



# PepsiCo, Inc (PEP)

Updated February 12<sup>th</sup>, 2021 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$135	<b>5 Year CAGR Estimate:</b>	4.6%	<b>Market Cap:</b>	\$186 billion
<b>Fair Value Price:</b>	\$110	<b>5 Year Growth Estimate:</b>	5.5%	<b>Ex-Dividend Date:</b>	2/4/2021
<b>% Fair Value:</b>	123%	<b>5 Year Valuation Multiple Estimate:</b>	-4.0%	<b>Dividend Payment Date:</b>	3/31/2021
<b>Dividend Yield:</b>	3.2%	<b>5 Year Price Target</b>	\$144	<b>Years Of Dividend Growth:</b>	49
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	B	<b>Last Dividend Increase:</b>	5.0%

## Overview & Current Events

PepsiCo is a global food and beverage company that generates \$75 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.

On 2/11/2021, PepsiCo announced earnings results for the fourth quarter and full year. For the quarter, revenue grew 8.8% to \$22.5 billion, beating estimates by \$700 million. Adjusted earnings-per-share increased 1.4% to \$1.47, coming in \$0.01 better than expected. For 2020, revenue grew 4.8% to \$70.4 billion. Adjusted earnings-per-share totaled \$5.52, which was essentially flat from the prior year and \$0.02 better than our estimate. Organic growth was 5.7% and 4.3% for the quarter and year, respectively. Currency reduced revenue by 2% both for the quarter and year.

Near every segment of the company showed another strong quarter both for revenue and volumes. Snack and foods produced 5% organic volume growth while beverages experienced a 3% improvement. Revenue for PepsiCo Beverages North America increased 9% on a reported basis. Starbucks, Gatorade and Lipton all performed well during the quarter. Frito-Lay North America's revenue was higher by 6% with volumes improving 1%. This segment benefited from market share gains in savory and salty snack categories, led by double-digit growth in Tostitos and Cheetos brands. Quaker Foods North America had 8% revenue growth, with volumes increasing 5.5% due to higher demand for at-home breakfast and dinners. Europe improved 4%, due in large part to a 14% increase in beverage volumes and 6% gain in food and snack volumes. Germany and the U.K were top performers. Revenue for the Africa/Middle East/South Asia was up 53% mostly due to acquisitions. Volumes grew 6% for food and snacks and 2.5% for beverages. Asia Pacific/Australia/New Zealand/China had a 34% increase in revenue primarily due to acquisitions. China, India and Australia all produced high single-digit growth. Latin America remains the lone weak segment of the company as sales fell 5%, though this was mostly due to a double-digit headwind from currency exchange. Brazil had double-digit organic growth.

For 2021, PepsiCo expects organic revenue higher by a mid-single-digit percentage with adjusted EPS improving at a high single-digit rate. For now, we are maintaining our expected earnings growth rate.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>EPS</b>	\$3.98	\$3.92	\$4.37	\$4.27	\$4.66	\$4.85	\$5.23	\$5.65	\$5.53	\$5.52	<b>\$5.82</b>	<b>\$7.61</b>
<b>DPS</b>	\$2.03	\$2.13	\$2.24	\$2.53	\$2.79	\$2.96	\$3.12	\$3.47	\$3.82	\$4.02	<b>\$4.30</b>	<b>\$5.62</b>
<b>Shares<sup>1</sup></b>	1564	1544	1529	1488	1448	1428	1420	1410	1400	1388	<b>1388</b>	<b>1335</b>

PepsiCo grew earnings at a rate of 4.2% per year from 2010-2017. Due to company's organic growth guidance, we have reaffirm our expected earnings-per-share growth of 5.5% through 2026. PepsiCo's growth over this time period will accrue from organic sales growth (4%) and share repurchases (1.5%).

<sup>1</sup> Share count in millions

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



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On 2/11/2021, PepsiCo announced a 5% dividend increase, beginning with the payment made in June. This raise is slightly below the average raise over the past decade. PepsiCo has now increased its dividend for 49 consecutive years now and it is likely that the company will continue to do so for years to come.

## Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	16.4	17.4	18.4	20.8	20.7	21.4	21.7	19.3	24.7	26.9	23.2	18.9
Avg. Yld.	3.1%	3.1%	2.8%	2.8%	2.9%	2.9%	2.7%	3.2%	2.8%	2.7%	3.2%	3.9%

PepsiCo's stock has decreased \$4, or 2.9%, since our 10/1/2020 report. Based off of earnings guidance for 2021, the stock has a P/E, of 23.2. We maintain our 2026 target P/E of 18.9, which is the average valuation over the last 10 years. Annual returns would be reduced by 4.0% per year if shares were to revert to the average P/E by 2026.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

