



PepsiCo, Inc (PEP)

Updated October 11th, 2023 by Nathan Parsh

Key Metrics

Current Price:	\$165	5 Year CAGR Estimate:	7.5%	Market Cap:	\$226 billion
Fair Value Price:	\$158	5 Year Growth Estimate:	5.5%	Ex-Dividend Date:	12/01/23 ¹
% Fair Value:	104%	5 Year Valuation Multiple Estimate:	-0.8%	Dividend Payment Date:	01/05/24 ²
Dividend Yield:	3.1%	5 Year Price Target	\$207	Years Of Dividend Growth:	51
Dividend Risk Score:	B	Retirement Suitability Score:	B	Rating:	Hold

Overview & Current Events

PepsiCo is a global food and beverage company that generates \$89 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 more than 20 \$1 billion brands in its portfolio. PepsiCo was founded in 1898 and currently employs 315,000 people around the world.

On February 9th, 2023, PepsiCo announced that it would increase its annualized dividend by 10% starting with the dividend expected to be paid in June 2023, extending the company's dividend growth streak to 51 consecutive years.

On October 10th, 2023, PepsiCo announced third quarter results for the period ending September 30th, 2023. Revenue improved 6.7% to \$23.45 billion, which was in-line with estimates. Adjusted earnings-per-share of \$2.25 compared favorably to \$1.97 in the prior year and was \$0.10 above expectations. A stronger U.S. dollar was a 2% headwind to both revenue and earnings-per-share for the period.

Organic sales were up 8.8% for the third quarter. For the quarter, beverage volume was flat while convenient foods were down 2%. PepsiCo Beverages North America's revenue grew 9% organically as higher prices more than offset a 4.5% decline in volume. Frito-Lay North America increased 12%, again due to price increases. Volume was flat. Quaker Foods North America grew 6% despite a 3% decline in volume. Revenues in Europe climbed 15% despite a 3% slump in beverage volume. Latin America increased 12%, Asia Pacific/Australia/New Zealand/China region improved 7%, and Africa/Middle East/South Asia was up 20%. Each region saw an uptick in volume, a reversal from prior quarters.

PepsiCo provided an updated outlook for 2023 as well, with the company expecting adjusted earnings-per-share of \$7.54 for the year, up from \$7.47, \$7.27, and \$6.93 previously. Organic sales are still projected to be higher by 10%, up from 8% and 6% previously. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$4.37	\$4.27	\$4.66	\$4.85	\$5.23	\$5.65	\$5.53	\$5.52	\$6.26	\$6.42	\$7.54	\$9.85
DPS	\$2.24	\$2.53	\$2.79	\$2.96	\$3.12	\$3.47	\$3.82	\$4.02	\$4.25	\$4.53	\$5.06	\$6.61
Shares³	1529	1488	1448	1428	1420	1410	1400	1388	1390	1385	1383	1365

PepsiCo grew earnings at a rate of 4.4% per year from 2013 to 2022. Due to company's organic growth guidance, we have reaffirmed our expected earnings-per-share growth of 5.5% through 2028. PepsiCo's growth over this time period will accrue from organic sales growth and share repurchases.

Following the dividend increase for the June 2023 dividend payment, PepsiCo has raised its dividend for 51 consecutive years, making the company a member of the Dividend Kings.

¹ Estimated ex-dividend date

² Estimated dividend payment date

³ 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	18.4	20.8	20.7	21.4	21.6	19.1	23.1	24.7	27.7	28.1	21.9	21.0
Avg. Yld.	2.8%	2.8%	2.9%	2.9%	2.8%	3.1%	2.9%	2.9%	2.4%	2.5%	3.1%	3.2%

PepsiCo's stock has decreased \$22, or 11.8%, since our July 17th, 2023 report. Based off earnings guidance for 2023, the stock has a P/E of 21.9. We reaffirm our 2028 target P/E of 21 to better match the stock's average valuation since 2013 as well as the quality of recent results. Reverting to our target would reduce annual returns by 0.8% over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

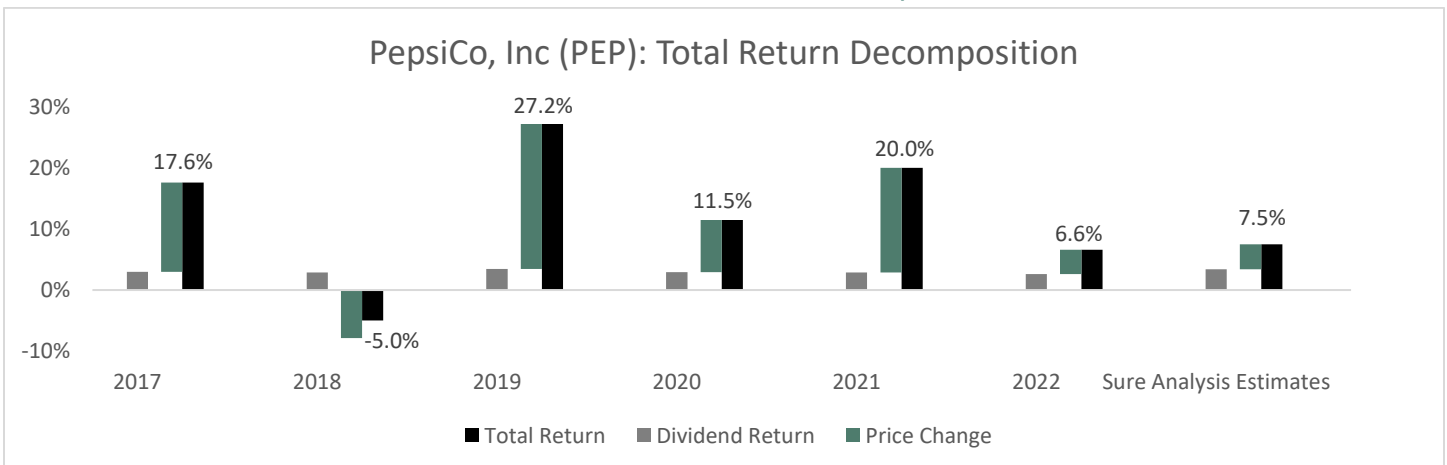
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	53%	59%	60%	61%	60%	61%	69%	73%	68%	71%	67%	67%

