



Investment Report

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Investment Thesis

PepsiCo is one of the largest and leading Non-Alcoholic beverage company offering not only beverages, but as well as in the food-snack industry across the world. PepsiCo offers a diverse amount of beverage products, food products, and even healthy options. PepsiCo has thrived since its creation and remains dominant through acquisitions and partnerships to maintain its household name in the Non-Alcoholic beverage industry.

I am initiating a Buy rate with a 12-month target price of \$175.46 for PepsiCo. The target price for PepsiCo offers over a ~12% upside from their October 31st closing price.

Key Drivers:

Healthier Alternatives:

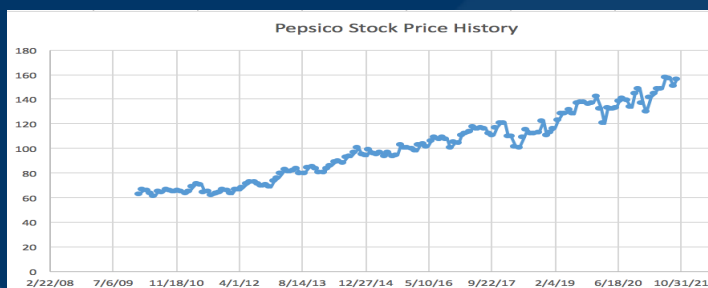
- Frito-Lay, a subset of PepsiCo, has reduced more than 400 tons of sodium from its products since 2006.
- PepsiCo has added LIFEWTR and other bubbly flavored sparkly water to its Gatorade and Propel division. Also PepsiCo has ventured into making probiotic and kombucha drinks
- Since acquiring Sabra, PepsiCo has added a variety of vegetable and seed based products from humus to salsa and guacamole to bean dips

World Expansion:

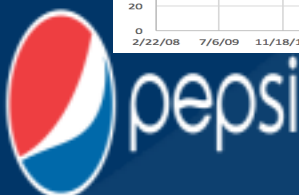
- As of 2020, PepsiCo has invested nearly \$5.5B into India as this country has been identified as a key global market.
- PepsiCo operates in over 200 countries across the world
- PepsiCo has recently announced its plan to advance food security to over 50 million people by 2030

Continued Acquisitions and Partnerships into new industries:

- PepsiCo is currently exploring different ways to enter the alcoholic seltzer sector due to Coca-Cola's Topo Chico partnership
- PepsiCo's "new" partnerships and acquisitions of: Soda Stream, Cyto Sport, and Rockstar Energy, aim to help PepsiCo branch into the sparkling water, protein and recovery, and energy drink sectors to gain a foothold in these newer markets.



Key Financials	
Share Price	\$156.24
Market Cap (Billions)	216.025
Dividend Yield	2.76%
Beta	0.62
P/E	26.62
P/B	13.65
D/E	0.48
ROE %	52%



