

Key **V**alue

ASSET MANAGEMENT

EQUITY RESEARCH

ANALYSIS OF
PEPSICO

DATE :
30 April 2024

keyvalueam.com

PEPSICO (PEP)

BUY: 209,48 \$ (+19,12%)

Summary

Informations

Country	United States
Tax Rate	25%
Sector	Food & Beverage
Date	29/04/2024
Last Price	\$ 175,86
Target Price	\$ 209,48
+/- Potential	19,12%
Ticker	PEP

Market Data

52-Week High	196,88
52-Week Low	155,83
Avg. 3 Month Volume	6,02 MM
5 Yr Beta	0,66

Market Data

Revenue Growth (Cagr 3 yr)	4,80%
Revenue Growth (Cagr 5 yr)	6,37%
Price Return (ytd)	1,50%
Price return (1 yr)	-6,90%
Price Return (5 yr)	37,80%

Capital structure

Market Cap	243.039
Enterprise Value	279.046
Shares O/S	1383
Interest cover Ratio	15,7614
Debt/Equity	0,81

(Smnl) FY22 FY23 LMT

Revenues	86.392	91.471	91.875
Gross Pro	46.050	49.603	49.750
EBITDA	14.892	16.328	16.381
EBIT	12.252	13.539	13.541
Net Incom	8.910	9.074	9.184

Analyst

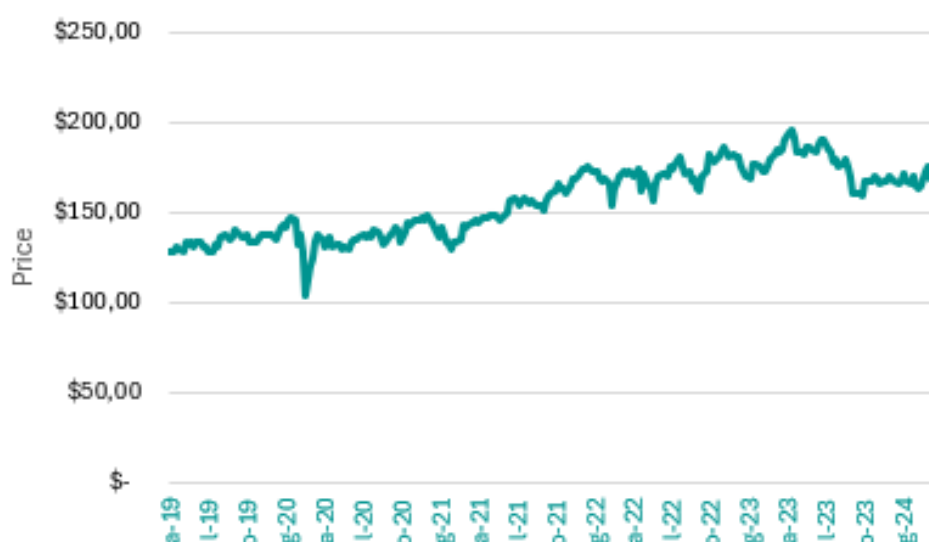
Marco Tempestini

info.tempestini@gmail.com

Diego Morao

diego.morao@stubocconi.it

PEP | 29/04/2019-29/04/2024





I. OVERVIEW

<i>Introduction</i>	1
<i>Business model</i>	2
<i>Management</i>	4
<i>Sector</i>	5

II. EXTERNAL ANALYSIS

<i>Porter's Five Forces</i>	6
<i>Competition</i>	7
<i>SWOT</i>	8

III. FINANCIAL STATEMENT

<i>Income Statement</i>	9
<i>Balance sheet</i>	11
<i>Profitability</i>	12
<i>Efficiency</i>	12
<i>Financial solidity</i>	12

IV. VALUATION

<i>Multiples analysis</i>	13
<i>DCF</i>	14
<i>Final outlook</i>	15

OVERVIEW

Introduction

PepsiCo is a global company founded in 1898 by Caleb Bradham, who started by selling Pepsi-Cola. As the years passed, the company expanded its product portfolio by acquiring Frito-Lay in 1965, and has since continued to grow through both internal development and acquisitions, becoming one of the largest food and beverage companies in the world.

Today, it operates in more than 200 countries, offering products ranging from soft drinks to savory snacks, from cereals to nutritional products.

PepsiCo's structure is divided into several geographic and product segments, including Frito-Lay North America, Quaker Foods North America, PepsiCo Beverages North America, Latin America, Europe, Africa, Middle East & South Asia (AMESA), and Asia Pacific, Australia and New Zealand and China Region (APAC). This organization allows PepsiCo to more effectively respond to diverse consumer needs and regional market dynamics.

PepsiCo's mission is to "Create More Smiles with Every Sip and Bite," reflecting its commitment to making moments of consuming its products enjoyable for consumers.

PepsiCo aims to be the global leader in the beverage and food industry, triumphing with PepsiCo Positive (pep+). Pep+ represents a comprehensive strategic transformation that places sustainability and human capital at the heart of how the company will create value and growth, operate sustainably and inspire positive change for the planet and people.

Values

- **Faster: Grow faster than the market by focusing on the consumer and expanding your investments.**
- **Stronger: Becoming stronger and united by improving business capabilities and reducing costs, using new technologies.**
- **Better: Operate in the most sustainable way possible by integrating care for the environment into the company strategy.**

Business Model

PepsiCo is committed to reducing the environmental impact of its operations and products through sustainable agricultural practices, reducing plastic use and promoting water and energy efficiency. The company also aims to innovate its product portfolio to offer healthier and more sustainable options, responding to growing consumer demands for products that are not only convenient but also environmentally friendly.

PepsiCo is active in supporting the communities in which it operates, with initiatives ranging from providing access to clean water to promoting education and economic empowerment. The company seeks to integrate a sense of purpose into its business strategy, recognizing that doing more for the planet and communities is not only the right thing to do, but also critical to long-term success.

