



PepsiCo, Inc (PEP)

Updated April 28th, 2020 by Nathan Parsh

Key Metrics

Current Price:	\$136	5 Year CAGR Estimate:	3.7%	Market Cap:	\$191 billion
Fair Value Price:	\$107	5 Year Growth Estimate:	5.5%	Ex-Dividend Date:	6/5/2020
% Fair Value:	128%	5 Year Valuation Multiple Estimate:	-4.8%	Dividend Payment Date:	6/30/2020
Dividend Yield:	3.0%	5 Year Price Target	\$139	Years Of Dividend Growth:	48
Dividend Risk Score:	B	Retirement Suitability Score:	B	Last Dividend Increase:	7.0%

Overview & Current Events

PepsiCo is a global food and beverage company that generates \$70 billion in annual sales. The company's products include Pepsi, Mountain Dew, Frito-Lay chips, Gatorade, Tropicana orange juice and Quaker foods. The company has 23 \$1 billion brands in its portfolio. PepsiCo was founded in 1898 and currently employs 264,000 people around the world. PepsiCo completed its \$3.85 billion purchase of Rockstar Energy in late April 2020.

On 4/28/2020, PepsiCo reported earnings results for the first quarter. Adjusted earnings-per-share increased 10.3% to \$1.07, \$0.04 ahead of estimates. Revenue increased 7.7% to \$13.9 billion, \$680 million higher than expected. Organic growth was 7.9% for the quarter.

Every business segment and region had at least mid-single-digit organic growth. Food and snacks had 5.5% organic volume growth while beverages added 6%. PepsiCo Beverages North America was higher by 6%, the seventh consecutive quarter of growth for this segment. The impact of COVID-19 did negatively impact the away-from-home sales. Frito-Lay North America was up 7%. Quaker Foods North America, which has been a headwind for PepsiCo over the past few years, also had 7% organic growth. This segment benefited from more consumption at home as consumers stayed home related to COVID-19. The company stated that organic growth was higher than expected due to consumers purchasing items ahead of stay at home orders. Core gross margins improved 20 bps to 56.1%, but operating margins decreased 20 bps to 15.3%. PepsiCo pulled its guidance for 2020, but stated that it plans to return \$7.5 billion (\$5.5 billion in dividends and \$2 billion in share repurchases) to shareholders during the year. Currency is likely to be a 3% to 4% headwind to results in 2020. Analysts now expect earnings-per-share of \$5.64 for the year, down from \$5.88 previously.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$3.91	\$3.98	\$3.92	\$4.37	\$4.27	\$4.66	\$4.85	\$5.23	\$5.65	\$5.53	\$5.64	\$7.37
DPS	\$1.89	\$2.03	\$2.13	\$2.24	\$2.53	\$2.79	\$2.96	\$3.12	\$3.47	\$3.82	\$4.09	\$5.35
Shares¹	1581	1564	1544	1529	1488	1448	1428	1420	1410	1400	1400	1365

PepsiCo grew earnings at a rate of 4.2% per year from 2010-2017. Due to company's organic growth guidance, we have increased our expected earnings-per-share growth to 5.5% from 4% through 2025. PepsiCo's growth over this time period will accrue from organic sales growth (4%) and share repurchases (1.5%).

PepsiCo announced a 7% dividend increase, beginning with the payment made in June. This raise is in-line with the average raise over the past decade. PepsiCo has now increased its dividend for 48 consecutive years now and it is likely that the company will continue to do so for years to come. We expect PepsiCo's dividend payout ratio to remain at ~70% out to 2025, which implies \$5.35 in DPS by that time.

¹ Share count in millions

Disclosure: This analyst has a long position in the security discussed in this research report.



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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	16.5	16.4	17.4	18.4	20.8	20.7	21.4	21.7	19.3	24.7	24.1	18.9
Avg. Yld.	2.9%	3.1%	3.1%	2.8%	2.8%	2.9%	2.9%	2.7%	3.2%	2.8%	3.0%	3.8%

PepsiCo's stock has decreased \$11, or 7.5%, since our 2/14/2020 report. Based off expected earnings for 2020, the stock has a P/E, of 24.1. We maintain our 2025 target P/E of 18.9, which is the average valuation over the last 10 years. Annual returns would be reduced by 4.8% per year if shares were to revert to the average P/E by 2025.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	48%	51%	54%	53%	59%	60%	61%	60%	61%	69%	73%	73%

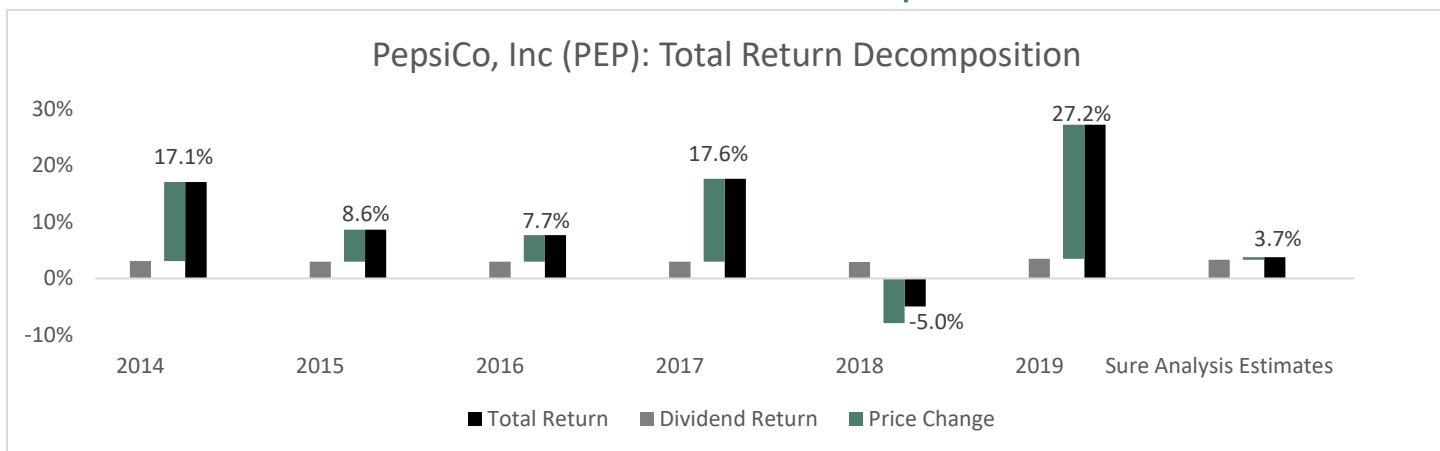
PepsiCo's is a relatively recession-proof company. Earnings grew during the last recession and it offers a very generous dividend yield. The company is expecting \$6 billion in cash flow from operations in 2020.