Headquarters
Harrison, NY



Employees
291,000

Sector: Consumer Defensive
Industry: Beverages non-alcoholic

Revenue
\$68.5 billion



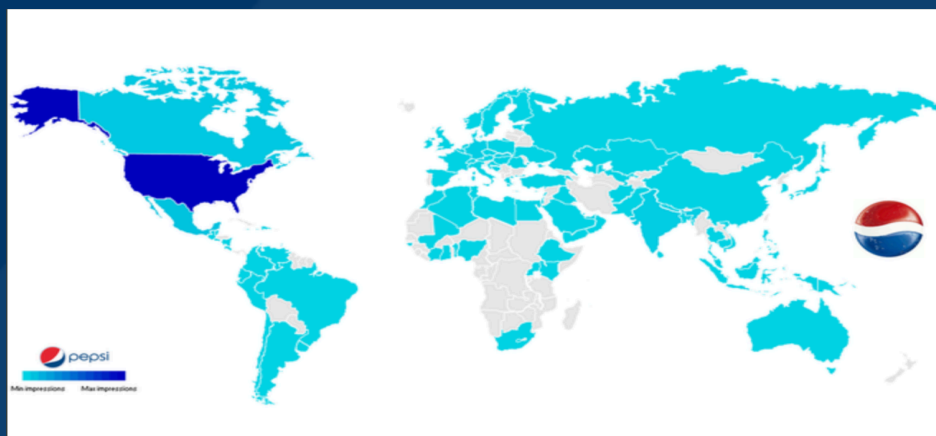
Business Description

Company Overview

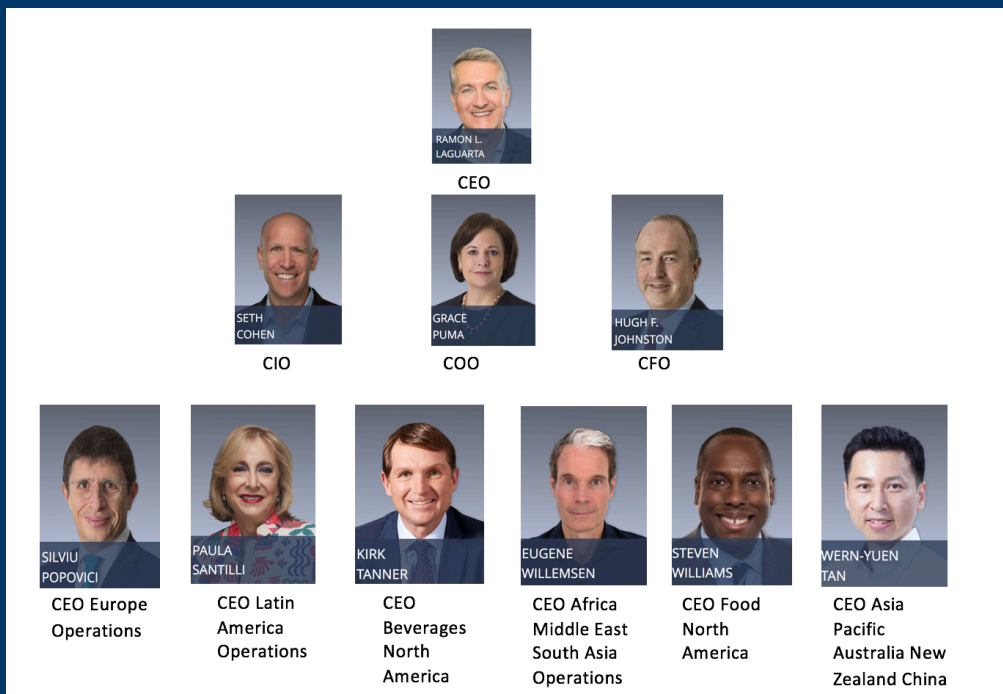
In 1965, Donald Kendall, the CEO of Pepsi-Cola, and Herman Lay, the CEO of Frito-Lay, recognized what they called “a marriage made in heaven,” a single company delivering perfectly-salty snacks served alongside the best cola on earth. The vision led to what quickly became one of the world's leading food and beverage companies: PepsiCo. PepsiCo products are used by consumers more than one billion times a day in more than 200 countries around the world. driven by a complementary food and beverage portfolio which includes: Frito-Lay, Gatorade, Pepsi-Cola, Quaker, Tropicana and SodaStream. PepsiCo's product portfolio includes a wide range of enjoyable foods and beverages, including 23 brands that generate more than \$1 billion each in estimated annual retail sales. PepsiCo Beverages North America (PBNA) started in 1898, when Caleb Bradham, an created Pepsi-Cola and began offering it to his pharmacy customers. PepsiCo is headquartered in Harrison New York with currently has roughly 291,000 employees and generated more than \$70 Billion in revenue in 2020.

Company Makeup

PepsiCo is made up of seven divisions: PepsiCo Beverages North America; Frito-Lay North America; Quaker Foods North America; Latin America; Europe; Africa, Middle East and South Asia; and Asia Pacific, Australia/New Zealand and China. Each of these divisions has its own unique history and way of doing business.

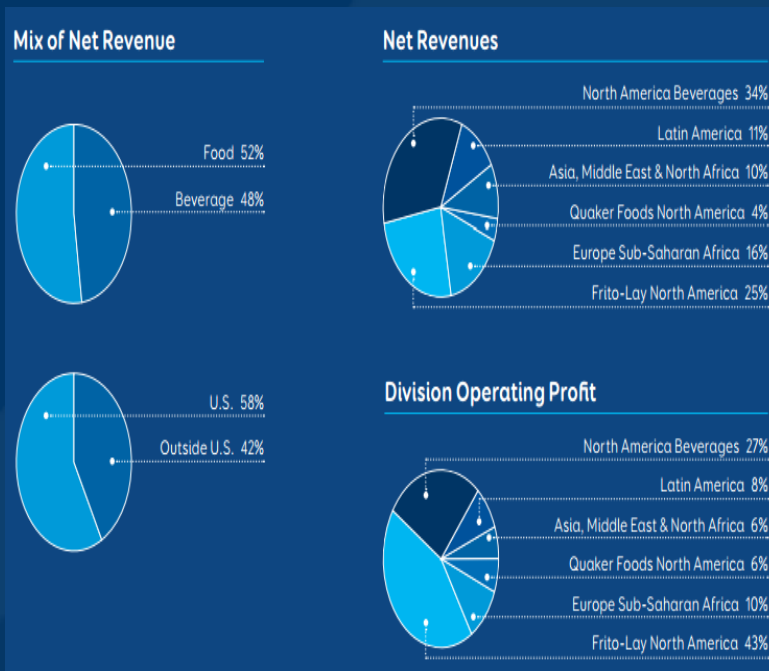


Management Team



PepsiCo's current Chief Executive Officer is Ramon Laguarta. Laguarta has been the acting CEO since October 2018 and has pivoted PepsiCo's focus towards accelerated growth as well as a new mission statement, "to *Create More Smiles with Every Sip and Every Bite*—and adopting a new vision that captures PepsiCo's competitive spirit, intense focus, and shared values: to *Be the Global Leader in Convenient Foods and Beverages by Winning with Purpose*. "Winning with Purpose."