Regarding the first quarter of 2024, Pepsi recorded a 1.67% increase in turnover compared to the same period of the previous year. This growth is driven by an increase in sales in Latin America where an increase of 16.32% was recorded, therefore remaining in line with our forecasts. However, Quaker Foods declines with a decrease in turnover compared to the previous year quarter of -23.68%.

The majority of revenue comes from Frito-Lay and PepsiCo Beverage which together account for 57.44% of PepsiCo's total revenue. As we can see, PepsiCo had notable growth in the Latin American segment, reporting a 19.17% increase in turnover compared to the previous year. This denotes the market share growth that emerging markets are having within PepsiCo's business. On the opposite side we see that turnover has decreased in Asia, Australia and the Middle East also due to conflicts and the increase in prices.

The end market that represents almost two-thirds of PepsiCo's business is the United States. This means that the presence in the American market is of fundamental importance for the overall success of the company. However, as we note business is also expanding into emerging markets, such as Latin America, where the brand is gaining more and more popularity. Certainly, a greater opening of the company to these markets would level the country risk (United States) to which the company is currently subjected.

Segment	Revenues				
	2023	%	2022	%	Incr/Decr
Frito-lay NA	24.914	27%	23.291	27%	7%
Quaker Foods NA	3.101	3%	3.160	4%	-2%
PepsiCo Beverages NA	27.626	30%	26.213	30%	5%
Latin America	11.654	13%	9.779	11%	19%
Europe	13.234	14%	12.724	15%	4%
Africa, Middle East and South Asia	6.139	7%	6.438	7%	-5%
Others	4.803	5%	4.787	6%	0%
Total	91.471		86392		6%

Business Model

Drinks

Pepsi: including varieties like Pepsi Max, Diet Pepsi, and Pepsi Zero Sugar.

Mountain Dew: include varianti come Diet Mountain Dew e Mountain Dew Code Red.

7UP: Available in some regions with dietary and flavored variations.

Gatorade: sports drinks.

Aquafina: bottled water.

Lipton: iced teas (in joint venture with Unilever).

Starbucks Ready-to-Drink beverages: iced coffee and tea (in partnership with Starbucks).

Snacks and Food

Lay's: French fries.

Doritos: chips di mais.

Cheetos: Cheese snack.

Quaker Oats: Cereals, granola bars, and other oat products.

Ruffles: potato chips.

Fried: chips di mais.

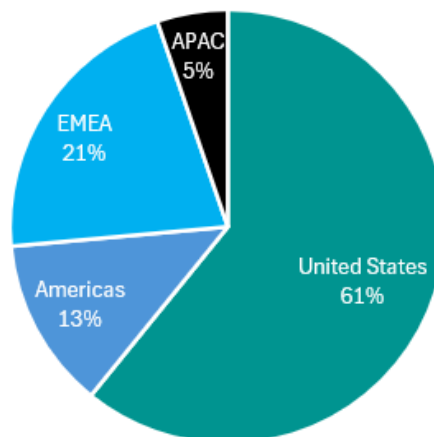
Walkers: Crisps (name mainly used in the UK).

Tostitos: Mexican chips and salsas.

Sabra: hummus and other snacks (in partnership).

Country/Area	Revenues	%	Country Spread
United States	55.641	61%	0,00%
Americas	11.654	13%	5,96%
EMEA	19.373	21%	1,63%
APAC	4.803	5%	1,27%
		0%	
Total	91471	1	1,17%
Summary	91.471		

Revenues Composition



Management

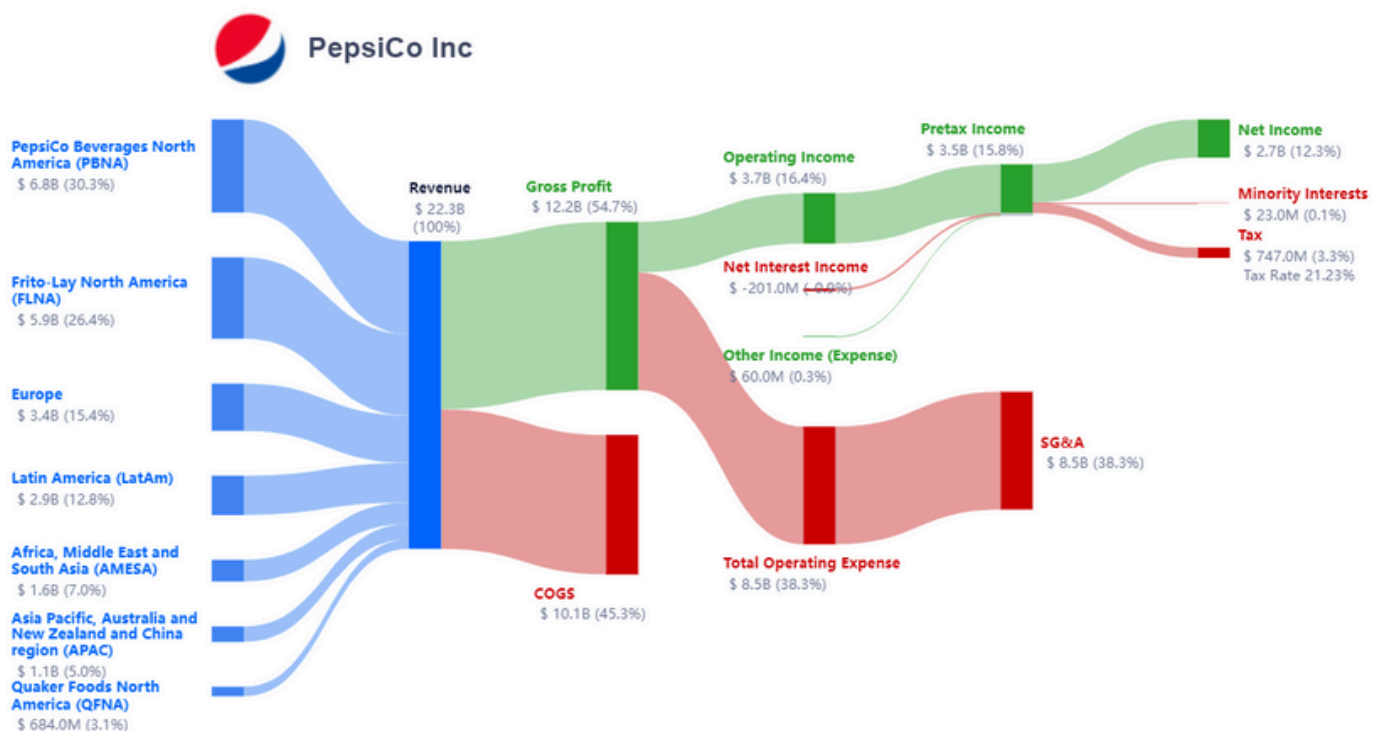
Ramon Laguarta, as Chairman and Chief Executive Officer, leads the company with a strategic vision focused on innovation and sustainability. At his side, there are key figures such as Silviu Popovici, CEO for Europe, and Jim Andrew, Executive Vice President and Chief Sustainability Officer, who together work to ensure that PepsiCo remains at the forefront of its environmental and sustainable development initiatives.

