

PepsiCo

PEP 4Q23: organic growth +4.5; FY24 org guide now 4%+ vs prior high end of +4-6%

Reiterate Rating: BUY | PO: 210.00 USD | Price: 173.85 USD

Key takeaways

- PEP announced 4Q23 organic sales of +4% vs our +6.2%e, and adj. EPS of \$1.78, +7c ahead of BofAe/Street
- FY24 guide for organic sales of at least +4% was light of prior guide to high end of +4-6% with +7% EPS growth to \$8.15
- Segment performance was mixed, noting volume softness in Pepsi North America, Quaker, and Frito

PEP 4Q adjusted EPS of \$1.78 vs. BofAe/Street \$1.71/1.72

PEP 4Q23 adjusted EPS of \$1.78 vs BofAe of \$1.71 included about +4c of favorable net interest expense and +1c of help from lower taxes vs our forecast, but -7c of charitable donation drag. Pricing up +9% YoY vs our +8%e helped drive +100bps of YoY gross margin expansion to 53.5% (+50bps vs BofAe). SG&A was +30bps higher than forecasted at 42.1% of sales with operating profit margin expansion of +90bps YoY to 11.4% (BofAe 11.2%).

Key drivers of organic sales performance

Organic sales growth of +4.5% was shy of our +6.2% estimate. Pricing growth of +9% (BofAe +8.3%) offset volume decline of -4% YoY (BofAe -2.1%), and -300bps of FX drag was lighter than our -420bps forecast. Softer volume across all segments vs our forecast partially reflects mix shift to smaller pack sizes. Segment organic sales growth by segment was: PBNA +3% (in line with BofAe) noting -7% volume decline vs -5%e; FLNA +3% vs +4%e; Quaker -10% vs +0.5%e reflecting product recall and soft post-COVID normalization; Latam +8% vs +7%e; Europe +10% vs +12%e; AMESA +11% vs +17%e; APAC -1% vs +6%e.

FY24 organic guide now >+4% vs prior high end of +4-6%

PEP fleshed out its FY24 outlook, now calling for organic sales growth of at least +4% YoY (BofAe/Street +5%), with adj. EPS expected to grow ++7% YoY, implying core earnings per share of \$8.15 (BofAe \$8.03, Street \$8.15), which includes FX headwinds of -100bps to net sales and EPS. Management's early outlook for FY24 had previously targeted the high end of PEP's long-term algorithm of +4-6% organic sales growth and high-single digit EPS growth.

Reiterate Buy rating, \$210 PO

We reiterate our Buy rating and \$210 PO, reflecting a P/E multiple of 24.3x our CY25 EPS estimate. We believe PEP's premium to non-alcoholic beverage peer average of 22x is warranted by their strengthened position and pricing power to manage through the ongoing inflationary environment.

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Stock Data

Price	173.85 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
Mrkt Val (mn) / Shares Out (mn)	241,999 USD / 1,392.0
Free Float	99.8%
Average Daily Value (mn)	862.03 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™	High

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Jargon Buster

FLNA – Frito-Lay North America

PBNA – PepsiCo Beverages North America

AMESA – Africa, Middle East, and South Asia

APAC – Asia-Pacific, Australia and New Zealand, and China region

PEP 4Q23 earnings summary

Exhibit 1: PEP 3Q23 income statement and ratios

EPS of \$2.25 was 10c above BofAe, with +5c of help from lower interest expense less -2c from higher tax

PEP Adjusted (Non-GAAP) Earnings Summary

	4Q23	BofA	% Diff.	\$ Diff	4Q22	% Diff.	\$ Diff	Consensus	% Diff.	\$ Diff
Sales	\$27,850	\$28,068	-0.8%	-\$218	\$27,996	-0.5%	-\$146	\$28,414	-2.0%	-\$564
Cost of Goods Sold	12,952	13,183	-1.8%	(231)	13,291	-2.6%	(339)	13,292	-2.6%	(340)
Gross Profit	14,898	14,884	0.1%	14	14,705	1.3%	193	15,122	-1.5%	(224)
SG&A	11,713	11,733	-0.2%	(20)	11,775	-0.5%	(62)	11,971	-2.2%	(258)
Operating Profit	3,185	3,151	1.1%	34	2,930	8.7%	255	3,151	1.1%	34
Pension accounting change	81	75	8.0%	6	125	-35.2%	(44)	75	8.3%	6
Interest Expense	217	280	-22.5%	(63)	273	-20.5%	(56)	267	-18.6%	(50)
Income Before Taxes	3,049	2,946	3.5%	103	2,782	9.6%	267	2,959	3.0%	90
Income Tax Provision - Comparable	564	560	0.8%	4	455	24.0%	109	556	1.5%	8
Non Controlling Interests	22	25	-12.0%	(3)	17	29.4%	5	18	20.7%	4
Net Income - Comparable	2,463	2,361	4.3%	102	2,310	6.6%	153	2,385	3.3%	78
EPS - Comparable	\$1.78	\$1.71	4.3%	\$0.07	\$1.67	6.9%	\$0.11	\$1.72	3.5%	\$0.06
Diluted Shares Outstanding	1,381	1,381	0.0%	(0)	1,385	-0.3%	(4)	1,382	0.0%	(1)

PEP Income Statement Ratios

	4Q23	BofA	Bps. Diff.	4Q22	Bps. Diff.	Consensus	Bps. Diff.
Gross Margin	53.5%	53.0%	50 bps.	52.5%	100 bps.	53.2%	30 bps.
SG&A Ratio	42.1%	41.8%	30 bps.	42.1%	0 bps.	42.1%	0 bps.
EBIT Margin	11.4%	11.2%	20 bps.	10.5%	90 bps.	11.1%	30 bps.
Tax Rate	18.5%	19.0%	-50 bps.	16.4%	210 bps.	18.8%	-30 bps.
Net Margin	0.8%	1.0%	-20 bps.	1.0%	-20 bps.	0.9%	-10 bps.

Source: Company reports, BofA Global Research, VisibleAlpha

BofA GLOBAL RESEARCH

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.

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PepsiCo (PEP) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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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)

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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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Buy	≥ 10%	≤ 70%
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