PepsiCo is a relatively recession-proof company. Earnings grew during the last recession and it offers a generous dividend yield. The company is expecting to return \$7.7 billion in cash to shareholders in the form of dividends and share repurchases in 2023. 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 about half of sales.

Final Thoughts & Recommendation

After third quarter earnings results, PepsiCo is projected to produce an annual return of 7.5% through 2028, up from our prior estimate of 4.7%. Our projected return stem from a 5.5% earnings growth rate and a starting yield of 3.1%, offset by a small headwind from multiple compression. As with prior quarters, PepsiCo once again produced strong organic growth rates, leading to a slight improvement in the company's forecast for 2023. Volume has stayed constant or suffered a small decline in certain areas of the company, but price increases have more than offset this headwind. This reaffirms the power of PepsiCo's brands in our view. We have raised our 2028 price target \$2 to \$207 to reflect guidance and note the solid current yield and the length of the dividend growth steak, but we continue to rate shares of PepsiCo as a hold due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	66,415	66,683	63,056	62,799	63,525	64,661	67,161	70,372	79,474	86,392
Gross Profit	35,172	35,445	34,325	34,577	34,729	35,280	37,029	38,575	42,399	45,816
Gross Margin	53.0%	53.2%	54.4%	55.1%	54.7%	54.6%	55.1%	54.8%	53.3%	53.0%
SG&A Exp.	25,357	25,772	24,613	24,773	24,453	25,170	26,738	28,495	31,237	34,459
D&A Exp.	2,663	2,625	2,416	2,368	2,369	2,399	2,844	3,026	3,215	3,280
Operating Profit	9,705	9,581	9,712	9,804	10,276	10,110	10,291	10,080	11,162	11,357
Op. Margin	14.6%	14.4%	15.4%	15.6%	16.2%	15.6%	15.3%	14.3%	14.0%	13.1%
Net Profit	6,740	6,513	5,452	6,329	4,857	12,515	7,314	7,120	7,618	8,910
Net Margin	10.1%	9.8%	8.6%	10.1%	7.6%	19.4%	10.9%	10.1%	9.6%	10.3%
Free Cash Flow	6,893	7,647	8,106	7,623	7,061	6,133	5,417	6,373	6,991	5,604
Income Tax	2,104	2,199	1,941	2,174	4,694	(3,370)	1,959	1,894	2,142	1,727

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	77,478	70,509	69,667	73,490	79,804	77,648	78,547	92,918	92,377	92,187
Cash & Equivalents	9,375	6,134	9,096	9,158	10,610	8,721	5,509	8,185	5,596	4,954
Acc. Receivable	6,178	5,817	5,497	5,709	5,956	6,079	6,447	6,892	7,172	8,192
Inventories	3,409	3,143	2,720	2,723	2,947	3,128	3,338	4,172	4,347	5,222
Goodwill & Int.	32,652	29,053	27,258	27,863	28,582	30,633	31,544	38,072	37,046	33,788
Total Liabilities	53,089	52,961	57,637	62,291	68,823	63,046	63,679	79,366	76,226	74,914
Accounts Payable	4,874	5,127	5,546	6,158	6,727	7,213	8,013	8,853	9,834	10,732
Long-Term Debt	29,639	28,897	33,284	36,945	39,281	32,321	32,068	44,150	40,334	39,071
Total Equity	24,238	17,397	11,882	11,054	10,848	14,518	14,786	13,454	16,043	17,149
LTD/E Ratio	1.22	1.66	2.79	3.33	3.61	2.23	2.17	3.28	2.51	2.28

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	8.9%	8.8%	7.8%	8.8%	6.3%	15.9%	9.4%	8.3%	8.2%	9.7%
Return on Equity	29.0%	31.3%	37.2%	55.2%	44.4%	98.7%	49.9%	50.4%	51.7%	53.7%
ROIC	12.9%	13.0%	11.9%	13.5%	9.9%	25.8%	15.6%	13.6%	13.3%	15.8%
Shares Out.	1529	1488	1448	1428	1420	1410	1400	1388	1390	1385
Revenue/Share	42.57	43.67	42.46	43.25	44.18	45.38	47.73	50.55	57.22	62.29
FCF/Share	4.42	5.01	5.46	5.25	4.91	4.30	3.85	4.58	5.03	4.04

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

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