PepsiCo's management team is renowned for its ability to navigate a complex and rapidly changing operating environment, finding innovative solutions that strengthen the company's operational capabilities and building strong business relationships that meet the needs of consumers, customers and associates .

For example, Paula Santilli, CEO of PepsiCo Latin America, and Becky Schmitt, EVP & Chief Human Resources Officer, represent significant examples of PepsiCo's commitment to inclusive growth and community well-being. Santilli, in particular, has stood out for her commitment to generating inclusive growth in Latin America and contributing to the well-being of the communities in which PepsiCo operates, earning a place on the Forbes list of the 100 most powerful women in the world since 2019.

How PepsiCo Inc (PEP) Makes Its Money

Financials Breakdown as of 2023-06-28



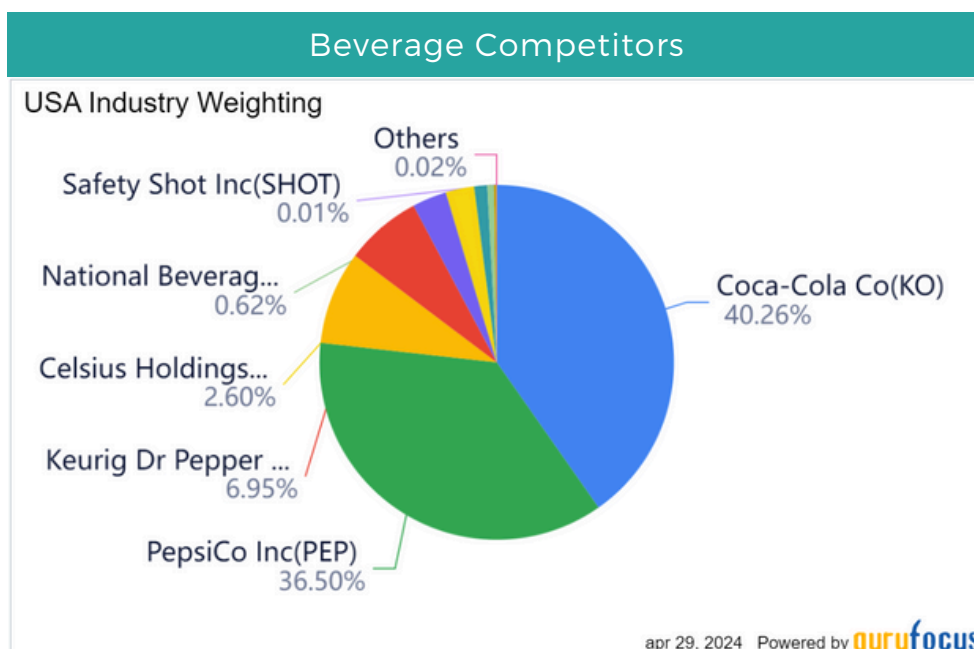
Sector

The global food and beverage industry is experiencing growth and innovation across various sectors. In 2024, the industry is expected to continue this trend, showing strong regional growth and a focus on alternative proteins, food automation, food safety, personalized nutrition, regenerative agriculture and advanced food processing technologies. North America leads the way in innovations, particularly in the United States, with a significant focus on plant-based and lab-grown proteins. Europe and North America are at the forefront of adopting smart technologies in food automation, with countries such as Germany, the United States and Japan making notable progress in integrating automation and smart solutions into their food production processes.

The Asia-Pacific region, led by China, Japan, and India, dominates the food robotics market, showing a robust presence of robotic technologies in various aspects of food production.

This region is also emerging as the fastest growing region within the broader food and beverage sector, benefiting from favorable geopolitical, demographic and economic conditions. North America and Europe are emphasizing rigorous quality control and pathogen detection standards in food safety, while personalized nutrition, which integrates genetic knowledge into dietary recommendations, is gaining traction, particularly in these regions.

Snack Competitors	Revenues	%
PepsiCo Snacks	53.053	46,35%
Mondelēz International	36.016	31,46%
Kellogg's (Kellanova)	13.122	11,46%
Conagra Brands	12.277	10,73%
TOTALE	114.468	100,00%



EXTERNAL ANALYSIS

Porter's Five Forces

1. Rivalry between existing competitors

High. PepsiCo operates in a highly competitive market, with major rivals such as Coca-Cola in the beverage segment and several players in the snacks sector. Competition is based on innovation, marketing, distribution and price. Price wars, aggressive advertising campaigns and continuous new product launches keep the rivalry high.

2. Threat of new entrants

Moderate. While the high capital requirements and economies of scale represent significant barriers to entry, the growing interest in healthy drinks and innovative snacks provides opportunities for new players. Additionally, evolving technology and digital distribution channels may facilitate the entry of new, smaller-scale competitors.

3. Bargaining power of suppliers

Low-Medium. PepsiCo, being one of the largest buyers of raw materials such as sugar, corn and natural flavors, has significant negotiating power. However, dependence on specific suppliers for unique or sustainable ingredients can increase their bargaining power.

