

PepsiCo Stock Pitch

Consumer Staples



PEPSICO

PepsiCo Companies Background

PepsiCo traded as
Nasdaq-100, S&P 100
and S&P 500
component

Founded in 1898 (124
years ago!) in New Bern,
North Carolina, U.S.

Market cap =
\$242.78 billion

PepsiCo Inc., is one of
the leading multinational
food and beverage
companies.

Subsidiaries: A diverse
portfolio of brands,
including Mountain Dew,
Gatorade, 7 up (outside
the U.S.) and Mirinda

Distributed across more
than 200 countries,
resulting in annual net
revenues of over US\$70
billion

Trend

- Upward trend within the market
- Since its IPO in 1999, long trajectory



RSI

- measures the price momentum of a stock or other security.
- Its neither overbought or oversold



Strength & Weaknesses



| Strength | This means... | Evidence |
|-------------------------------------|---------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <u>Good establish brand</u> | Strong market power and solid brand reputation protects long-term sales | According to Forbes 2022 ranking, Pepsi ranked second that year, with a value of around 21 billion U.S. dollars. In 2020, PepsiCo was ranked 87th largest company in the world in Forbes' Global 2000. |
| <u>Effective Marketing Strategy</u> | Pepsi's marketing strategy utilizes celebrity endorsements and company sponsorships to promote their product. | Pepsi has been sponsoring the Super Bowl halftime show for seven years, reaching an audience of 100 million people in 2019. In 2020, Pepsi Super Bowl LIV Halftime Show featured renowned performers and drew 104.1 million viewers. |

| Weakness | This means... | Evidence |
|----------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <u>Overdependence on Food and Beverages</u> | Overreliance on bicarbonate beverages and pre-prepared meals degrades a firm's flexibility and agility in the face of disruption. And sugar is a risk for PepsiCo. Its reliance on its carbonated soft drink brands, such as Pepsi-Cola, has been well documented | In 2021, PepsiCo's U.S. market share in carbonated soft drinks was 25.6%. Which has been slowly losing market share in the carbonated soft drink category, standing at 8.7% in 2020 |
| <u>Environmentally unfriendly operations</u> | PepsiCo has been alleged to conduct operations in an unsustainable manner many times. | Ranked among the Top 3 brands that pollute the environment using plastic for three continuous years. Have been accused of destroying the rainforests because of high volume of palm oil. |

Opportunities & Threats



| Opportunity | This means | Evidence |
|-----------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <u>Product diversification</u> | PepsiCo can explore a new market of selling ready-to-drink cocktails in a can. This would also enable the company to target another customer segment. Also, the company can introduce more options in healthy foods and beverages to retain or acquire health-conscious customers. | The market is still emerging and is just valued at \$175 million for now but is expected to witness strong growth of more than 13% from 2022-2030. |
| <u>Partnerships and alliances</u> | Partnerships and alliances are very important for any global multinational brand like Pepsi. It helps the company to increase customers' market influence. | Pepsi has made a partnership with Starbucks to serve cold drinks at its coffeehouse outlets. Such an alliance is good for both brands. |
| Threat | This means... | Evidence |
| Economic Recession | <p>The recent High Global inflation is affecting PepsiCo in the food and beverage market.</p> <p>The trade between the US and the Chinese government is causing a lot of hurdles for the company in global trade. The high taxes are jeopardizing Pepsi's profitability</p> | <p>According to an estimate, the net profitability of Pepsi has decreased by approximately 43.23% in 2020 due to the pandemic.</p> <p>It scrapped its projection of 4% revenue growth for the year in the first quarter of 2020 after its net income fell to \$1.34 billion from \$1.41 billion a year earlier</p> |
| Relentless Competition | <p>PepsiCo's profitability and market share are <u>threatened by competition</u> from Coca Cola, Nestle, Dr. Peppers, Unilever, and so on.</p> <p>This can threaten long-term sustainability and profitability because it increases the cost of protecting market share through advertisements, promotions, and discounts to retain customers</p> | Example: Despite this drop in ranking, Coca-Cola remains the leading carbonated soft drink - CSD - brand in the US - volume share 44.9%. Pepsi comes in second, with a volume share of 25.9%. |

