



PepsiCo, Inc (PEP)

Updated February 12th, 2024 by Nathan Parsh

Key Metrics

Current Price:	\$168	5 Year CAGR Estimate:	8.8%	Market Cap:	\$231 B
Fair Value Price:	\$171	5 Year Growth Estimate:	5.5%	Ex-Dividend Date:	02/29/24
% Fair Value:	98%	5 Year Valuation Multiple Estimate:	0.4%	Dividend Payment Date:	04/01/24 ¹
Dividend Yield:	3.2%	5 Year Price Target	\$224	Years Of Dividend Growth:	52
Dividend Risk Score:	A	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, 2024, PepsiCo announced that it would increase its annualized dividend by 7.1% to \$5.42 starting with the payment expected to be made in June 2024, extending the company's dividend growth streak to 52 consecutive years.

Also on February 9th, 2024, PepsiCo reported fourth quarter and full year results for the period ending December 31st, 2023. For the quarter, revenue declined 0.5% to \$27.85 billion, which was \$520 million less than expected. Adjusted earnings-per-share of \$1.78 compared favorably to \$1.67 in the prior year and was \$0.06 above estimates. For the year, revenue grew 5.9% to \$91.5 billion while adjusted earnings-per-share of \$7.62 compared to \$6.42 in 2022. Currency exchange was a 2% headwind to revenue and earnings-per-share in both the quarter and full year.

Organic sales were up 4.5% for the fourth quarter and 9.5% for the year. For the quarter, beverage volume was lower by 2% and convenient foods were down 3%. PepsiCo Beverages North America's revenue grew 3% organically as higher prices more than offset a 6% decline in volume. Frito-Lay North America was up 3% despite a 2% decline in volume. Quaker Foods North America declined 10%, mostly due to recalls. Volume slumped 8%. Revenues in Europe climbed 10% despite small declines for both foods and beverages. Latin America increased 8% and Africa/Middle East/South Asia was up 11%. Asia Pacific/Australia/New Zealand/China region fell 1% due to weaker food volume.

PepsiCo provided an outlook for 2024 as well, with the company expecting adjusted earnings-per-share of at least \$8.15 for the year. Organic sales are projected to be up at least 4%. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$4.27	\$4.66	\$4.85	\$5.23	\$5.65	\$5.53	\$5.52	\$6.26	\$6.42	\$7.62	\$8.15	\$10.65
DPS	\$2.53	\$2.79	\$2.96	\$3.12	\$3.47	\$3.82	\$4.02	\$4.25	\$4.53	\$4.83	\$5.42	\$7.08
Shares²	1488	1448	1428	1420	1410	1400	1388	1390	1385	1381	1381	1365

PepsiCo grew earnings at a rate of 6.6% per year from 2014 to 2023. Due to company's organic growth guidance, we have reaffirmed our expected earnings-per-share growth of 5.5% through 2029. PepsiCo's growth over this time period will accrue from organic sales growth and share repurchases.

Including the upcoming dividend increase for the June 2024 dividend payment, PepsiCo has raised its dividend for 52 consecutive years, making the company a member of the Dividend Kings.

¹ Estimated dividend payment date

² 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	20.8	20.7	21.4	21.6	19.1	23.1	24.7	27.7	28.1	22.3	20.6	21.0
Avg. Yld.	2.8%	2.9%	2.9%	2.8%	3.1%	2.9%	2.9%	2.4%	2.5%	2.8%	3.2%	3.2%

PepsiCo's stock has increased \$3, or 1.8%, since our October 11th, 2023 report. Based off earnings guidance for 2024, the stock has a P/E of 20.6. We reaffirm our 2029 target P/E of 21 to better match the stock's average valuation since 2014 as well as the quality of recent results. Reverting to our target would add 0.4% to annual returns over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

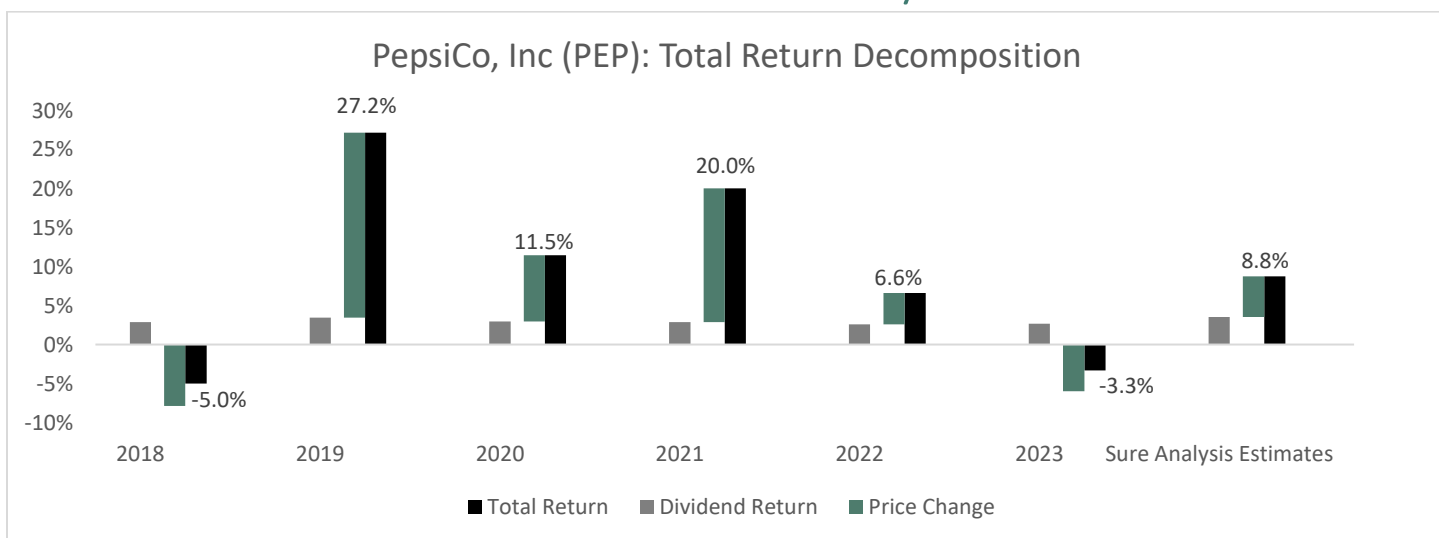
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	59%	60%	61%	60%	61%	69%	73%	68%	71%	63%	67%	67%

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 \$8.2 billion in cash to shareholders in the form of dividends and share repurchases in 2024. 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

Following fourth quarter earnings results, PepsiCo is projected to produce an annual return of 8.8% through 2029, up from our prior estimate of 7.5%. Our projected return stems from a 5.5% earnings growth rate, a starting yield of 3.2%, and a small contribution from multiple expansion. PepsiCo delivered solid organic growth for the quarter and nearly double-digit growth for the year. Volume declines have been offset by price increases, demonstrating the power of PepsiCo's brands in our view. We have raised our 2029 price target \$17 to \$224 to reflect guidance and note the solid current yield and the length of the company's dividend growth streak. However, 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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