted EPS	\$0.26	\$0.35	\$0.63	\$1.13	\$1.72	\$2.32	\$2.88
Growth Analysis (%)							
Net sales	39.5%	51.6%	46.4%	60.7%	56.6%	24.5%	19.5%
Gross profit	44.0%	59.8%	34.9%	42.6%	55.2%	25.5%	20.4%
Operating profit	13.9%	55.7%	62.1%	70.0%	69.3%	37.6%	26.2%
Net income	(0.4%)	39.7%	85.0%	86.4%	75.8%	37.6%	26.4%
Diluted E.P.S.	(3.5%)	33.8%	79.3%	78.3%	51.8%	35.3%	24.3%
Profitability (% sales)							
Gross profit margin	36.4%	38.4%	35.4%	31.4%	31.1%	31.3%	31.6%
<i>bp change</i>	114 bp	197 bp	-302 bp	-398 bp	-29 bp	25 bp	24 bp
Operating profit margin	8.0%	8.3%	9.1%	9.7%	10.4%	11.5%	12.2%
<i>bp change</i>	-181 bp	21 bp	88 bp	53 bp	78 bp	110 bp	65 bp
EBITDA margin	12.2%	12.7%	12.8%	12.6%	13.2%	14.7%	15.5%
<i>bp change</i>	232 bp	51 bp	11 bp	-21 bp	63 bp	148 bp	79 bp
Cost Analysis (%)							
COGS % sales	63.6%	61.6%	64.6%	68.6%	68.9%	68.7%	68.4%
MS&A expenses % sales	20.8%	21.3%	18.4%	15.7%	14.6%	14.3%	14.1%
A&P expenses % sales	7.6%	8.9%	7.8%	6.0%	6.1%	5.5%	5.3%
Other expenses % of sales	0.1%	0.0%	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)
Apparent interest rate	8.9%	6.5%	5.4%	(9.9%)	(0.3%)	(0.6%)	(0.6%)
Effective tax rate	41.4%	40.5%	38.9%	37.8%	39.0%	39.0%	39.0%

Source: Company reports, BAS-ML estimates

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Table 24: GMCR Annual Balance Sheet

Year Ended December	2006	2007	2008	2009E	2010E	2011E	2012E
Assets							
Cash and cash equivalents	1.066	2.818	0.804	289.099	238.306	234.943	258.579
Restricted cash and cash equivalents	0.208	0.354	0.161	0.161	0.161	0.161	0.161
Receivables - net	30.071	39.373	54.782	54.221	91.822	122.935	157.150
Inventories	31.796	38.909	85.311	83.102	135.471	173.986	214.169
Other current assets	2.816	2.811	4.886	6.606	10.347	12.884	15.395
<u>Deferred income taxes - net</u>	<u>2.002</u>	<u>3.558</u>	<u>6.146</u>	<u>9.967</u>	<u>9.967</u>	<u>9.967</u>	<u>9.967</u>
Total current assets	67.959	87.823	152.090	443.156	486.073	554.876	655.421
Fixed assets, net	48.811	65.692	97.678	132.080	220.712	293.718	359.510
Intangibles, net	39.019	34.208	29.396	36.480	30.660	24.840	19.020
Goodwill	75.305	73.840	73.953	99.558	99.558	99.558	99.558
<u>Other long-term assets</u>	<u>2.912</u>	<u>2.964</u>	<u>4.531</u>	<u>4.114</u>	<u>4.114</u>	<u>4.114</u>	<u>4.114</u>
Long-term assets	166.047	176.704	205.558	272.232	355.044	422.230	482.202
Total Assets	234.006	264.527	357.648	715.388	841.118	977.106	1,137.623
Liabilities and Equity							
Current portion of long-term debt	0.097	0.063	0.033	0.037	0.037	0.037	0.037
Accounts payable	23.124	37.778	43.821	50.645	74.911	87.049	96.618
Accrued compensation costs	6.736	7.027	11.669	13.212	20.693	25.769	30.790
Accrued expenses	7.978	9.866	14.645	16.291	22.067	23.185	22.571
Income taxes payable	0.000	1.443	2.079	0.000	0.000	0.000	0.000
<u>Other short-term liabilities</u>	<u>0.874</u>	<u>0.871</u>	<u>0.673</u>	<u>2.714</u>	<u>4.251</u>	<u>5.294</u>	<u>6.325</u>
Total current liabilities	38.809	57.048	72.920	82.899	121.959	141.334	156.341
Long-term debt	102.871	90.050	123.517	76.018	76.018	76.018	76.018
<u>Deferred income taxes, net</u>	<u>17.386</u>	<u>18.330</u>	<u>21.691</u>	<u>22.696</u>	<u>22.696</u>	<u>22.696</u>	<u>22.696</u>
Long-term liabilities	120.257	108.380	145.208	98.714	98.714	98.714	98.714
Preferred stock							
Common stock	2.404	2.470	4.169	4.290	4.290	4.290	4.290
Additional paid-in capital	34.545	45.704	61.987	402.069	409.069	416.069	423.069
Retained earnings	46.138	58.981	81.280	136.991	216.661	326.275	464.784
Accumulated other comprehensive income	(0.548)	(0.512)	(0.419)	(2.078)	(2.078)	(2.078)	(2.078)
ESOP unallocated shares, at cost	(0.263)	(0.208)	(0.161)	(0.161)	(0.161)	(0.161)	(0.161)
<u>Treasury shares, at cost</u>	<u>(7.336)</u>	<u>(7.336)</u>	<u>(7.336)</u>	<u>(7.336)</u>	<u>(7.336)</u>	<u>(7.336)</u>	<u>(7.336)</u>
<u>Total stockholder's equity</u>	<u>74.940</u>	<u>99.099</u>	<u>139.520</u>	<u>533.775</u>	<u>620.445</u>	<u>737.059</u>	<u>882.568</u>
Total Liabilities & Equity	234.006	264.527	357.648	715.388	841.118	977.106	1,137.623