4. Bargaining power of customers

Moderate. Customers (retailers and end consumers) have a wide range of choices among competing products, which increases their bargaining power. However, PepsiCo's strong brand loyalty and product diversification help mitigate this power. The growing trend towards health and wellness can influence purchasing decisions, pushing companies to innovate towards healthier options. Furthermore, we must take into account large-scale retail trade (GDO), which holds a position of considerable power in the market, which allows it to exercise strong bargaining power over producers, such as Pepsi. Large-scale retail trade can impose advantageous conditions for itself, pushing producers to grant significant discounts or to adapt to certain pricing policies.

5. Threat of substitute products

High. There is a wide range of substitutes for PepsiCo's products, including bottled water, tea, coffee, energy and health drinks. Growing health awareness among consumers and preference for healthier or more sustainable alternatives intensifies the threat of substitutes.

Competition

Coca Cola

represents PepsiCo's most direct rival in the beverage segment, with 2023 revenues of 45.75 billion, up 6.4% compared to the previous year and a strong global presence on a range of products that directly overlaps with that by PepsiCo. Coca-Cola and PepsiCo dominate the soft drinks market, engaging in a long and historic "cola war" that extends beyond drinks to a host of food and snack categories. Coca-Cola is present practically throughout the world with the exception of Cuba, North Korea, Myanmar and Sudan, but 94% of the world's population is at least familiar with the brand. Mexico represents the second best market after the domestic one, while on a continental level Latin America has the largest market share (29% of The Coca-Cola Company's sales). Pepsi, on the other hand, excels in many countries in Asia and the Middle East and has the most competitive price on its side. The two companies play their game by aiming at a different audience, which is also visible in the graphic choices (renewed PepsiCo logo). Coca-Cola has always maintained a rather coherent image, aiming for the familiar universe without ever carrying out a real distortion of its image. Pepsi, on the other hand, has undergone a real evolution, becoming over time the go-to drink for young people, focusing on the music and sports sectors as well as distorting its image several times to keep their interest alive.

Neat Dr Pepper

emerges as another significant competitor, positioning itself as the third largest soda brand in the United States. The company reported net sales growth of approximately 14.6% CAGR between 2018 and 2022, a rate much higher than the industry average, signaling its effectiveness in gaining market share in a highly competitive industry.

Nestlé e Danone

With their extensive product lines that include bottled water, dairy and health foods, they compete with PepsiCo primarily in the health food and beverage segment, an area where PepsiCo has sought to expand to respond to the growing consumer demand for healthier options.

Mondelez International e Kellogg

they primarily compete with PepsiCo in the snack food market, offering a variety of products that directly compete with PepsiCo's snack offerings. The ability to innovate in response to consumer preferences and expand into new market segments is critical in this intense competition.

SWOT

Strengths

Brand Recognition

Pepsi is one of the most globally recognized brands in the beverage industry. Its identity is firmly rooted among consumers of all ages, not just young people and athletes, thanks to its long history and frequent impactful marketing campaigns.

Wide Range of Products

PepsiCo offers a wide range of products that go beyond just Pepsi. This includes snacks, non-carbonated drinks and other food products, allowing the company to mitigate market risks and satisfy a variety of consumer tastes and preferences globally.

Weaknesses

Perceptions Related to Health

Carbonated drinks like Pepsi are often criticized for their high sugar and calorie content, which can limit their appeal among health-conscious consumers, especially in an era where the focus on healthy lifestyles is growing.

Sugar and Artificial Sweeteners Addiction

The reliance on sugars and artificial sweeteners in Pepsi products may be a weakness, as consumer trends shift towards more natural, less processed alternatives.

Opportunities

Expansion into New Markets

There are significant opportunities for Pepsi to continue to expand its global presence, particularly in emerging markets where soft drink consumption is growing.

Innovations in Wellbeing and Sustainability

Investing in developing products that better align with health and wellness trends, such as low-sugar, zero-calorie or vitamin- and mineral-enriched drinks, can open up new market segments for Pepsi.

Threats

Intense competition

The beverage industry is highly competitive, with large players such as Coca-Cola, competing for market share. Furthermore, the emergence of niche and local brands can further intensify competition.

Government Regulations and Restrictions

An increase in regulation regarding sugar and artificial sweetener content, as well as policies on sustainable packaging, pose a threat to the industry of traditional drinks such as Pepsi.