PepsiCo's CIO, COO, and CFO (Seth Cohen, Grace Puma, and Hugh Johnston). They serve this role for the entirety of PepsiCo's company. This is important to mention due to PepsiCo's diverse leadership structure. PepsiCo has operating segments world wide. In order to create efficiency and focus, PepsiCo has CEO's for different regions of the world. They are listed in the picture above. The picture below depicts the different operating segments PepsiCo is involved with as well as the percentages of Net Revenue and operating Profit.



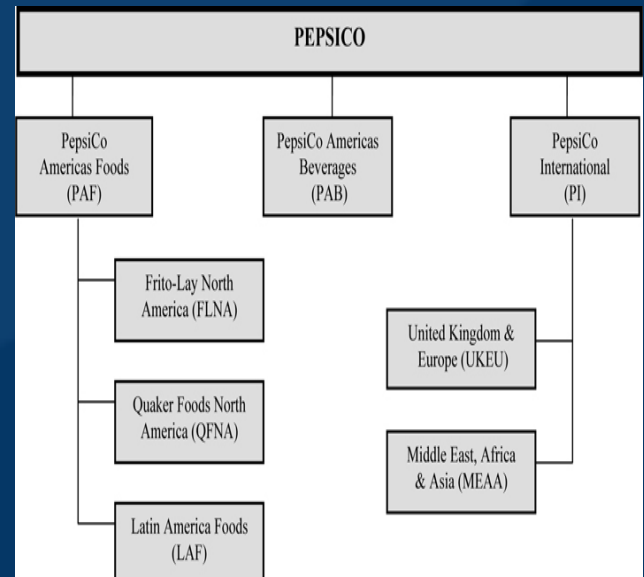
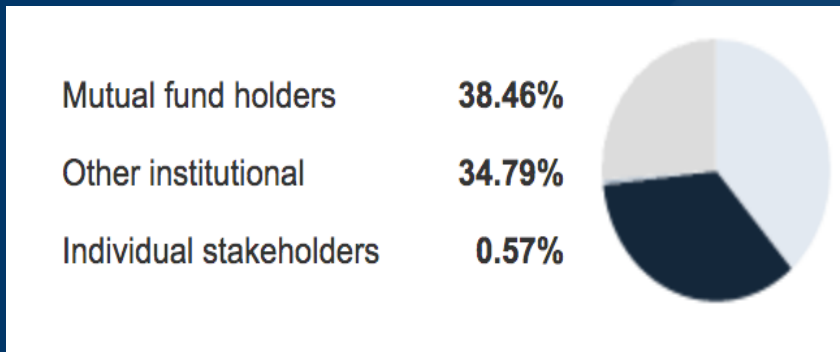
Company Management and Makeup

Company Management and Makeup

As stated above, PepsiCo is broken into six divisions, each with their own CEO. The six divisions are Frito Lay America, Quaker Oats, North America Beverages, Latin America, ESSA (Europe Sub-Saharan Africa), and AMENA (Asia Middle East). Like many companies, PepsiCo, like many companies are broken into 7 main corporate groups such as: Global Categories and Operations, Global Research and Development, Government Affairs and Legal, Finance, Human Resources, Talent Management, Training and Development, Communications. PepsiCo benefits from its presence in two complementary categories: food and beverages. Purchases in these two categories tend to coincide. The complementary product portfolio also helps PepsiCo leverage the presence of one category in a region for entering the complementary category. For instance, PepsiCo has been able to take advantage of its beverage business in emerging markets to develop its snack business. PepsiCo is now focusing on transforming its portfolio with a focus on health and wellness through its focus on healthier beverage and snack options. For example, Naked Juice cold-pressed juices and smoothies, KeVita probiotics and fermented teas, and Bare baked apple chips are some examples of PepsiCo's healthier products.

Corporate Governance

PepsiCo has an organizational structure in which all sectors of the company follows. The structure involves, monitoring, control and governance through a top-down approach, to better control every level of the business. PepsiCo is able to ensure that every employee and product upholds the company's policies, standards, and strategies. Over 73% of PepsiCo shares are owned by either institutions and mutual funds.

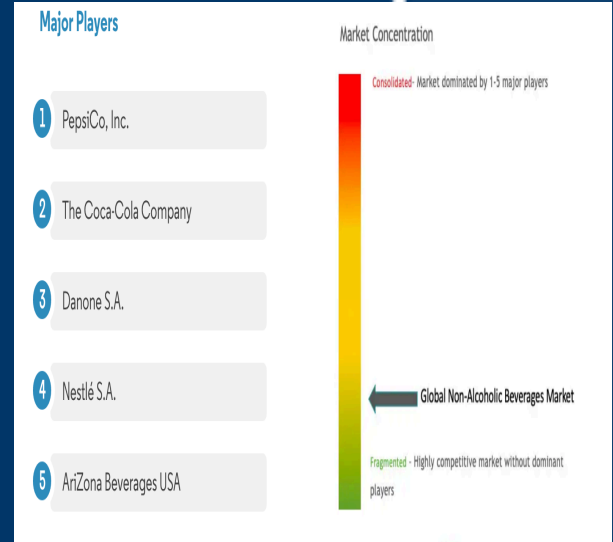


Industry Overview

PepsiCo competes in the Beverages Non-alcoholic industry within the Consumer Defensive Sector. However, PepsiCo as well as its competitors extend much beyond this narrow industry. For this report, I will highlight mainly PepsiCo's position within the Beverages Non-alcoholic industry as well as slight comparisons towards the major players of the Consumer Defensive sector closest to PepsiCo.