Source: Company reports, BAS-ML estimates

17 August 2009

Table 25: GMCR Annual Cash Flow Statement

Year Ended December	2006	2007	2008	2009E	2010E	2011E	2012E
Net income	8.443	12.843	22.299	55.711	79.670	109.613	138.510
Depreciation and amortization	7.906	10.328	13.500	18.175	29.062	43.528	55.837
Amortization of intangibles	1.402	4.811	4.812	5.316	5.820	5.820	5.820
Loss on disposal of fixed assets	(0.031)	0.133	0.201	0.168	0.000	0.000	0.000
Provision for losses on doubtful accounts	0.360	0.620	1.159	0.585	1.414	2.099	2.709
Loss of futures derivatives	(0.068)	0.026	0.006	0.207	0.000	0.000	0.000
Tax benefit from exercise of options	0.340	0.046	(0.447)	(0.163)	0.000	0.000	0.000
Deferred income taxes	0.385	0.145	0.549	(1.940)	0.000	0.000	0.000
Deferred and stock compensation	1.846	4.603	6.455	6.775	6.775	6.775	6.775
<u>Other, net</u>	<u>1.848</u>	<u>0.200</u>	<u>0.200</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>
Operating cash flow	22.431	33.755	48.734	84.834	122.741	167.836	209.651
Receivables	(7.906)	(9.922)	(16.568)	0.519	(37.601)	(31.112)	(34.216)
Inventories	(8.626)	(6.983)	(46.402)	4.496	(52.369)	(38.516)	(40.183)
Income taxes payable (receivable)	(1.335)	2.061	(1.882)	(2.364)	0.000	0.000	0.000
Other current assets	(0.886)	(0.141)	0.636	(1.694)	(3.741)	(2.538)	(2.510)
Other long-term assets, net	(0.409)	(0.052)	(0.660)	0.587	0.000	0.000	0.000
Accounts payable	5.489	8.969	8.667	4.628	24.265	12.139	9.569
Accrued compensation	3.031	0.291	4.642	1.543	7.481	5.076	5.021
Accrued expenses	1.035	1.856	4.779	0.591	7.313	2.161	0.417
<u>Net working investment</u>	<u>(9.607)</u>	<u>(3.921)</u>	<u>(46.788)</u>	<u>8.306</u>	<u>(54.651)</u>	<u>(52.791)</u>	<u>(61.902)</u>
Net cash from operating activities	12.824	29.834	1.946	93.140	68.090	115.045	147.749
Capital expenditures for fixed assets	(13.613)	(21.844)	(48.718)	(51.315)	(125.883)	(125.408)	(131.112)
Proceeds from disposal of fixed assets	0.493	0.187	0.407	0.152	0.000	0.000	0.000
<u>Other, net</u>	<u>(101.052)</u>	<u>0.000</u>	<u>0.000</u>	<u>(41.451)</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>
Net cash used in investing activities	(114.172)	(21.657)	(48.311)	(92.614)	(125.883)	(125.408)	(131.112)
Net change in revolving line of credit	102.800	(12.800)	33.500	(47.500)	0.000	0.000	0.000
Proceeds from issuance of common stock	2.189	3.123	5.653	326.351	7.000	7.000	7.000
Windfall tax benefit	1.189	3.307	6.168	9.123	0.000	0.000	0.000
Deferred financing fees	(1.431)	0.000	(0.907)	0.000	0.000	0.000	0.000
Repayment of long-term debt	(8.580)	(0.055)	(0.063)	(0.205)	0.000	0.000	0.000
<u>Other, net</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>
Net cash used in financing activities	96.167	(6.425)	44.351	287.769	7.000	7.000	7.000
Net change in cash	(5.181)	1.752	(2.014)	288.295	(50.793)	(3.363)	23.636
Beginning cash balance	6.450	1.066	2.818	0.804	289.099	238.306	234.943
Ending cash balance	1.066	2.818	0.804	289.099	238.306	234.943	258.579

