

PEPSICO, INC. (NASDAQ: PEP)

(as at February 28, 2023)

Business Description:

The company was founded by Donald M. Kendall, Sr. and Herman W. Lay in 1965 and is headquartered in Purchase, NY. PepsiCo, Inc. engages in the manufacture, marketing, distribution and sale of beverages, food and snacks. It is one of the leading global beverage and food companies with a complementary portfolio of brands, including Frito-Lay, Gatorade, Pepsi-Cola, Quaker and Tropicana. It operates through the following business segments: Frito-Lay North America, Quaker Foods North America, PepsiCo Beverages North America, Latin America, Europe, Africa, Middle East and South Asia, and Asia Pacific, Australia and New Zealand and China Region.

Investment Thesis:

- **PepsiCo holds a large portfolio of global industry-leading brands.** Some of the company's brands include Pepsi-Cola, Frito-lay, and Gatorade. These brands hold market leading positions across key markets in beverages and snacks across the globe.
- **The company's large scale enables efficient operations and limited costs.** Through the company's size, PepsiCo has developed the capabilities to produce at massive volumes and limiting Selling, General and Administrative Expense (SG&A) costs.
- **PepsiCo has identified an increased opportunity in energy beverages and has been able to capitalize on it through a strong balance sheet.** PepsiCo lacks a large opportunity in energy beverages. Through the company's robust balance sheet, the recent Rockstar acquisition serves as a platform to compete within this space.

Industry Drivers/Trend

Consumer Packaged Food Products & Beverages:

- Population demographics have shifted dramatically and with that, food tastes. The increasing millennial population places more emphasis on healthy foods and beverages.
- Key developments in the industry include changes in the retail landscape, which has experienced an increase in consolidation of retail ownership, and sales growth through e-commerce websites and mobile commerce applications. Integration of physical and digital operations among retailers and international expansion of hard discounters can be observed.
- Another trend in the industry is regulation and tax considerations moving against the industry. With environmental and health concerns, there has been an increase in sugar tax and higher regulation towards plastic.

Competitive Advantages:

- Market leader with diversified portfolio of packaged snacks and beverages
- Industry-leading supply chain and distribution networks
- Cost advantage among industry peers

Competitors:

- The Coca-Cola Company, Keurig Dr Pepper Inc., Conagra Brands, Hormel Foods Corporation, The Kraft Heinz Company, Mondelez International Inc., Unilever PLC, Nestle S.A.

Customers:

- Wholesale and other distributors, foodservice customers, grocery stores, drug stores, convenience stores, discount/dollar stores, mass merchandisers, membership stores, hard discounters, e-commerce retailers, and authorized independent bottlers.

Barriers to Entry:

- **Branded Portfolio** – Existing brands have a distinct advantage as branded products are sold and recognized worldwide. A new entrant would not likely be able to gain enough market share from brand-loyal consumers to compete and survive.
- **Asset Heavy Industry** – Although the barriers to entry for the beverage industry are relatively low, producing beverage products at scale requires a large amount of plant and equipment which will be difficult for new entrants to establish.
- **Established Distribution Network** – PepsiCo has one of the best distribution networks in the world and is a key part to its success. New entrants within this industry will find it almost impossible to replicate this network and thus find limited success in the beverage industry.

Officers & Directors:

Ramon Luis Laguarta, Chairman & Chief Executive Officer;
Hugh F. Johnston, Vice Chairman & Chief Financial Officer;
Athina Kanioura, Executive Vice President, Chief Strategy and Transformation Officer;
Rene Lammers, Executive Vice President & Chief Science Officer;
Jim Andrew, Executive Vice President & Chief Sustainability Officer;
Anne Fink, President – Global Foodservice.

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Financial Summary:

Income Statement (USD millions, years ended December 31st)

	2018	2019	2020	2021	2022
Revenue	64,661.0	67,161.0	70,372.0	79,474.0	86,392.0
Cost of Goods Sold	29,381.0	30,132.0	31,797.0	37,075.0	40,576.0
Operating Profit (EBIT)	10,110.0	10,291.0	10,080.0	11,162.0	11,512.0
Profit before Tax	9,189.0	9,312.0	9,069.0	9,821.0	10,705.0
Net Profit	12,515.0	7,314.0	7,120.0	7,618.0	8,910.0
Earnings Per Share (Diluted)	8.78	5.20	5.12	5.49	6.42
Dividends per Share	3.59	3.82	4.09	4.30	4.60

Balance Sheet

Total assets	77,648.0	78,547.0	92,918.0	92,377.0	92,187.0
Long-term debt	28,295.0	29,148.0	40,370.0	36,026.0	35,657.0
Total equity	14,518.0	14,786.0	13,454.0	16,043.0	17,149.0

Statement of Cash Flow

Cash from operations	9,415.0	9,649.0	10,613.0	11,616.0	10,811.0
Cash from investing	4,564.0	(6,437.0)	(11,619.0)	(3,269.0)	(2,430.0)
Cash from financing	(13,769.0)	(8,489.0)	3,819.0	(10,780.0)	(8,523.0)

Key Ratios and Figures (%)

EBIT Margin	15.6%	15.3%	14.3%	14.0%	13.3%
Return on Assets	16.1%	9.3%	7.7%	8.2%	9.7%

Source: PepsiCo 2021 Annual Report, PepsiCo 2022 10-K Filing, Bloomberg L.P.



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