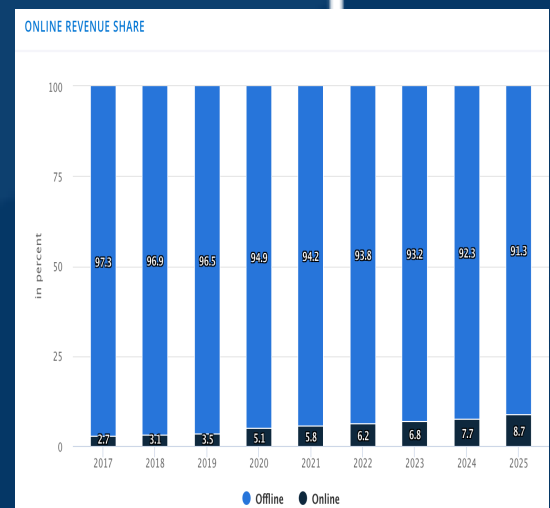
General Overview of the Beverages Non-alcoholic industry

The Beverages Non-alcoholic industry recorded over \$1 Trillion in Industry Value. PepsiCo is a dominant player within the beverages Non-alcoholic industry. The Major players of this industry have lots of cash on at hand, which they are able to acquire smaller companies and expand into other beverage sectors. In addition, there are high barriers to entry due to brand recognition, bottling and distribution capabilities, and shelf space in stores. An increase in accessibility and regulations of non-alcoholic drinks globally is one of the key factors increasing product preference leading to increased worldwide consumption. \$359 Billion in revenue was generated in 2020 just in the United States.



Future of the Beverages Non-alcoholic Industry

Through the COVID-19 pandemic that has effected so many industries, the prominence of online sales as well as the expansion into healthier alternatives will continue to increase this industries value. For example, both Coca-Cola and PepsiCo, the two biggest players in this industry, are venturing into alcoholic beverages, energy drinks, and lowering the amount of sugar within its current drinks. In addition, through the consistent removal of restrictions on COVID-19 policies, out-of-home sales are expected to return to normal. Online sales of are projected to increase steadily over the next 4+ years within this industry



SWOT Analysis

Strengths

- Brand Value
- Operating Efficiency
- Management Team
- Diverse Portfolio
- Direct Store Delivery

Opportunities

- Expansion of E-Commerce
- Partnerships and Mergers
- Consumer Driven R&D
- Expanding Operations in emerging Markets

Weaknesses

- Products seen as unhealthy
- Failed Products
- Overdependence on food and beverage

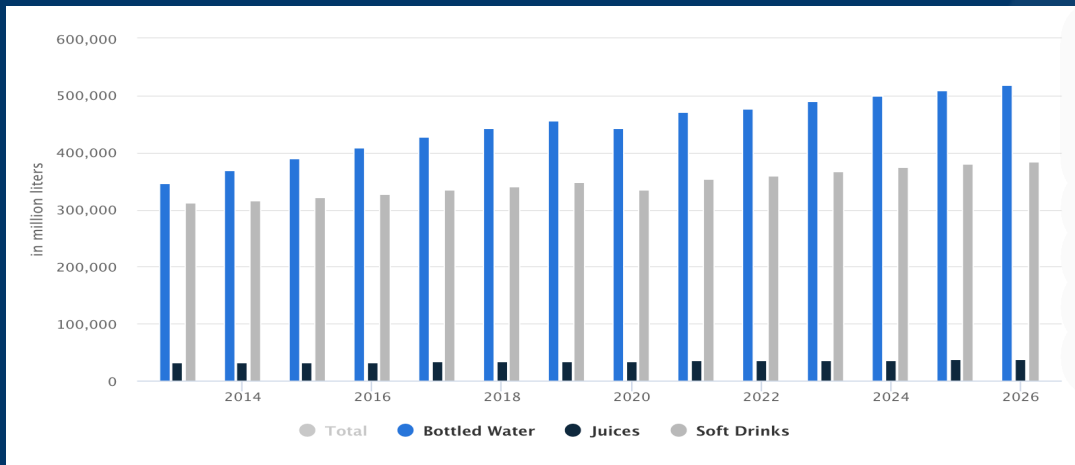
Threats

- Competition
- Economic Shutdown/Pandemic
- Trade Tensions
- Changes in Demographics

