

PepsiCo

Freaky Friday?

Maintain Rating: BUY | PO: 210.00 USD | Price: 170.97 USD

Sentiment churning since October

Over the past few weeks, we've fielded numerous questions about PEP's set up into 4Q23 results which are scheduled to be reported this Friday (Feb. 9th). See our preview thoughts inside. In general, investors expect management to revise/moderate initial '24 perspective provided on its 3Q23 earnings call (currency neutral sales and EPS growth the high-end of long-term targets). Data points influencing this view include: 1) weak sales and market share trends (Nielsen) at Frito-Lay North America (FLNA) and Pepsi Beverages North America (PBNA) 2) mixed messages from other consumer companies in Mexico 3) Multi-nationals citing China/Middle East weakness related to geopolitics and 4) Retailer price disputes in France (we view constructive/fortitude on margins). When management gave its outlook in October it cited visibility on inflation and productivity. Our take; revenue guide more at risk than EPS. That said the door is open to widen the range at this point.

Potential for news to be earnings (+)?

The recent departure of Vice Chairman & CFO Hugh Johnston is driving investor discussions regarding potential for something more strategic to be addressed along with earnings. PEP last re-set in 2019 concurrent with when current Chairman and CEO Ramon Laguarta assumed his position. Adding to the intrigue, PEP is reporting earnings on a Friday for only the third time since 2002. Two out of three Friday reports included extra curriculars. February 15, 2019 the aforementioned earnings re-base and July 19th 2002 when FLNA disappointed meaningfully and management lowered its long term growth objectives. This time around, a change in long term growth objectives seem unlikely. However, one could envision some sort of self-help at PBNA (e.g. re-think bottling structure) given market share trends. Although it seems to us its more portfolio vs operations issue.

Maintain Buy Rating and \$210 PO

Our \$210 PO is based on a 24.3x CY25 EPS target multiple estimate, which is a premium to non-alcoholic beverage peers and is justified based on our view that PEP is positioned to deliver against its long-term algorithm and returning cash to shareholders via dividends & share repurchases.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	6.26	6.79	7.54	8.03	8.65
GAAP EPS	7.03	7.16	7.76	8.03	8.65
EPS Change (YoY)	13.4%	8.5%	11.0%	6.5%	7.7%
Consensus EPS (Bloomberg)			7.55	8.14	8.77
DPS	4.30	4.53	4.95	5.25	5.51
Valuation (Dec)					
P/E	27.3x	25.2x	22.7x	21.3x	19.8x
GAAP P/E	24.3x	23.9x	22.0x	21.3x	19.8x
Dividend Yield	2.5%	2.6%	2.9%	3.1%	3.2%
EV / EBITDA*	20.0x	18.7x	17.6x	15.3x	14.4x
Free Cash Flow Yield*	2.9%	2.4%	2.4%	3.5%	3.9%

* For full definitions of *IQmethod*SM measures, see page 5.

06 February 2024

Equity

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Stock Data

Price	170.97 USD
Price Objective	210.00 USD
Date Established	26-Apr-2023
Investment Opinion	A-1-7
52-Week Range	155.83 USD - 196.88 USD
Mkt Val (mn) / Shares Out (mn)	237,990 USD / 1,392.0
Free Float	99.8%
Average Daily Value (mn)	827.61 USD
BofA Ticker / Exchange	PEP / NAS
Bloomberg / Reuters	PEP US / PEP.OQ
ROE (2023E)	59.5%
Net Dbt to Eqty (Dec-2022A)	196.1%
ESGMeter TM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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Timestamp: 06 February 2024 05:00AM EST

iQprofileSM PepsiCo

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	12.7%	14.2%	15.3%	15.2%	15.7%
Return on Equity	58.5%	56.4%	59.5%	57.6%	53.3%
Operating Margin	14.5%	14.3%	15.1%	15.3%	15.6%
Free Cash Flow	6,991	5,604	5,635	8,225	9,183