FINANCIAL STATEMENT

Income Statement

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	LTM
Income Statement											
Revenues	66.683	63.056	62.799	63.525	64.661	67.161	70.372	79.474	86.392	91.471	91.875
% YoY Growth		-5.44%	-0.41%	1.16%	1.79%	3.87%	4.78%	12.93%	8.70%	5.88%	0.44%
COGS	(31.238)	(28.731)	(28.222)	(28.796)	(29.381)	(29.983)	(31.735)	(37.046)	(40.342)	(41.868)	(42.125)
Gross Profit	35.445	34.325	34.577	34.729	35.280	37.178	38.637	42.428	46.050	49.603	49.750
% YoY Growth		-3%	1%	0%	2%	5%	4%	10%	9%	8%	0%
Operating expenses	(25.379)	(24.316)	(24.348)	(24.102)	(24.904)	(26.459)	(27.706)	(30.570)	(33.798)	(36.064)	(36.209)
EBITDA	12.483	12.223	12.383	12.772	12.571	12.985	13.327	14.433	14.892	16.328	16.381
% YoY Growth		-2%	1%	3%	-2%	3%	3%	8%	3%	10%	0%
Depreciation & Amortization	2417	2214	2154	2145	2195	2678	2874	3080	3157	3359	3421
EBIT	10.066	10.009	10.229	10.627	10.376	10.719	10.931	11.858	12.252	13.539	13.541
% YoY Growth		-1%	2%	4%	-2%	3%	2%	8%	3%	11%	0%
Other Expenses/Income	3.405	2.541	2.813	(988)	14.666	4.427	3.969	3.677	6.403	5.953	6.069
Interest Expenses/Income	(909)	(970)	(1.342)	(1.151)	(1.219)	(928)	(1.257)	(1.799)	(780)	(859)	(879)
Income Tax Expense	(2.199)	(1.941)	(2.174)	(4.694)	3.370	(1.959)	(1.894)	(2.142)	(1.727)	(2.262)	(2.236)
Net Income	6.513	5.452	6.329	4.857	12.515	7.314	7.120	7.618	8.910	9.074	9.184
% YoY Growth		(16%)	16%	(23%)	158%	(42%)	(3%)	7%	17%	2%	1%
Supplementary Data											
Effective Tax Rate	(25%)	(26%)	(25%)	(49%)	37%	(21%)	(21%)	(22%)	(16%)	(20%)	(19%)
Diluted Shares Outstanding	1.527	1.485	1.452	1.438	1.425	1.407	1.392	1.389	1.387	1.383	1.382
EPS	4.27	3.67	4.36	3.38	8.78	5.20	5.11	5.48	6.42	6.56	6.65
% YoY Growth		(14%)	19%	(23%)	160%	(41%)	(2%)	7%	17%	2%	1%
Dividends per Share	253%	276%	296%	317%	359%	379%	402%	425%	453%	495%	506%
Payout Ratio	59%	75%	68%	94%	41%	73%	79%	77%	71%	75%	76%
R&D Expense	718	754	760	737	680	711	719	752	771	804	804
Selling and Marketing Expense	3.900	13.300	13.900	14.000	14.700	15.600	16.500	18.800	20.200	21.100	21.100
EBT Incl. Unusual Items	8.757	7.442	8.553	9.602	9.189	9.312	9.069	9.821	10.705	11.417	11.500

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	LTM
Margins											
Gross Profit Margin	53%	54%	55%	55%	55%	55%	55%	53%	53%	54%	54%
Operating Expenses Margin	47%	46%	45%	45%	45%	45%	45%	47%	47%	46%	46%
Ebitda Margin	19%	19%	20%	20%	19%	19%	19%	18%	17%	18%	18%
Ebit Margin	15%	16%	16%	17%	16%	16%	16%	15%	14%	15%	15%
Net income Margin	10%	9%	10%	8%	19%	11%	10%	10%	10%	10%	10%
Levered Free Cash Flow Margi	12%	12%	12%	6%	22%	10%	10%	11%	8%	9%	8%

FINANCIAL STATEMENT

Income Statement

Pepsico's revenue has increased 7.2% compounded annually over the past 5 years and 9.1% over the past 3 years. Since 2014, Pepsico's revenues have only fallen in 2015 and 2016. In both cases, the decrease in turnover was limited. Furthermore, it is worth noting that Pepsi has always managed to grow in line with the sector, even reporting greater growth in some periods such as in 2021 in which revenues grew by 12.9% compared to the previous year. This growth is attributable both to its ability to expand into new market sectors, opening up more and more towards emerging markets and to the price increases that have occurred in recent years. Looking to 2023, Pepsi faced many challenges caused primarily by high competition and high raw material costs. Despite this, it managed to increase turnover by 5.9% compared to the previous year. The increase in revenues derives mainly from the increase in sales in Latin America, increasing the incidence of that area on turnover by 1.42%. The demand for products has in fact grown overall in Latin America.

Margins in recent years have shown a downward trend compared to averages, with the start of the decline in 2021 caused by the increase in raw material and transport prices which have risen significantly due to inflation. In general, the 2023 margin is therefore lower than the 5-year average. The free cash flow margin in particular has been somewhat fluctuating over the years, however in 2023 it reports an increase compared to the previous year of 0.6%, returning close to the 5-year average of 10%. The 3-year average is instead equal to 9.3%, lower than the 7-year average which is equal to 9.8%. However, it is interesting to note an increase in margins compared to 2022, leading to the conclusion that despite the difficult times, Pepsico is trying to find the right way to bring margins back to the levels maintained in the pre-covid period.

PepsiCo closes 2023 with an increase in profit compared to 2022 of 1.8% which denotes a sharp decrease in profit growth as in 2022 net profit had grown by 17%. despite an increase in operating revenue of 10.5%, profit increased by only 1.8% due to the strong increase in ancillary expenses (+37.87%) and taxes (+23.65%) compared to the year previous.

