



PepsiCo, Inc (PEP)

Updated July 15th, 2024 by Nathan Parsh

Key Metrics

Current Price:	\$164	5 Year CAGR Estimate:	12.6%	Market Cap:	\$225 B
Fair Value Price:	\$198	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	08/30/24
% Fair Value:	83%	5 Year Valuation Multiple Estimate:	3.8%	Dividend Payment Date:	09/27/24 ¹
Dividend Yield:	3.3%	5 Year Price Target	\$264	Years Of Dividend Growth:	52
Dividend Risk Score:	B	Retirement Suitability Score:	B	Rating:	Buy

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.

On July 11th, 2024, PepsiCo announced second quarter results for the period ending June 30th, 2024. For the quarter, revenue grew 0.8% to \$22.5 billion, but this was \$100 million less than expected. Adjusted earnings-per-share of \$2.28 compared favorably to \$2.09 in the prior year and was \$0.12 above estimates. Currency exchange reduced revenue and earnings-per-share by ~1%.

Organic sales were up 1.9% for the second quarter and 2.3% year-to-date. Beverage volume was once again flat while snack and convenience foods volume fell 2%. PepsiCo Beverages North America's revenue grew 1% organically as higher prices more than offset a 3% decline in volume. Frito-Lay North America was unchanged as pricing offset a 4% drop in volume. Quaker Foods North America was lower by 18%. As with prior quarters, this mostly due to product recalls. Volume continues to be weak, with this segment posting a 17% decrease. Revenues in Europe improved 7%, aided largely by a 5% increase in beverage volume and a 1% improvement in food volume. Latin America grew 2%, Africa/Middle East/South Asia was up 12%, and the Asia Pacific/Australia/New Zealand/China region inched higher by 1%.

PepsiCo reaffirmed much of its previous guidance for 2024, with the company still expecting adjusted earnings-per-share growth of at least 8% for the year. Organic sales are now projected to be around 4% compared to at least 4% previously. We maintain our EPS forecast for the year.

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	\$8.23	\$11.01
DPS	\$2.53	\$2.79	\$2.96	\$3.12	\$3.47	\$3.82	\$4.02	\$4.25	\$4.53	\$4.83	\$5.42	\$7.25
Shares²	1488	1448	1428	1420	1410	1400	1388	1390	1385	1381	1379	1365

PepsiCo grew earnings at a rate of 6.6% per year from 2014 to 2023. We have raised our expected earnings growth rate to 6% from 5.5% to better reflect the long-term growth trends for the company as well its portfolio of billion dollar brands. PepsiCo's growth over this time period will accrue from organic sales growth and share repurchases.

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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Including the dividend increase for the June 2024 dividend payment, PepsiCo has raised its dividend for more than 50 consecutive years, making the company a member of the Dividend Kings.

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	26.3	28.8	31.6	32.9	26.9	19.9	24.0
Avg. Yld.	2.8%	2.9%	2.9%	2.8%	3.1%	2.9%	2.9%	2.4%	2.5%	2.8%	3.3%	2.7%

PepsiCo's stock is lower by \$7, or 4.1%, since our April 23rd, 2024 report. Based off earnings guidance for 2024, the stock has a P/E of 19.9. The stock has an average P/E ratio of 29.3 over the last decade and 25.0 over the last five years. We are raising our 2029 target P/E to 24 from 21 to better match the stock's average valuation over the medium-term as well as because of the quality of recent results. Reaching our target by 2029 would add 3.8% to annual returns over the next five years. Shares offer a 3.3% yield currently, which is ahead of the stock's long-term average yield of 2.8%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

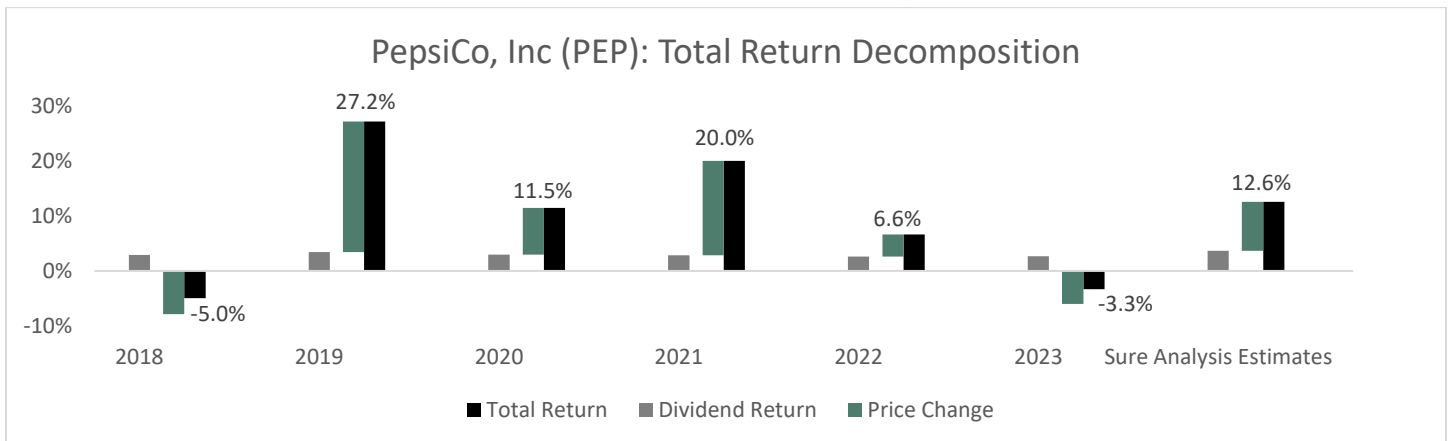
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	59%	60%	61%	60%	61%	69%	73%	68%	71%	63%	66%	66%