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.3x	1.1x	1.1x	1.2x	1.2x
Asset Replacement Ratio	1.7x	1.9x	2.5x	1.4x	1.3x
Tax Rate	20.0%	20.0%	20.4%	20.0%	20.0%
Net Debt-to-Equity Ratio	213.7%	196.1%	212.3%	183.2%	155.3%
Interest Cover	11.2x	13.1x	15.7x	16.6x	17.7x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	79,474	86,392	91,689	94,955	99,609
% Change	12.9%	8.7%	6.1%	3.6%	4.9%
Gross Profit	42,468	46,102	49,723	51,680	54,411
% Change	10.1%	8.6%	7.9%	3.9%	5.3%
EBITDA	14,124	15,088	16,006	18,429	19,641
% Change	8.0%	6.8%	6.1%	15.1%	6.6%
Net Interest & Other Income	(477)	(463)	(625)	(622)	(622)
Net Income (Adjusted)	8,688	9,421	10,431	11,064	11,874
% Change	13.0%	8.4%	10.7%	6.1%	7.3%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	8,688	9,421	10,431	11,064	11,874
Depreciation & Amortization	2,710	2,763	2,165	3,871	4,071
Change in Working Capital	718	(888)	(1,927)	(1,310)	(1,362)
Deferred Taxation Charge	298	(873)	343	0	0
Other Adjustments, Net	(798)	388	(41)	0	0
Capital Expenditure	(4,625)	(5,207)	(5,337)	(5,400)	(5,400)
Free Cash Flow	6,991	5,604	5,635	8,225	9,183
% Change	9.7%	-19.8%	0.5%	46.0%	11.6%
Share / Issue Repurchase	79	(1,362)	(926)	(1,000)	(1,000)
Cost of Dividends Paid	(5,815)	(6,172)	(6,688)	(7,233)	(7,565)
Change in Debt	(4,132)	(810)	4,140	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	5,596	4,954	7,011	7,003	7,621
Trade Receivables	8,680	10,163	8,612	8,965	9,072
Other Current Assets	7,507	6,422	6,700	6,635	6,452
Property, Plant & Equipment	22,407	24,291	27,461	28,990	30,318
Other Non-Current Assets	48,187	46,357	46,451	46,451	46,451
Total Assets	92,377	92,187	96,236	98,044	99,915
Short-Term Debt	4,308	3,414	8,937	8,937	8,937
Other Current Liabilities	21,912	23,371	21,238	20,215	18,778
Long-Term Debt	36,026	35,657	35,837	35,837	35,837
Other Non-Current Liabilities	13,980	12,472	12,440	12,440	12,440
Total Liabilities	76,226	74,914	78,452	77,429	75,992
Total Equity	16,259	17,397	17,784	20,614	23,923
Total Equity & Liabilities	92,485	92,311	96,236	98,044	99,915

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Soft Drinks

Company Description

PepsiCo, a global snack and beverage company, manufactures and markets salty and convenient snacks, carbonated and non-carbonated beverages and foods. Divisions include Frito-Lay North America (FLNA), Quaker Foods NA, North America Beverages (NAB), Latin America, Europe Sub-Saharan Africa (ESSA) and Asia, Middle East and North Africa (AMENA). Key exposures include UK, Mexico, India and China. Brands include Pepsi Cola, Mountain Dew, Gatorade, Tropicana, Frito-Lay, Quaker, among others.

Investment Rationale

We rate PEP shares at Buy. In our view, the business is well positioned to deliver consistent high single digit shareholder returns supported by a balance of growth and returning cash to shareholders via dividends and share repurchases.