PepsiCo has several key competitive advantages that set it apart from the competition. The company is one of the largest in its sector, which gives it pricing power with vendors. While known for their carbonated beverages, Pepsi's food and snacks make up approximately 52% of sales. PepsiCo has also adjusted to changing consumer habits. The company's line of "Better for You" offerings are designed to meet consumers' desire for healthier food and drink options. Products with less than 70 calories from added sugar make up ~45% of sales.

Final Thoughts & Recommendation

After first quarter earnings, PepsiCo is projected to produce an annual return of 3.7% through 2025, up slightly from our previous forecast of 2.9%. The company had strong organic growth during the quarter, but a portion of this is due to consumers stocking up on food and beverage items in response to stay at home directives in an effort to slow the spread of COVID-19. North American Beverages saw a decline in the away-from-home channel, but otherwise the company had a strong quarter. Quaker Foods was especially impressive given this segment's recent struggles, but this is the smallest business within the company. Like many companies that have already reported, PepsiCo has pulled its guidance due to lack of visibility revolving around the unknown duration and impact of the COVID-19 pandemic. Unlike many companies, PepsiCo plans to maintain its share repurchases. Due to projected returns, we maintain our hold rating on PepsiCo and have lowered our 2025 price target \$6 to \$139 due to estimates for the year.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	57,838	66,504	65,492	66,415	66,683	63,056	62,799	63,525	64,661	67,161
Gross Profit	31,263	34,911	34,201	35,172	35,445	34,325	34,577	34,729	35,280	37,029
Gross Margin	54.1%	52.5%	52.2%	53.0%	53.2%	54.4%	55.1%	54.7%	54.6%	55.1%
SG&A Exp.	22,814	25,145	24,970	25,357	25,772	24,613	24,773	24,453	25,170	26,738
D&A Exp.	2,327	2,737	2,689	2,663	2,625	2,416	2,368	2,369	2,399	2,432
Operating Profit	8,332	9,633	9,112	9,705	9,581	9,712	9,804	10,276	10,110	10,291
Op. Margin	14.4%	14.5%	13.9%	14.6%	14.4%	15.4%	15.6%	16.2%	15.6%	15.3%
Net Profit	6,320	6,443	6,178	6,740	6,513	5,452	6,329	4,857	12,515	7,314
Net Margin	10.9%	9.7%	9.4%	10.1%	9.8%	8.6%	10.1%	7.6%	19.4%	10.9%
Free Cash Flow	5,195	5,605	5,765	6,893	7,647	8,106	7,623	7,061	6,133	5,417
Income Tax	1,894	2,372	2,090	2,104	2,199	1,941	2,174	4,694	(3,370)	1,959

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	68,153	72,882	74,638	77,478	70,509	69,667	73,490	79,804	77,648	78,547
Cash & Equivalents	5,943	4,067	6,297	9,375	6,134	9,096	9,158	10,610	8,721	5,509
Acc. Receivable	6,323	6,036	6,215	6,178	5,817	5,497	5,709	5,956	6,079	6,447
Inventories	3,372	3,827	3,581	3,409	3,143	2,720	2,723	2,947	3,128	3,338
Goodwill & Int.	28,469	33,245	33,496	32,652	29,053	27,258	27,863	28,582	30,633	31,544
Total Liabilities	46,677	51,983	52,239	53,089	52,961	57,637	62,291	68,823	63,046	63,679
Accounts Payable	3,865	4,083	4,451	4,874	5,127	5,546	6,158	6,727	7,213	8,013
Long-Term Debt	24,897	26,773	28,359	29,639	28,897	33,284	36,945	39,281	32,321	32,068
Total Equity	21,123	20,547	22,253	24,238	17,397	11,882	11,054	10,848	14,518	14,786
D/E Ratio	1.18	1.30	1.27	1.22	1.66	2.79	3.33	3.61	2.23	2.17

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	11.7%	9.1%	8.4%	8.9%	8.8%	7.8%	8.8%	6.3%	15.9%	9.4%
Return on Equity	33.4%	30.9%	28.9%	29.0%	31.3%	37.2%	55.2%	44.4%	98.7%	49.9%
ROIC	17.6%	13.7%	12.6%	12.9%	13.0%	11.9%	13.5%	9.9%	25.8%	15.6%
Shares Out.	1581	1564	1544	1529	1488	1448	1428	1420	1410	1400
Revenue/Share	35.84	41.64	41.58	42.57	43.67	42.46	43.25	44.18	45.38	47.73
FCF/Share	3.22	3.51	3.66	4.42	5.01	5.46	5.25	4.91	4.30	3.85

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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