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 second quarter earnings results, PepsiCo is projected to produce an annual return of 12.6% through 2029, up from our prior estimate of 9.0%. Our projected return stems from a 6.0% earnings growth rate, a starting yield of 3.3%, and a low single-digit contribution from multiple expansion. PepsiCo's results were mixed, but the company did see organic growth during the period. The company continues to demonstrate pricing power thanks to its portfolio of products. We have raised our 2029 price target \$33 to \$264 to reflect revised guidance and a higher valuation target. We also note the solid current yield and the length of the company's dividend growth streak. PepsiCo now receives a buy recommendation due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	66,683	63,056	62,799	63,525	64,661	67,161	70,372	79,474	86,392	91,471
Gross Profit	35,445	34,325	34,577	34,729	35,280	37,029	38,575	42,399	45,816	49,590
Gross Margin	53.2%	54.4%	55.1%	54.7%	54.6%	55.1%	54.8%	53.3%	53.0%	54.2%
SG&A Exp.	25,772	24,613	24,773	24,453	25,170	26,738	28,495	31,237	34,459	36,677
D&A Exp.	2,625	2,416	2,368	2,369	2,399	2,844	3,026	3,215	3,280	3,518
Operating Profit	9,581	9,712	9,804	10,276	10,110	10,291	10,080	11,162	11,357	12,913
Op. Margin	14.4%	15.4%	15.6%	16.2%	15.6%	15.3%	14.3%	14.0%	13.1%	14.1%
Net Profit	6,513	5,452	6,329	4,857	12,515	7,314	7,120	7,618	8,910	9,074
Net Margin	9.8%	8.6%	10.1%	7.6%	19.4%	10.9%	10.1%	9.6%	10.3%	9.9%
Free Cash Flow	7,647	8,106	7,623	7,061	6,133	5,417	6,373	6,991	5,604	7,924
Income Tax	2,199	1,941	2,174	4,694	(3,370)	1,959	1,894	2,142	1,727	2,262

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	70,509	69,667	73,490	79,804	77,648	78,547	92,918	92,377	92,187	100,495
Cash & Equivalents	6,134	9,096	9,158	10,610	8,721	5,509	8,185	5,596	4,954	9,711
Acc. Receivable	5,817	5,497	5,709	5,956	6,079	6,447	6,892	7,172	8,192	8,675
Inventories	3,143	2,720	2,723	2,947	3,128	3,338	4,172	4,347	5,222	5,334
Goodwill & Int.	29,053	27,258	27,863	28,582	30,633	31,544	38,072	37,046	33,788	32,657
Total Liabilities	52,961	57,637	62,291	68,823	63,046	63,679	79,366	76,226	74,914	81,858
Accounts Payable	5,127	5,546	6,158	6,727	7,213	8,013	8,853	9,834	10,732	11,635
Long-Term Debt	28,897	33,284	36,945	39,281	32,321	32,068	44,150	40,334	39,071	44,105
Total Equity	17,397	11,882	11,054	10,848	14,518	14,786	13,454	16,043	17,149	18,503
LTD/E Ratio	1.66	2.79	3.33	3.61	2.23	2.17	3.28	2.51	2.28	2.38

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	8.8%	7.8%	8.8%	6.3%	15.9%	9.4%	8.3%	8.2%	9.7%	9.4%
Return on Equity	31.3%	37.2%	55.2%	44.4%	98.7%	49.9%	50.4%	51.7%	53.7%	50.5%
ROIC	13.0%	11.9%	13.5%	9.9%	25.8%	15.6%	13.6%	13.3%	15.8%	15.2%
Shares Out.	1,488	1,448	1,428	1,420	1,410	1,400	1,388	1,390	1,385	1,383
Revenue/Share	43.67	42.46	43.25	44.18	45.38	47.73	50.55	57.22	62.29	66.14
FCF/Share	5.01	5.46	5.25	4.91	4.30	3.85	4.58	5.03	4.04	5.73

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

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