Stock Data

Average Daily Volume 4,840,700

Quarterly Earnings Estimates

	2022	2023
Q1	1.29A	1.50A
Q2	1.86A	2.09A
Q3	1.97A	2.25A
Q4	1.67A	1.71E

4Q results expected pre-market Feb 9th

Thoughts ahead of the quarter:

We forecast 4Q23E EPS of \$1.71 with organic sales growth of +6.2% (volume - 2.1%/price/mix +8.3%) and gross margins 53.0% (+50bps vs last year). A story line in 4Q will likely be volume pressure. We expect volumes to be down -1.0% at Frito Lay North America and -5.0% in Latin America as both segments are likely to see the continuation of consumers choosing smaller packages which is positive for mix but a drag on volumes. Pepsi Beverages North America volumes (we estimate -5.0%) are pressured by reduced emphasis of case pack water, market share losses at Mountain Dew and weakness in Rockstar. We expect better balanced organic sales performance in the other international segments. Recall Europe in particular is driving strong price/mix due in part to pricing in Russia.

Key considerations:

On its 3Q23 earnings call management indicated it expects currency neutral sales and EPS growth at the high end of its long-term targets. This is underpinned by a good deal of visibility into inflation (implies mid to high single digit) and productivity. In our view it also reflects management's confidence in having the flexibility to move with consumers if they continue to shift to smaller packages. The net result being a tradeoff between units/transactions over volume/tonnage. That said, there is potential that PEP adjusts its outlook to incorporate a wider range of potential outcomes given volume pressure in three key businesses FLNA, PBNA and Mexico.



Price objective basis & risk

PepsiCo (PEP)

Our \$210 PO is based on a 24.3x CY25 EPS target multiple estimate, which is a premium to non-alcoholic beverage peers and is justified based on our view that PEP is positioned to deliver against its long-term algorithm and returning cash to shareholders via dividends & share repurchases.

Upside risks to our PO: 1) Low to moderate FX headwinds. 2) Rebase initiatives put the business in a better position for growth. 3) Improving volume/price/mix in soft drinks.

Downside risks to our PO: 1) FX becomes a larger headwind than expected. 2) Frito Lay North America experiences a major decline in volumes due to pricing.

Analyst Certification

I, Bryan D. Spillane, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Consumables Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	BellRing Brands Inc	BRBR	BRBR US	Bryan D. Spillane
	Coca-Cola Europacific Partners plc	CCEP	CCEP US	Bryan D. Spillane
	Colgate-Palmolive Company	CL	CL US	Bryan D. Spillane
	Constellation Brands	STZ	STZ US	Bryan D. Spillane
	Coty Inc.	COTY	COTY US	Anna Lizzul
	e.l.f. Beauty	ELF	ELF US	Anna Lizzul
	Freshpet, Inc.	FRPT	FRPT US	Bryan D. Spillane
	Kenvue Inc.	KVUE	KVUE US	Anna Lizzul
	Keurig Dr Pepper	KDP	KDP US	Bryan D. Spillane
	Kraft Heinz Company	KHC	KHC US	Bryan D. Spillane
	Lamb Weston Holdings Inc	LW	LW US	Peter T. Galbo, CFA
	McCormick & Co.	MKC	MKC US	Peter T. Galbo, CFA
	Mondelez International	MDLZ	MDLZ US	Bryan D. Spillane
	Monster Beverage Corporation	MNST	MNST US	Peter T. Galbo, CFA
	PepsiCo	PEP	PEP US	Bryan D. Spillane
	Philip Morris International	PM	PM US	Lisa K. Lewandowski
	Pilgrim's Pride Corp.	PPC	PPC US	Peter T. Galbo, CFA
	The Coca Cola Company	KO	KO US	Bryan D. Spillane
	The Procter & Gamble Company	PG	PG US	Bryan D. Spillane
NEUTRAL				
	Altria Group	MO	MO US	Lisa K. Lewandowski
	Celsius Holdings Inc	CELH	CELH US	Jonathan Keypour
	Church & Dwight	CHD	CHD US	Anna Lizzul
	Clorox	CLX	CLX US	Anna Lizzul
	Conagra Brands, Inc.	CAG	CAG US	Peter T. Galbo, CFA
	Estee Lauder Companies Inc.	EL	EL US	Bryan D. Spillane
	General Mills	GIS	GIS US	Bryan D. Spillane
	JM Smucker Company	SJM	SJM US	Peter T. Galbo, CFA
	Kellanova	K	K US	Peter T. Galbo, CFA
	Molson Coors Beverage Company	TAP	TAP US	Bryan D. Spillane
	The Duckhorn Portfolio, Inc.	NAPA	NAPA US	Peter T. Galbo, CFA
	The Hershey Company	HSY	HSY US	Bryan D. Spillane
	Utz Brands	UTZ	UTZ US	Peter T. Galbo, CFA
	WK Kellogg Co	KLK	KLK US	Peter T. Galbo, CFA
UNDERPERFORM				
	Brown-Forman Corporation	BFB	BF/B US	Bryan D. Spillane
	Campbell Soup Company	CPB	CPB US	Peter T. Galbo, CFA