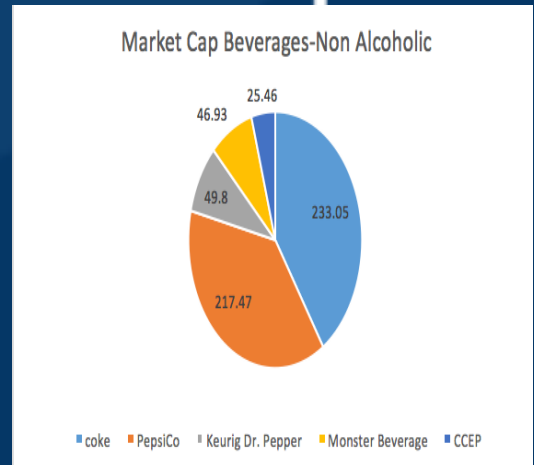


Competitive Positioning

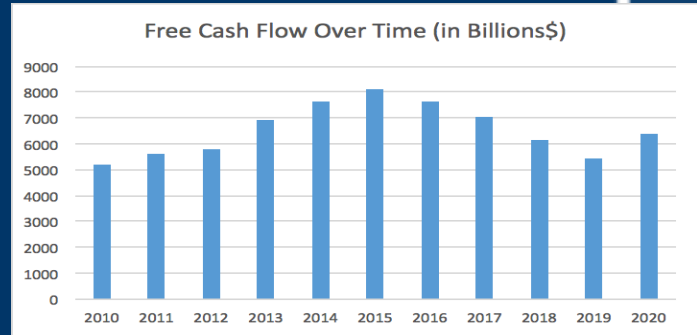
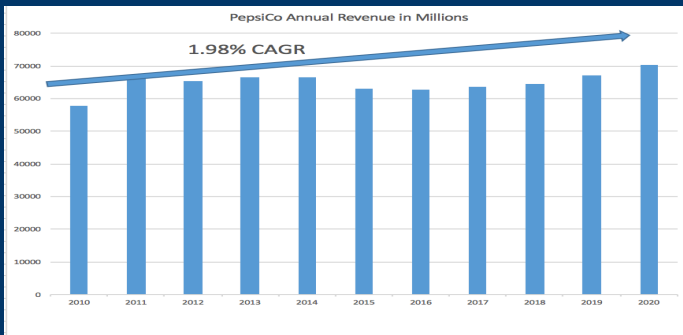
PepsiCo, as one of the largest players in the beverages non-alcoholic industry, PepsiCo is in an excellent position to compete in the changing marketplace due to its high cash flows, well-established brand recognition, a growing online presence, and investing into new products. I do expect PepsiCo to overtake Coca-Cola as the leader of the industry due to each of these advantages. PepsiCo will remain relevant and an industry leader as the industry continues to shift. The changing regulations and health awareness of the risks of sugar and salty snacks will likely require significant capital expenditures and investments in technology and data science, resulting in the dismantlement of many small players of the industry. Because of its high cash flows, PepsiCo will be able to make these investments to compete as well as acquiring many of the smaller players. The name recognition of its brand as well as customers' familiarity with its products likely plays a role in making consumers feel comfortable with buying products online as well as out-of-house sales. Additionally, the expansion into Hard Mountain Dew and acquiring Rockstar Energy, aim to compete with Coca-Cola's competitive partnerships with Monster and Topo Chico. These factors lead PepsiCo into an excellent position to transition to the changes of the industry.



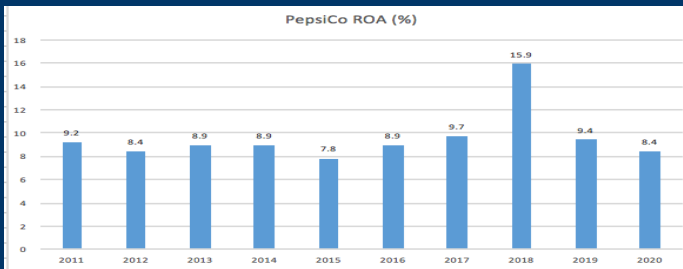
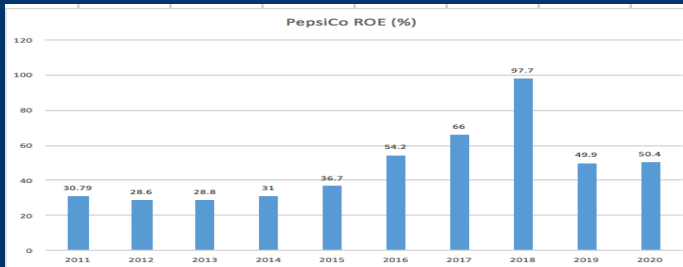
PepsiCo is able to generate and maintain its high revenues through expansion into different markets across the world. PepsiCo is an industry leader in the non-alcoholic and snack industry. PepsiCo has factories and warehouses worldwide to easily deploy its goods. PepsiCo has its biggest factories in the U.S. PepsiCo has heavily relied on outside sellers of its products, i.e. restaurants & grocery stores. This has helped PepsiCo become a valued name brand through vastly expanding its distribution of its products.