Upcoming pipeline/news/ events



- the Positive Agriculture Outcomes (PAO) Fund, by granting 14 business projects across 11 countries funding to address some of the most intractable challenges facing agriculture today.
- PepsiCo to invest \$100million by 2024 to double Romanian plant's capacity
- PepsiCo plans to invest \$1billion to expand in China over the next four years

ESG Compliance

| Environmental | Social | Governance |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none">• By 2025 they intend to design 100% of their packaging to be either recyclable, biodegradable or reusable• Positive Agricultural Agenda where they are working to source crops and ingredients in a way that will strengthen farming communities and accelerate regenerative and sustainable agriculture• To accelerate regenerative agriculture, they're taking a landscape approach. For example, in 2021, 40% of their direct grower-sourced key ingredients from areas of highwater risk | <ul style="list-style-type: none">• They implemented compulsory unconscious bias training and inclusive leadership training for their US executives• As part of their racial equality journey, they've worked to strengthen relationships with Black and Hispanic owned businesses and suppliers in the US, spending nearly \$500 million with them• They have a 'One Smile at a Time' volunteer program which seeks to empower their associates with the resources needed for cultivating prosperity in their communities | <ul style="list-style-type: none">• They maintain an integration structure combining board and senior leadership oversight with localised expertise that informs their ESG strategy and how best they can execute it• Their full board considers ESG issues to be an integral part of its business strategy oversight• They have a sustainability, diversity and public policy committee, made up of independent directors reflecting a mix of public policy, risk, international and science related skills, qualifications and experiences that assists their board in focusing on key issues |

ESG Compliance

ESG Risk Rating **COMPREHENSIVE** ?

16.3 Low Risk



Last Update: Oct 18, 2022 ?

Ranking

Industry Group (1st = lowest risk)

Food Products 5 out of 603

Universe

Global Universe 2036 out of 15136

Industry Comparison

| Company | ESG Risk Rating | Industry Rank |
|-------------------------|---------------------------------------------------------------------------------------------------|----------------|
| PepsiCo, Inc. | 16.3  Low | 5 out of 603 |
| The Coca-Cola Co. | 22.5  Medium | 38 out of 603 |
| Keurig Dr Pepper, Inc. | 23  Medium | 42 out of 603 |
| Nongfu Spring Co., Ltd. | 25.2  Medium | 71 out of 603 |
| Monster Beverage Corp. | 29.3  Medium | 143 out of 603 |




















Financials

Financials

- PepsiCo gross profit for the quarter ending December 31, 2022 was **\$14.576B**, a **11.11% increase** year-over-year.
- PepsiCo gross profit for the twelve months ending December 31, 2022 was **\$45.816B**, a **8.06% increase** year-over-year.
- PepsiCo annual gross profit for 2022 was **\$45.816B**, a **8.06% increase** from 2021.
- PepsiCo annual gross profit for 2021 was **\$42.399B**, a **9.91% increase** from 2020.
- PepsiCo annual gross profit for 2020 was **\$38.575B**, a **4.18% increase** from 2019.
- PepsiCo revenue for the quarter ending December 31, 2022 was **\$27.996B**, a **10.88% increase** year-over-year.
- PepsiCo's revenue for the twelve months ending December 31, 2022 was **\$86.392B**, an **8.7% increase** year-over-year.
- PepsiCo annual revenue for 2022 was **\$86.392B**, a **8.7% increase** from 2021.
- PepsiCo annual revenue for 2021 was **\$79.474B**, a **12.93% increase** from 2020.
- PepsiCo annual revenue for 2020 was **\$70.372B**, a **4.78% increase** from 2019.