US - Consumables Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Canopy Growth	YWEED	WEED CN	Lisa K. Lewandowski
	Canopy Growth	CGC	CGC US	Lisa K. Lewandowski
	Cronos Group	YCRON	CRON CN	Lisa K. Lewandowski
	Cronos Group	CRON	CRON US	Lisa K. Lewandowski
	Dole plc	DOLE	DOLE US	Bryan D. Spillane
	Herbalife Nutrition Ltd	HLF	HLF US	Anna Lizzul
	Hormel Foods Corp.	HRL	HRL US	Peter T. Galbo, CFA
	Kimberly-Clark	KMB	KMB US	Anna Lizzul
	Tyson Foods, Inc.	TSN	TSN US	Peter T. Galbo, CFA
RSTR				
	The Vita Coco Company, Inc.	COCO	COCO US	Bryan D. Spillane

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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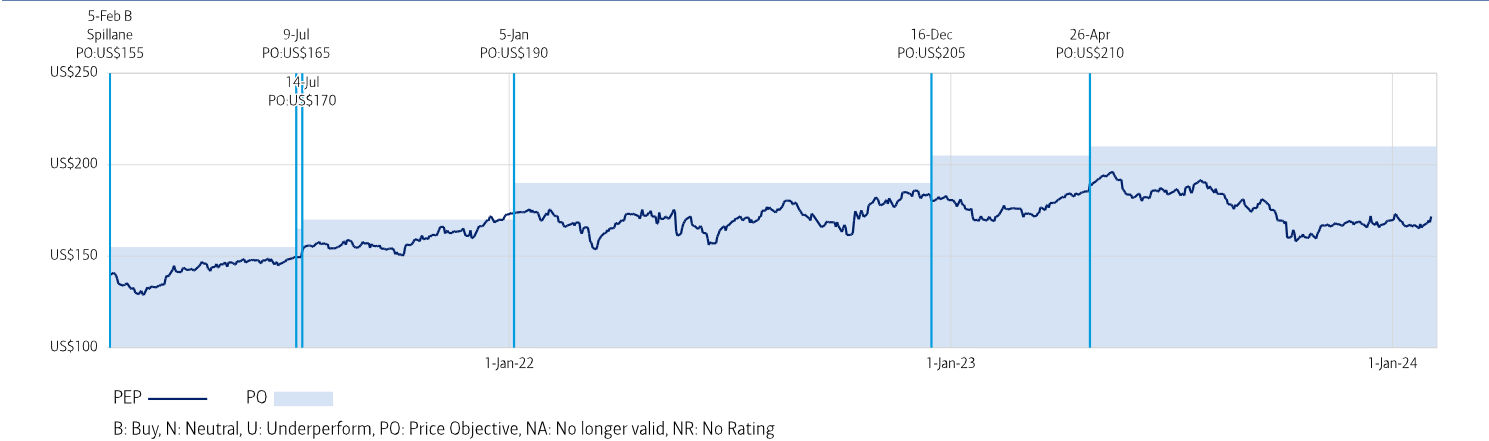
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PepsiCo (PEP) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Beverages - Soft Drinks Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	11	78.57%	Buy	6	54.55%
Hold	0	0.00%	Hold	0	0.00%
Sell	3	21.43%	Sell	1	33.33%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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