Financial Analysis



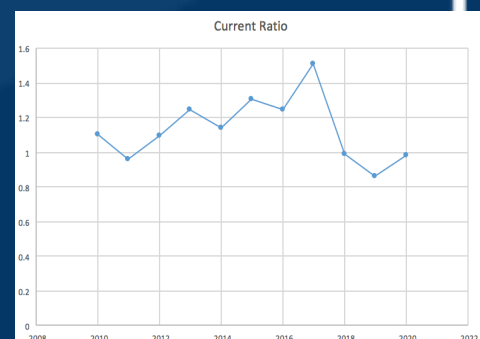
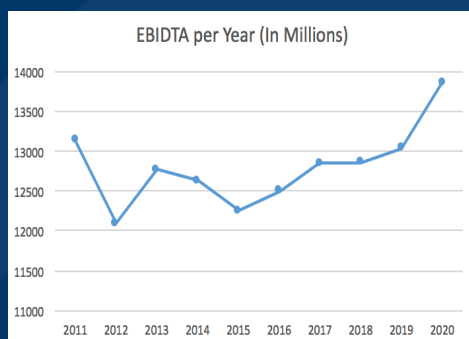
From 2010 to 2020, PepsiCo has seen a consistent rise in its revenue from \$55B to just over \$70B, while maintaining a growing and healthy dividend payout. While there was a slight dip experienced in 2018, mainly due to rising operating costs, increased marketing and advertising costs. PepsiCo has enjoyed a growing revenue and healthy dividend payout ratio due the rapid growth and demand for their snack industry. I believe PepsiCo will continue to payout a healthy dividend as well as maintaining a consistent growing revenue for years to come.



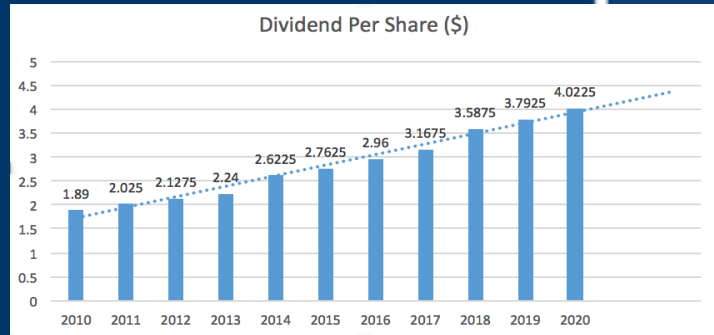
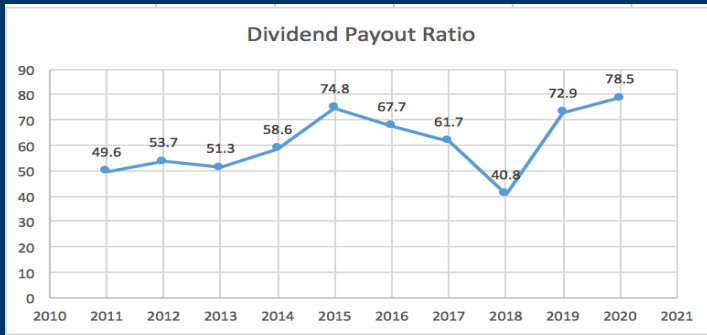
Since 2010, PepsiCo has experienced a consistent rise of return on equity as well as return on assets up until 2018. The decrease in percentage for both of these measurements are caused by the COVID 19 pandemic. COVID 19 led to a world wide supply chain problem resulting in many companies to see decreasing returns. However, PepsiCo has rebounded and navigated through this struggling time by building and upgrading factories to combat these problems, resulting in an upward trend. Finally, with PepsiCo beating earnings on it previous 4 quarters, PepsiCo's ROE and ROA should increase in the near future.



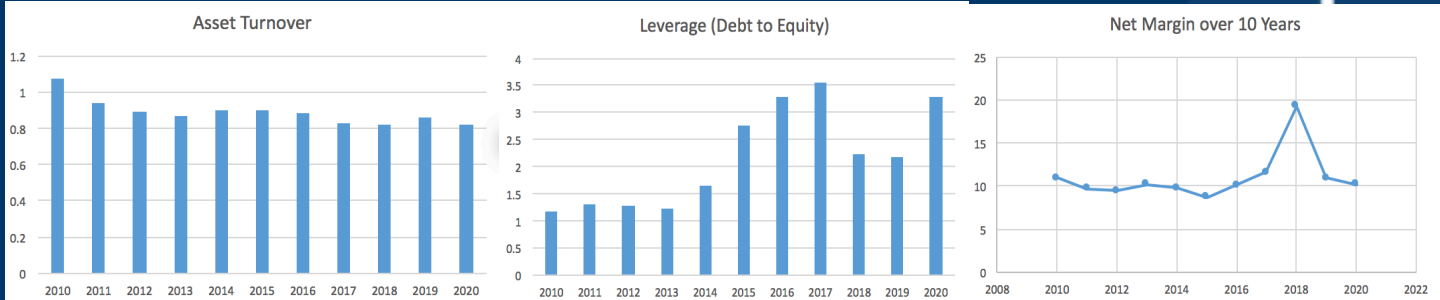
In regards to PepsiCo's current ratio as seen in the graph below, PepsiCo has remained around or above 1 since 2010. This has allowed PepsiCo to pay off some of its debts while combating COVID 19 problems. In addition, PepsiCo has had a growing EBIDTA over the past 5 years, resulting in more earnings. Essentially, PepsiCo has increased its cash on hand, allowing them to pay off debts and unpredictable financial and operating struggles.