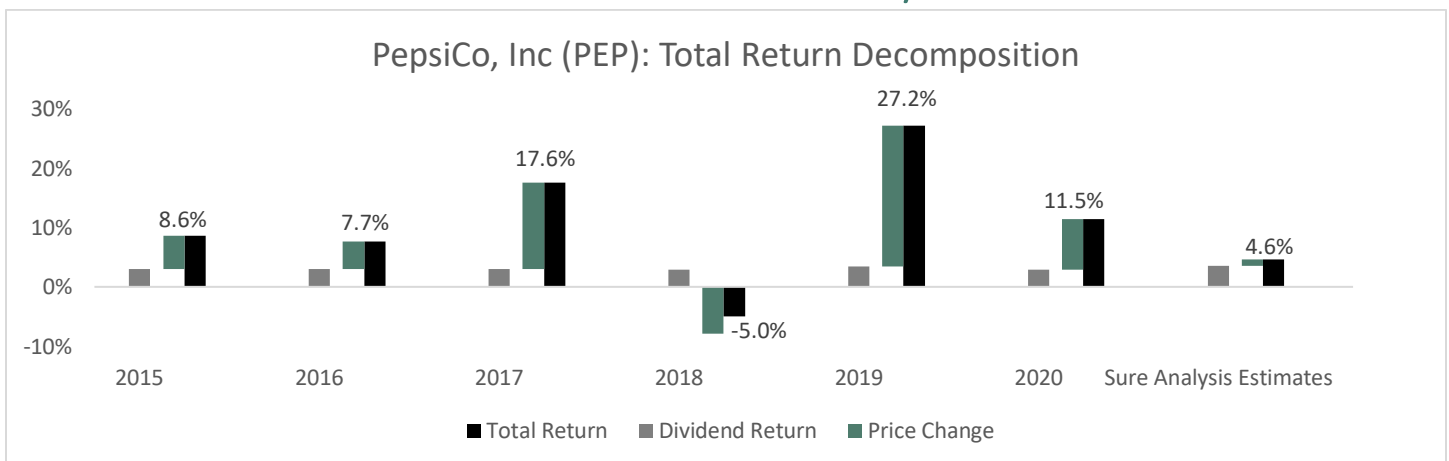
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	51%	54%	53%	59%	60%	61%	60%	61%	69%	73%	74%	74%

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 to return nearly \$6 billion in cash to shareholders in the form of dividends and share repurchases in 2021. 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 slightly more than half 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

Following fourth quarter earnings results, PepsiCo is projected to produce an annual return of 4.6% through 2026, up from our previous forecast of 2.8%. Our projected returns stem from a 5.5% earnings growth rate and starting yield of 3.2% offset by a low single-digit headwind from valuation reversion. PepsiCo ended a challenging year on a high note as the company had strength in nearly every segment and continues to increase its sizeable market share. We have raised our five-year price target \$8 to \$144 due to EPS projections for the current year and maintain our holding rating on shares of PepsiCo.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Revenue</b>	66,504	65,492	66,415	66,683	63,056	62,799	63,525	64,661	67,161	70,372
<b>Gross Profit</b>	34,911	34,201	35,172	35,445	34,325	34,577	34,729	35,280	37,029	38,575
<b>Gross Margin</b>	52.5%	52.2%	53.0%	53.2%	54.4%	55.1%	54.7%	54.6%	55.1%	54.8%
<b>SG&amp;A Exp.</b>	25,145	24,970	25,357	25,772	24,613	24,773	24,453	25,170	26,738	28,495
<b>D&amp;A Exp.</b>	2,737	2,689	2,663	2,625	2,416	2,368	2,369	2,399	2,432	2,548
<b>Operating Profit</b>	9,633	9,112	9,705	9,581	9,712	9,804	10,276	10,110	10,291	10,080
<b>Op. Margin</b>	14.5%	13.9%	14.6%	14.4%	15.4%	15.6%	16.2%	15.6%	15.3%	14.3%
<b>Net Profit</b>	6,443	6,178	6,740	6,513	5,452	6,329	4,857	12,515	7,314	7,120
<b>Net Margin</b>	9.7%	9.4%	10.1%	9.8%	8.6%	10.1%	7.6%	19.4%	10.9%	10.1%
<b>Free Cash Flow</b>	5,605	5,765	6,893	7,647	8,106	7,623	7,061	6,133	5,417	6,373
<b>Income Tax</b>	2,372	2,090	2,104	2,199	1,941	2,174	4,694	(3,370)	1,959	1,894

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets</b>	72,882	74,638	77,478	70,509	69,667	73,490	79,804	77,648	78,547	92,918
<b>Cash &amp; Equivalents</b>	4,067	6,297	9,375	6,134	9,096	9,158	10,610	8,721	5,509	8,185
<b>Acc. Receivable</b>	6,036	6,215	6,178	5,817	5,497	5,709	5,956	6,079	6,447	6,892
<b>Inventories</b>	3,827	3,581	3,409	3,143	2,720	2,723	2,947	3,128	3,338	4,172
<b>Goodwill &amp; Int.</b>	33,245	33,496	32,652	29,053	27,258	27,863	28,582	30,633	31,544	38,072
<b>Total Liabilities</b>	51,983	52,239	53,089	52,961	57,637	62,291	68,823	63,046	63,679	79,366
<b>Accounts Payable</b>	4,083	4,451	4,874	5,127	5,546	6,158	6,727	7,213	8,013	8,853
<b>Long-Term Debt</b>	26,773	28,359	29,639	28,897	33,284	36,945	39,281	32,321	32,068	44,150
<b>Total Equity</b>	20,547	22,253	24,238	17,397	11,882	11,054	10,848	14,518	14,786	13,454
<b>D/E Ratio</b>	1.30	1.27	1.22	1.66	2.79	3.33	3.61	2.23	2.17	3.28

## Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Return on Assets</b>	9.1%	8.4%	8.9%	8.8%	7.8%	8.8%	6.3%	15.9%	9.4%	8.3%
<b>Return on Equity</b>	30.9%	28.9%	29.0%	31.3%	37.2%	55.2%	44.4%	98.7%	49.9%	50.4%
<b>ROIC</b>	13.7%	12.6%	12.9%	13.0%	11.9%	13.5%	9.9%	25.8%	15.6%	13.6%
<b>Shares Out.</b>	1564	1544	1529	1488	1448	1428	1420	1410	1400	1388
<b>Revenue/Share</b>	41.64	41.58	42.57	43.67	42.46	43.25	44.18	45.38	47.73	50.55
<b>FCF/Share</b>	3.51	3.66	4.42	5.01	5.46	5.25	4.91	4.30	3.85	4.58

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

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