PepsiCo Income Statement 2020-2022

| Annual Data Millions of US \$ except per share data | | 2022-12-31 | 2021-12-31 | 2020-12-31 |
|-------------------------------------------------------|---------------------------------------------------------------------------------------|-----------------|-----------------|-----------------|
| Revenue |  | \$86,392 | \$79,474 | \$70,372 |
| Cost Of Goods Sold |  | \$40,576 | \$37,075 | \$31,797 |
| Gross Profit |  | \$45,816 | \$42,399 | \$38,575 |
| Research And Development Expenses | | - | - | - |
| SG&A Expenses |  | \$34,459 | \$31,237 | \$28,453 |
| Other Operating Income Or Expenses |  | \$155 | - | \$-42 |
| Operating Expenses |  | \$34,304 | \$31,237 | \$28,495 |
| Operating Income |  | \$11,512 | \$11,162 | \$10,080 |
| Total Non-Operating Income/Expense |  | \$-807 | \$-1,341 | \$-1,011 |
| Pre-Tax Income |  | \$10,705 | \$9,821 | \$9,069 |
| Income Taxes |  | \$1,727 | \$2,142 | \$1,894 |
| Income After Taxes |  | \$8,978 | \$7,679 | \$7,175 |
| Other Income | | - | - | - |
| Income From Continuous Operations |  | \$8,978 | \$7,679 | \$7,175 |
| Income From Discontinued Operations | | - | - | - |
| Net Income |  | \$8,910 | \$7,618 | \$7,120 |
| EBITDA |  | \$14,792 | \$14,377 | \$13,106 |
| EBIT |  | \$11,512 | \$11,162 | \$10,080 |
| Basic Shares Outstanding |  | 1,380 | 1,382 | 1,385 |
| Shares Outstanding |  | 1,387 | 1,389 | 1,392 |
| Basic EPS |  | \$6.45 | \$5.51 | \$5.14 |
| EPS - Earnings Per Share |  | \$6.42 | \$5.49 | \$5.12 |

Financial Ratios

- EV/EBITDA of 18.9x which is lower than their biggest rival coca cola of 20.2x
- PE ratio of 28.1x which is lower than Coca Cola of 30.6

| Fiscal Period: December | 2020 | 2021 | 2022 |
|------------------------------------|-----------|-----------|-----------|
| Capitalization ¹ | 204 944 | 242 976 | 251 832 |
| Enterprise Value (EV) ¹ | 239 543 | 277 322 | 285 555 |
| P/E ratio | 29,0x | 31,6x | 28,1x |
| Yield | 2,71% | 2,45% | 2,50% |
| Capitalization / Revenue | 2,91x | 3,06x | 2,91x |
| EV / Revenue | 3,40x | 3,49x | 3,31x |
| EV / EBITDA | 18,3x | 19,6x | 18,9x |
| Enterprise Value (EV) / FCF | 37,6x | 39,7x | 51,0x |
| FCF Yield | 2,66% | 2,52% | 1,96% |
| Price to Book | 15,2x | 15,0x | 14,5x |
| Nbr of stocks (in thousands) | 1 381 956 | 1 398 745 | 1 393 956 |



Risk

Stability of PepsiCo

- PepsiCo operates globally and offers a wide range of affordable beverages, food and snacks.
- Because of their global outreach and range of unique product lines they can offset declining product lines with growth in others.
- PepsiCo's largest business segment is PepsiCo Beverages North America (PBNA) which made up 32% (\$25.3 Billion) of total PepsiCo revenues (\$79.5 Billion) in 2021. Frito-Lay North America (FLNA) and Quaker Foods North America (QFNA) brought in \$19.6 Billion and \$2.8 Billion in 2021 respectively.
- This means that 60% of total revenue comes from North America, a very stable market for food and beverages.

PepsiCo Beta = 0.57, very low volatility.

Current Ratio: 0.8x. This is lower than the industry average 1.4x and it has been decreasing for PepsiCo year on year. This suggests that the firm has a healthy capital structure for the short-term.

Potential Risks

Long-term Debt/Equity: 2x. This is much higher than the industry average of 0.3x.

- The long-term Debt/Equity shows that PepsiCo may face serious issues in the future when it comes time to repay on their loans, but this shouldn't be an issue for many years.
- PepsiCo is a very stable company with consistent growth. The high P/E ratio reflects this as investors are confident in its continued growth in earnings.
- In February 2023, PepsiCo said they expect to see 6% revenue growth in 2023, despite volatile markets. Brands such as Pepsi Max and Frito-Lay grew by 26% and 17% in 2022, with growth expected to continue in 2023.

Stop Loss

- Depending on how risk adverse
- Reward to risk ratio is 5:1
- Break it the trade into chunks to lower the risk



Pepsico



PEPSICO



Tropicana