Balance Sheet

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	LTM
Balance Sheet											
Cash and equivalents	6.134	9.096	9.158	10.610	8.721	5.509	8.185	5.596	4.954	9.711	8.047
Short Term Investments	2.592	2.913	6.967	8.900	272	229	1.366	392	394	292	303
Cash and short Term Investment	8.726	12.009	16.125	19.510	8.993	5.738	9.551	5.988	5.348	10.003	8.350
Total Receivables	6.651	6.437	6.694	7.024	7.142	7.822	8.404	8.680	10.163	10.815	10.938
Inventory	3.143	2.720	2.723	2.947	3.128	3.338	4.172	4.347	5.222	5.334	5.569
Prepaid Expenses	871	1.134	876	1.500	586	692	826	927	766	731	1.148
Other current Assets	397	40	32	46	47	55	48	1.841	40	67	0
Total Current Assets	20.663	23.031	26.450	31.027	21.893	17.645	23.001	21.783	21.539	26.950	26.005
Net PP&E	17.244	16.317	16.591	17.240	17.589	20.853	23.039	24.427	26.664	29.944	26.792
Long term Investments	2.689	2.311	1.950	2.042	2.409	2.683	2.792	2.627	3.886	4.330	4.761
Goodwill	14.965	14.177	14.430	14.744	14.808	15.501	18.757	18.381	18.202	17.728	17.646
Other intangibles	14.088	13.081	13.433	13.838	15.825	16.043	19.315	18.665	15.586	14.929	14.853
Other long-Term Assets	588	451	391	720	562	1.231	1.403	1.954	1.781	1.837	5.539
Total non-current Assets	49.846	46.636	47.040	48.777	55.755	60.902	69.917	70.594	70.648	73.545	74.035
Total Assets	70.509	69.667	73.490	79.804	77.648	78.547	92.918	92.377	92.187	100.495	100.040
Accounts Payable	5.127	5.546	6.158	6.727	7.213	8.013	8.853	9.834	10.732	11.635	22.073
Accrued Liabilities	3.968	4.078	4.214	4.175	4.296	4.600	4.994	5.411	6.156	6.210	0
Long-Term Debt due within one	4.096	3.109	4.401	4.020	3.953	2.848	3.358	3.872	3.096	3.924	0
Current Portion of Capital Lease	0	0	0	0	0	442	460	446	483	556	0
Other Current Liabilities	3.921	3.883	3.871	4.115	6.603	4.486	5.285	6.221	6.000	6.736	0
Total Current Liabilities	18.092	17.578	21.135	20.502	22.138	20.461	23.372	26.220	26.785	31.647	30.234
Long Term Debt	23.821	29.592	30.053	33.796	28.295	29.148	40.370	36.026	35.657	37.595	37.707
Other non-current Liabilities	3.256	2.932	3.863	7.971	6.729	6.494	7.199	5.888	5.269	4.973	8.822
Total non-current Liabilities	34.869	40.059	41.156	48.321	40.908	43.218	55.994	50.006	48.129	50.211	50.616
Total Liabilities	52.961	57.637	62.291	68.823	63.046	63.679	79.366	76.226	74.914	81.858	80.850
Common Stocks	25	24	24	24	23	23	23	23	23	23	23
Additional Paid in Capital	4.115	4.076	4.091	3.996	3.953	3.886	3.910	4.001	4.134	4.261	4.132
Retained Earnings	49.092	50.472	52.518	52.839	59.947	61.946	63.443	65.165	67.800	70.035	70.331
Treasury Stocks	(24.985)	(29.185)	(31.468)	(32.757)	(34.286)	(36.769)	(38.446)	(38.248)	(39.506)	(40.282)	(40.260)
Comprehensive Income and Other	(10.669)	(13.319)	(13.919)	(13.057)	(15.119)	(14.300)	(15.476)	(14.898)	(15.302)	(15.534)	(15.179)
Total Equity	17.548	12.030	11.199	10.981	14.602	14.868	13.552	16.151	17.273	18.637	19.190

We observe a high average annual growth of 11.3% over the last 5 years. This could indicate a company strategy to increase inventory to meet growing demand or prepare for new product launches. Looking at PepsiCo's portfolio, this may also reflect the introduction of new snack or beverage lines in response to changing consumer preferences for healthy products.

The growth in the value of tangible assets indicates the continuous expansion of production capacities and the modernization of existing plants. In fact, we observe an average annual growth of 11.3% in the last 5 years, higher than the average annual growth of 8.8% maintained in the last 7 years.

The increase in debts could indicate a sign of aggressive market expansion, especially towards emerging markets. Considering PepsiCo's robust free cash flow, consistent revenue growth, and strategic management of debt maturities and interest expenses, the current level of debt does not appear to pose a significant risk to the company's financial stability. However, it is important to continue to monitor these metrics, especially in the context of tougher economic challenges, as they may impact borrowing costs and cash flow.

Profitability, Efficiency and Financial Solidity

Profitability

PepsiCo's profitability appears to be very good with an ROIC that stands on a 5-year average at around 15.8% lower than the ROIC obtained in the last three years (CAGR 16.7%). As can be seen from the ROA, PepsiCo manages to exploit the use of its assets well in order to produce profits as demonstrated by the 3-year annual average which stands at 9.1% compared to the 5-year average of 8.6%. Finally, let's analyze the ROE. The latter in fact appears very high due to the fact that PepsiCo uses its financial leverage so much. In fact, it stands at an annual average over 3 years of 51.7% compared to the average over 5 years of 50.3%, all with a debt ratio of 1.33 in 2023 higher than the average over 5 years which stands at 1.12.

Efficiency

As we can see, Pepsi has a good level of efficiency with an ever-increasing turnover of activities in the last 4 years. This indicates great mastery of assets to increase sales. We also notice an increase in average payment days in recent times

two years indicating that the company manages to maintain a good degree of bargaining power with suppliers. We observe an increase in the average days of collection which goes from 39.81 to 41.85. The cash conversion cycle appears to have worsened slightly in 2023 and this means that the entire cycle from production to sales has increased from -9.94 to -9.63.

Financial Solidity

The current ratio which until 2018 appeared greater than 1 is slightly decreasing, reaching 0.9 in 2023, this indicates that not all short-term debts are covered by short-term assets (a sign of slight weakness). Removing the inventory, the Quick Ratio drops to 0.7, indicating that liquid or readily liquid assets do not cover short-term debts. However, we can observe that this figure has remained fairly constant in the last period. A strong point represents the interest cover ratio which sees a strong increase from 6.6 in 2021 to 15.8 in 2023, underlining that despite the high debt the company manages to cover the interests by a factor of 15.8 through operating income.

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	LTM
Profitability											
Return on Assets		8%	9%	6%	16%	9%	8%	8%	10%	9%	9%
Return on invested Capital		19%	20%	23%	9%	17%	15%	16%	16%	18%	18%
Return on Equity		37%	54%	44%	98%	50%	50%	51%	53%	51%	49%
Efficiency											
Asset Turnover		0,90	0,88	0,83	0,82	0,86	0,82	0,86	0,94	0,95	0,92
Receivables Turnover		9,64	9,56	9,26	9,13	8,98	8,67	9,30	9,17	8,72	8,45
Inventory Turnover		-9,80	-10,37	-10,16	-9,67	-9,27	-8,45	-8,70	-8,43	-7,93	-7,73
Avg. Cash Conversion Cycle		7,33	-2,33	-6,32	-8,87	-12,66	-11,72	-10,86	-9,94	-9,63	-55,59
Avg. Days Sales Outstanding		37,88	38,16	39,41	39,98	40,66	42,08	39,23	39,81	41,85	43,21
Avg. Days Outstanding Inventory		37,24	35,20	35,93	37,73	39,36	43,19	41,97	43,29	46,01	47,24
Avg. Days Payable Outstanding		67,80	75,68	81,66	86,59	92,68	96,99	92,06	93,04	97,50	146,03
Solvency											
Current Ratio	1,1	1,3	1,3	1,5	1,0	0,9	1,0	0,8	0,8	0,9	0,9
Quick Ratio	1,0	1,2	1,1	1,4	0,8	0,7	0,8	0,7	0,6	0,7	0,7
Debt / Assets	0,8	0,8	0,8	0,9	0,8	0,8	0,9	0,8	0,8	0,8	0,8
Interest Cover Ratio	11	10	8	9	9	12	9	7	16	16	15
EBITDA / Interest Expense	14	13	9	11	10	14	11	8	19	19	19