Financials Continued



3 Components of Roe (DuPont Analysis)



PepsiCo has enjoyed a growing revenue and healthy dividend payout ratio due to the rapid growth and demand for their snack industry. I believe PepsiCo will continue to payout a healthy dividend as well as maintaining a consistent growing revenue for years to come. In addition, PepsiCo has consistently increased their dividend per share over the last 10 years. A forecast predicts that this should continue in the foreseeable future. PepsiCo has maintained a steady asset turnover over the past 10 years averaging around 0.88 over this time frame. PepsiCo is able to use its assets, like its partnerships and other market sectors to effectively help generate revenue. By having a relatively consistent asset turnover rate, PepsiCo values its assets and strategically uses them to help aid generating revenue.

As seen in the graph above, PepsiCo is highly levered, with a Debt to Equity that has risen over the last 10 years. This is due to corporate tax laws as well as continued acquisitions and partnerships.

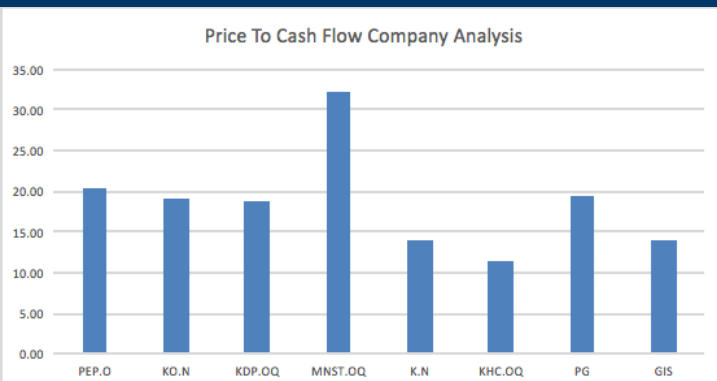
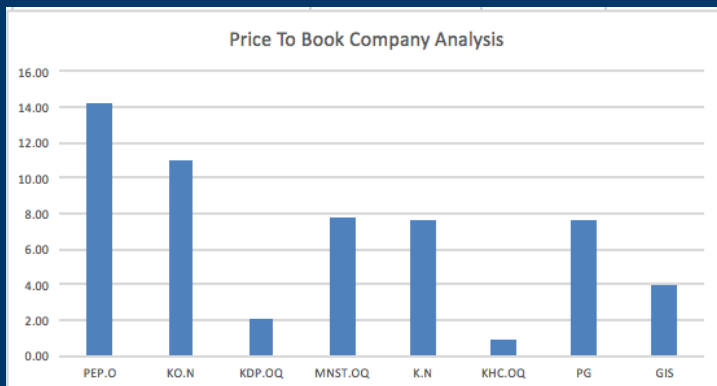
Also, the graph displaying net margin over 10 years is quite consistent, when disregarding the outlier of 2018. This outlier was most likely due to the pandemic. PepsiCo is consistently around 10.

Below is the aggregated information from the graphs above displaying the DuPont Analysis. As seen in the table below, PepsiCo has been able to generate growing ROE year after year, with exception to the lasting effects of COVID-19. I expect PepsiCo's ROE to regain traction, and climb into 30% ROE in the near future.

Year	Asset Turnover (%)	Leverage Debt to Equity (%)	Net Margin (%)	Dupont Analysis (%)
2010	1.07	1.17035679	10.9	13.65
2011	0.94	1.293131762	9.7	11.79
2012	0.89	1.26506669	9.4	10.58
2013	0.87	1.21426523	10.2	10.78
2014	0.9	1.643929912	9.8	14.50
2015	0.9	2.758037786	8.7	21.60
2016	0.88	3.28516806	10.1	29.20
2017	0.83	3.556450883	11.6	34.24
2018	0.82	2.226270836	19.3	35.23
2019	0.86	2.168808332	10.9	20.33
2020	0.82	3.281551955	10.2	27.45