Source: Company reports, BAS-ML estimates

Price objective basis & risk

Green Mountain Coffee Roasters (GMCR)

Our \$72 price objective is based on a target P/E ratio of 42.0x FY10E EPS, which implies a P/E to growth of 1.2x using our forward three years earnings CAGR of 36.5%. In our view, the high P/E multiple relative to the packaged food group is justified by the company's attractive growth potential. This is reasonable in our opinion given that the company's plans to increase distribution, which should drive higher household penetration and usage rates for its Keurig single-cup brewing system. Upside to our target valuation would require faster than anticipated earnings growth from either greater than anticipated penetration rates or higher than expected operating leverage. Downside to our target would be driven by lower household brewer penetration, lower K-Cup usage per brewer, and lower margin per K-Cup sold.

Analyst Certification

I, Bryan D. Spillane, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US-Food Coverage Cluster

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
BUY	Campbell Soup Company	CPB	CPB US	Bryan D. Spillane
	ConAgra Foods, Inc.	CAG	CAG US	Bryan D. Spillane
	Dean Foods Company	DF	DF US	Bryan D. Spillane
	General Mills	GIS	GIS US	Bryan D. Spillane
	Kraft Foods Inc.	KFT	KFT US	Bryan D. Spillane
	Seneca Foods Corporation	SENEA	SENEA US	Bryan D. Spillane
NEUTRAL	Green Mountain Coffee Roasters	GMCR	GMCR US	Bryan D. Spillane
	Kellogg	K	K US	Bryan D. Spillane
	Mead Johnson Nutrition Company	MJN	MJN US	Bryan D. Spillane
	The Hershey Company	HSY	HSY US	Bryan D. Spillane
UNDERPERFORM	H.J. Heinz Company	HNZ	HNZ US	Bryan D. Spillane
	Sara Lee Corporation	SLE	SLE US	Bryan D. Spillane

***iQmethod*SM Measures Definitions**

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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Important Disclosures

Investment Rating Distribution: Food Group (as of 01 Jun 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	24	38.71%	Buy	6	27.27%
Neutral	25	40.32%	Neutral	9	50.00%
Sell	13	20.97%	Sell	2	18.18%

Investment Rating Distribution: Global Group (as of 01 Jun 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1303	40.83%	Buy	602	51.10%
Neutral	807	25.29%	Neutral	362	51.49%
Sell	1081	33.88%	Sell	394	39.96%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of a stock's: (i) absolute total return potential and (ii) attractiveness for investment relative to other stocks within its *Coverage Cluster* (defined below). There are three investment ratings: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BAS-ML Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. *Coverage Cluster* is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BAS-ML Comment referencing the stock.

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