Valuation

Multiples analysis

The analysis was carried out taking into account direct competitors who adopt the same business model. In particular, the following are noteworthy: Coca-Cola Company, Monster Beverage, Keurig Dr Pepper Inc., Kellanova, Mondelez International.

The EV/Ebitda multiple, equal to 17, exceeds the median of the competitors, suggesting a premium valuation attributed by the market to the company's sales. This could reflect high growth expectations or a strong perception of the brand and its positioning in the market. Nonetheless, other multiples based on enterprise value identify PepsiCo as undervalued and with plenty of room for growth.

Analyzing Monster's P/BV ratio, we observe a value of 5.7. This figure, located in an intermediate range compared to competitors, provides a slightly overestimated image of the company's equity valuation, freeing investors from the distortions created by extreme values.

Particularly noteworthy is the MC/FCF, positioned at 31.7, which clearly stands out compared to competitors.

In conclusion, the analysis suggests that Pepsi occupies an interesting position in the competitive landscape of the beverage and snacks sector. The company's valuation appears undervalued, although some multiples indicate an optimistic valuation. For a more detailed analysis an absolute evaluation method will therefore be necessary.

	EV	Market Cap	Ev/Sales	Ev/Ebitda	Ev/Ebit	P/S	P/E	P/BV	P/TBV	MC/FCF
Simple Average	110.525,15	96.437,80	4,6x	18,3x	20,9x	4,2x	25,3x	5,7x	-8,0x	56,3x
Weighted average - EV	-	-	5,4x	19,3x	21,5x	4,8x	24,5x	7,4x	-20,5x	52,2x
Weighted average - MC	-	-	5,5x	19,5x	21,7x	5,0x	24,8x	7,5x	-20,6x	51,3x
Median	62.142,96	55.596,90	4,2x	15,8x	19,0x	3,1x	25,0x	6,2x	-5,0x	51,6x
Standard Deviation			2,25	4,63	3,35	2,58	5,79	3,25	17,27	35,29
(% Average)			49%	25%	16%	62%	23%		304%	63%
High	298.593	266.173	7,3x	25,2x	26,0x	7,8x	34,7x	12,7x	10,3x	115,5x
Low	26.167	19.730	2,0x	14,4x	18,3x	1,5x	19,5x	1,9x	-36,5x	21,8x
Price based on multiples			301,49	93,82	176,46	283,27	165,342	92,6892	131,78	293,31
										Average 192,27

DCF

Assumptions

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	Term
Sales (% growth)		4,0%	3,9%	3,8%	3,7%	3,6%	3,5%	3,3%	3,1%	2,9%	2,7%	2,5%
1 Optimistic Scienario		5,50%	5,40%	5,29%	5,19%	5,10%	5,00%	4,35%	3,79%	3,30%	2,87%	2,50%
2 Base Scenario		4,00%	3,89%	3,79%	3,69%	3,59%	3,50%	3,27%	3,06%	2,86%	2,67%	2,50%
3 Pessimistic Scenario		3,50%	3,39%	3,29%	3,19%	3,09%	3,00%	2,89%	2,79%	2,69%	2,59%	2,50%
Gross Profit margin		50,0%	50,2%	50,4%	50,6%	50,8%	51,0%	51,4%	51,8%	52,2%	52,6%	53,0%
1 Optimistic Scienario		50,00%	50,20%	50,40%	50,60%	50,80%	51,00%	51,39%	51,79%	52,19%	52,59%	53,00%
2 Base Scenario		50,00%	50,20%	50,40%	50,60%	50,80%	51,00%	51,39%	51,79%	52,19%	52,59%	53,00%
3 Pessimistic Scenario		50,00%	50,20%	50,40%	50,60%	50,80%	51,00%	51,39%	51,79%	52,19%	52,59%	53,00%
Ebit Margin		14,0%	14,0%	14,0%	14,0%	14,0%	14,0%	14,0%	14,0%	14,0%	14,0%	14,0%
1 Optimistic Scienario		15,00%	15,10%	15,20%	15,30%	15,40%	15,50%	15,40%	15,30%	15,20%	15,10%	15,00%
2 Base Scenario		14,00%	14,00%	14,00%	14,00%	14,00%	14,00%	14,00%	14,00%	14,00%	14,00%	14,00%
3 Pessimistic Scenario		13,00%	13,00%	13,00%	13,00%	13,00%	13,00%	13,00%	13,00%	13,00%	13,00%	13,00%
Depreciation & Amortization (% sales)		3,7%	3,7%	3,8%	3,8%	3,9%	3,9%	3,9%	3,9%	4,0%	4,0%	4,0%
1 Optimistic Scienario		3,70%	3,74%	3,78%	3,82%	3,86%	3,90%	3,92%	3,94%	3,96%	3,98%	4,00%
2 Base Scenario		3,70%	3,74%	3,78%	3,82%	3,86%	3,90%	3,92%	3,94%	3,96%	3,98%	4,00%
3 Pessimistic Scenario		3,70%	3,74%	3,78%	3,82%	3,86%	3,90%	3,92%	3,94%	3,96%	3,98%	4,00%
Capital Expenditures (% of sales)		6,0%	6,2%	6,4%	6,6%	6,8%	7,0%	6,9%	6,8%	6,7%	6,6%	6,5%
1 Optimistic Scienario		6,00%	6,19%	6,38%	6,58%	6,79%	7,00%	6,90%	6,80%	6,70%	6,60%	6,50%
2 Base Scenario		6,00%	6,19%	6,38%	6,58%	6,79%	7,00%	6,90%	6,80%	6,70%	6,60%	6,50%
3 Pessimistic Scenario		6,00%	6,19%	6,38%	6,58%	6,79%	7,00%	6,90%	6,80%	6,70%	6,60%	6,50%