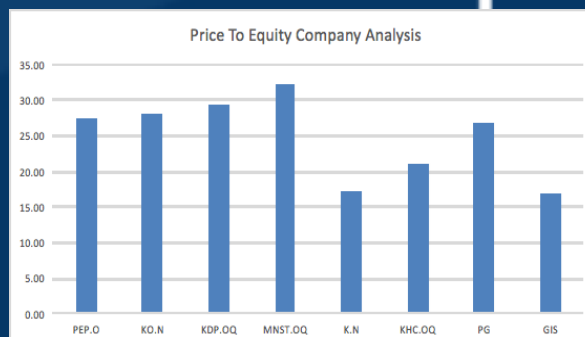


Comparable Companies Analysis



Identifier (RIC)	Company Name	Market Cap	P/E (Daily Time Series Ratio)	Enterprise Value To EBITDA (Daily Time Series Ratio)	Price to Book
PEP.O	PepsiCo Inc	216,979,726,344.99	26.33	17.45	13.67
KO.N	Coca-Cola Co	234,090,232,263.69	29.07	20.68	10.52
KDP.OQ	Keurig Dr Pepper Inc	49,838,489,667.48	30.74	17.26	2.06
MNST.OQ	Monster Beverage Corp	46,510,218,219.34	29.65	22.88	7.88
K.N	Kellogg Co	21,257,211,571.44	15.94	12.77	7.81
KHC.OQ	Kraft Heinz Co	44,996,178,862.08	21.85	9.98	0.90
PG	Procter & Gamble Co	345,087,939,437.37	25.93	17.10	7.45
GIS	General Mills Inc	37,637,728,967.28	16.42	12.78	3.89
CCEP.O	Coca-Cola Europacific Partners PLC	24,289,024,315.68	34.95	15.53	3.21

Since 2010 to 2020, PepsiCo has seen an extremely volatile P/E ratio from 11.60 – 31.69. However, PepsiCo’s P/B ratio has steadily increased from 3.5 - 13.67. And PepsiCo’s P/CF has also increased consistently from 14.12 - 20. In the graphs above and below, the P/E, P/B, and P/CF are a measurement of 2020-2021’s information for the comparable companies. However, while comparing these financial analyses to its competitors, PepsiCo is in the upper threshold for each of these analyses. Since these analyses are above its competitor’s average, PepsiCo could seem as an invaluable investment opportunity. However, these rising ratios are mostly due to PepsiCo’s dominant presence in buying smaller competitor, innovation, and strategic partnerships. All companies in this comparison are within the beverage/non-alcoholic industry or the food/snack industry. One of PepsiCo’s most recent endeavors into innovation was its creation of Mountain Dew Harder. Mountain Dew Harder is an attempt to compete with Coca-Cola’s strategic partnership with Topo-Chico’s hard beverage. In addition, PepsiCo has more competitors due to its ownership of snack industry products, such as Frito Lay. Through its ownership of multiple different subsidiaries, PepsiCo should have a higher P/E, P/B, and P/CF. However, when assessing these companies in terms of volatility percentage per month, PepsiCo performs optimally below the market average, allowing their investors to enjoy less volatility holding their stock. A D/E analysis was not included due to PepsiCo’s large debt holding over time due to transaction and merger costs being much higher compared to its competitors.



Investment Risks

PepsiCo has several key investment risks that investors should consider when buying this security. The following investment risks should be examined and understood.

Competitive and Reputational Risks

These risks are becoming more prevalent within this industry. PepsiCo is in constant battle with its major competitor of Coca-Cola. This should be labeled as a medium-term to long-term risk due to the consistent battle between the two giants in the industry. Many of PepsiCo's partnerships and acquisitions are a response to other firms in the industry or to position themselves in other sectors. If PepsiCo's competitors are able to differentiate itself in a positive way, PepsiCo would lose its foothold of the market, especially if PepsiCo does not differentiate. PepsiCo's brand name as well as its sub-sectors play an important role in its business model. However, if PepsiCo is unable to maintain its sub-sector dominance, it could hurt PepsiCo's profitability both in the medium and long term.

Supply Chain Risks

Due to the COVID-19 virus, supply chain issues across all sectors for all firms have occurred. While this is a short-term risk for PepsiCo, future pandemics could lead to similar problems. PepsiCo has relationships with many vendors and suppliers, from super markets to restaurants. A burned bridge between a supplier would be more devastating to PepsiCo rather than a vendor, due to PepsiCo's brand recognition. PepsiCo has taken necessary precautions through out the pandemic as well as deploying certain actions, such as upgrading facilities, in order to better hedge against the supply chain issues.

Legal and Regulatory Risks

Major legal or regulatory changes could massively impact PepsiCo's operations. For example, new regulations on sugar, caffeine, and trans-fat directly impact PepsiCo's operations. PepsiCo has recently tried to introduce Mountain Dew harder. PepsiCo has to navigate between maintaining the Mountain Dew flavor in an alcoholic drink while abiding to specific regulations. PepsiCo has been able to navigate these risks through innovation and proactive changes towards its products..

Financial Risks

A corporate tax increase or PepsiCo's inability to continue to generate revenue could have significant negative impacts on PepsiCo's plan for expansion into different sectors as well as PepsiCo's committed creation of healthier alternative options.



Sources

All Financial and Industry information in this report were found from the following sources:

- PepsiCo's Annual Report
- PepsiCo's corporate governance guideline
- Refinitive
- Finviz
- Yahoo Finance
- Statista
- Nasdaq.com
- Trefis.com
- Macrotrends.com
- Infrontanalytics.com

The following sources provided photos and non-financial information:

- PepsiCo.com
- Beveragedaily.com
- Market Realist
- Mordor Intelligence