Income Statement	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	Term
Revenues	91.471	95.130	98.835	102.583	106.370	110.194	114.050	117.782	121.386	124.857	128.196	131.401
<i>% YoY Growth</i>												
COGS	(41.868)	(47.565)	(49.221)	(50.883)	(52.549)	(54.217)	(55.885)	(57.249)	(58.519)	(59.693)	(60.773)	(61.759)
Gross Profit	49.603	47.565	49.613	51.699	53.821	55.977	58.166	60.533	62.867	65.164	67.423	69.643
<i>% YoY Growth</i>		-4%	4%	4%	4%	4%	4%	4%	4%	4%	3%	3%
Operating expenses	(36.064)	(30.727)	(32.081)	(33.461)	(34.867)	(36.297)	(37.751)	(39.427)	(41.090)	(42.740)	(44.374)	(45.990)
EBITDA	16.328	16.838	17.532	18.238	18.954	19.680	20.415	21.106	21.776	22.424	23.049	23.652
<i>% YoY Growth</i>		3%	4%	4%	4%	4%	4%	3%	3%	3%	3%	3%
Depreciation & Amortization	3359	3520	3696	3876	4062	4253	4448	4617	4782	4944	5102	5256
EBIT	13.539	13.318	13.837	14.362	14.892	15.427	15.967	16.490	16.994	17.480	17.947	18.396
<i>% YoY Growth</i>		-2%	4%	4%	4%	4%	3%	3%	3%	3%	3%	2%
Taxes	(19.81%)	(25.00%)	(25.00%)	(25.00%)	(25.00%)	(25.00%)	(25.00%)	(25.00%)	(25.00%)	(25.00%)	(25.00%)	(25.00%)
EBIAT	10.857	9.989	10.378	10.771	11.169	11.570	11.975	12.367	12.745	13.110	13.461	13.797
Plus: Depreciation & Amortization	3.359	3.520	3.696	3.876	4.062	4.253	4.448	4.617	4.782	4.944	5.102	5.256
Less: Capital Expenditures	(5.518)	5.708	6.116	6.546	7.001	7.479	7.984	8.123	8.249	8.360	8.457	8.541
Less: change in Net Working Capital	937	(695)	(177)	(215)	(255)	(297)	(342)	109	85	62	39	16
Unlevered Free Cash Flow	9.635	18.521	20.012	20.979	21.976	23.005	24.064	25.216	25.862	26.476	27.059	27.610

DCF

Fair Value

PepsiCo is undervalued compared to current levels with a value of USD 209.48 compared to the price of USD 175.86 on 04/29/2024. It is highlighted that both the optimistic and pessimistic scenarios have an upside potential and therefore, given the same probability, a totally asymmetric upside risk is observed. Expansion into emerging markets could represent an important element for growth.

	Worse	Base	Max
Value	192,15	209,48	245,35
+/- %	9,26%	19,12%	39,51%

Wacc

Capital Structure

Equity	83%
Debt	17%

Wacc Calculation

Cost of Equity	9,10%
Risk-free Rate	4,63%
Country Risk Premium	1,17%
Market Risk Premium	5,00%
Levered Beta	0,66
Net Cost of Debt	3,98%
Cost of Debt	5,30%
Tax Rate	25,00%
WACC	8,22%

		Wacc				
		6,22%	7,22%	8,22%	9,22%	10,22%
EV/Ebitda	\$209,48	220,61	210,09	203,24	198,43	194,87
	14,0x	223,70	213,17	206,33	201,52	197,96
	14,5x	226,78	216,26	209,42	204,61	201,05
	15,0x	229,87	219,35	212,50	207,70	204,13
	15,5x	232,96	222,44	215,59	210,78	207,22
	16,0x					

		Wacc				
		7,22%	7,72%	8,22%	8,72%	9,22%
Growth Rate	\$209,48	209,48	206,88	204,67	202,77	201,11
	1,5%	212,57	209,48	206,88	204,67	202,77
	2,0%	216,32	212,57	209,48	206,88	204,67
	2,5%	220,96	216,32	212,57	209,48	206,88
	3,0%	226,85	220,96	216,32	212,57	209,48
	3,5%					

		Cost of Equity				
		8,22%	8,10%	8,60%	9,10%	9,60%
Total Equity	63%	6,57%	6,89%	7,20%	7,52%	7,83%
	73%	6,99%	7,35%	7,72%	8,08%	8,45%
	83%	7,40%	7,81%	8,23%	8,64%	9,06%
	93%	7,81%	8,28%	8,74%	9,21%	9,67%
	103%	8,22%	8,74%	9,25%	9,77%	10,28%

Final Outlook

Currently, comparing the valuations carried out, PepsiCo appears to be undervalued and shows growth potential in optimal scenarios. As a result, the investment thesis is Buy.

References

- PepsiCo Annual Reports
- TIKR.com
- PepsiCo Earnings Press Realease
- PepsiCo Quarterly filing
- NYU Stern Country Default Spreads and Risk Premiums
- NYU Stern Ratings, Interest Coverage Ratios and Default Spread
- Nasdaq.com
- Gurufocus.com/Industry

Disclaimer

This research does not constitute an investment recommendation or offer any solicitation to buy or sell any securities or to adopt any investment strategy. Opinions expressed may be subject to change. All references are for illustrative purposes only and should not be construed as recommendations. Reliance on information in this research is at the reader's sole risk and discretion. The data is updated as of 15.04.2024.