

Equity Research

WELLS
FARGO

Earnings Revised — February 11, 2022

Beverages

PepsiCo, Inc. (PEP)

PEP: Quality Reigns...Just Raining Inflation Too

Our Call

PEP [Q421 results](#) included the best organic sales two-year stack in at least a decade - impressive, even if inclusive of significant investment levels as PEP sets the tone for another year of above-algorithm top-line growth in 2022. Ultimately, sales strength gives options, especially given no volume growth is factored in 2022. But, inflation will weigh heavy. Our view here: PEP has the tools to meet the outlook, and can adjust as the year progresses, but our base case for 2022 is that the outlook is reasonable, not conservative, and requires significant levels of pricing with productivity.

Estimates and target unchanged. Our 2022e EPS is unchanged at \$6.67, with organic sales +6.6% (was +6.7%), gross margins -10bps (was -30bps) and op margins +20bps (was +80bps), with our op profit -2% vs prior. The offset is tax, now modeled at 20% (prior 21%). Our 2023e EPS remains \$7.15.

A pricing driven year in 2022. PEP's +6% organic sales outlook for 2022 is driven entirely by price/mix (CFO Johnston noted PEP will probably "be around" 7% pricing). On one end, a year with no volume growth looks conservative in the context of recent momentum and with elasticities still low; that in mind, the two-year stack on volumes of 6% for 2021 (on 2021 +4%, 2020 +2%) is historically strong (best in a decade), and compares to 2yr stacks of +2.5/1.5/1/2/2.5% in the 5 years prior. A return of mobility could dent the at-home strength PEP has seen - both in Food and Beverage - albeit that's more conceptual at this point, and PEP has invested heavily into sustaining brand momentum into 2022. Nevertheless, a year of +7% pricing (on top of a year with +5% pricing) with historically difficult volume comps creates a bit of a balancing act - momentum (yes), but tough comps too - so it's hard to say if the volume call is conservative. *We model 2022 organic sales +6.6% on price/mix +6.9% with volume -0.3%.*

Inflation is building into 2022 - thoughts on the commodity bridge. Per PEP's 10-K, commodities were a ~14pt hit to op profit in 2021. Some math: Q1/2/3 disclosures were -5/-8/-14% from commodities, which implies that Q4 was a ~26% hit. For COGS, this would imply commodities in Q1/2/3/421 were a negative -1.7/-2.8/-5.2/-7.1% impact, i.e. an exit rate of over 7%, and our sense is this is building into 2022 with a HSD potential impact to COGS just from commodities. Taking PEP's 7% pricing target (+\$5.5bn), and assuming commodities a ~9% hit to COGS (-\$3.4bn), that'd imply an additional \$2bn of wiggle room from the pricing. Wages/labor inflation is at least +MSD (note: roughly half of SG&A is labor). If we assume all of SG&A is +5%, that'd be ~+\$1.5bn. Basically, that bridge leaves you about +MSD% op profit growth to drop to the bottom-line. Productivity could drive upside should SG&A accelerate beyond this level, leaving PEP some cushion to deliver, unless volumes come undone. An extra week is also a factor.

So back to a core concept...stretch vs flex. PEP has the tools to combat 2022 inflation, given pricing power in the business; but, nevertheless +7% pricing is a big number (historically high, on an already historically high comp) and needed to combat significant inflation. Basically, it's just harder to make as strong an upside case for earnings.

Refine model for Tropicana deal close. In Q1/2/3/422, we remove \$310/690/940/940mn in Tropicana sales (80/20 NA/Europe), while removing op profit of \$37/70/90/90mn (90/10 NA/Europe). We apply deal proceeds to debt paydown. Latest net dilution is roughly 12-13c to 2022 EPS per PEP, mitigated by the extra week.

Equity Analyst(s)

Chris Carey

Senior Equity Analyst | Wells Fargo Securities, LLC
Chris.Carey@wellsfargo.com | 212-214-6059

Joe Lachky, CFA

Associate Equity Analyst | Wells Fargo Securities, LLC
Joe.Lachky@wellsfargo.com | 314-875-2042

Marc Torrente, CFA, CPA

Associate Equity Analyst | Wells Fargo Securities, LLC
Marc.Torrente@wellsfargo.com | 314-875-2557

Rating	Equal Weight
Ticker	PEP
Price Target/Prior:	\$175.00/NC
Upside/(Downside) to Target	3.9%
Price (02/10/2022)	\$168.37
52 Week Range	\$128.32 - 177.24
Shares Outstanding	1,382,652,943
Market Cap (MM)	\$232,797
Enterprise Value (MM)	\$267,424
Average Daily Volume	4,654,415
Average Daily Value (MM)	\$784
Dividend (NTM)	\$4.30
Dividend Yield	2.6%
Net Debt (MM) - last reported	\$34,627
ROIC - Current year est.	15%
3 Yr EPS CAGR from current year (unless otherwise noted)	7%

	2021A	2022E	2022E	2023E	2023E
EPS		Curr.	Prior	Curr.	Prior
Q1 (Mar)	1.21 A	1.21 E	1.25 E	1.32 E	NC
Q2 (Jun)	1.72 A	1.79 E	1.77 E	1.91 E	NC
Q3 (Sep)	1.79 A	1.88 E	1.84 E	1.99 E	1.98 E
Q4 (Dec)	1.53 A	1.80 E	NC	1.93 E	1.94 E
FY	6.26 A	6.67 E	NC	7.15 E	NC
P/E	26.9x	25.2x		23.6x	

Source: Company Data, Wells Fargo Securities estimates, and Refinitiv.
NA = Not Available, Volatility = Historical trading volatility

All estimates/forecasts are as of 2/11/2022 unless otherwise stated. 2/11/2022 0:11:59EST. Please see page 5 for rating definitions, important disclosures and required analyst certifications.

Wells Fargo Securities, LLC does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of the report and investors should consider this report as only a single factor in making their investment decision.

Exhibit 1 - PEP guidance vs WFSe

FY 2022 Guidance				
Guidance Provided as of:	Q321 Earnings October 5, 2021	Q421 Earnings February 10, 2022	Our Estimate	Our FY23 Estimate
<u>Sales</u>				
Organic Revenue Growth	+4-6%	+6%	6.6%	4.8%
Currency Impact on Revenue		-1.5%	-1.5%	0.0%
<u>EPS</u>				
EPS		\$6.67	\$6.67	\$7.15
EPS Growth - Constant Currency	+HSD%	+8%	7.8%	7.1%
Currency Impact on EPS		-1.5%	-1.3%	0.0%
<u>Other Items</u>				
Tax Rate		20%	20.0%	21.0%
Dividends		\$6.2bn	\$6.3	\$6.6
Share Repurchases		\$1.5bn	\$1.5	\$2.0

Source: Company reports and Wells Fargo Securities, LLC estimates

Financials

	2020	1Q21	2Q21	3Q21	4Q21	2021	1Q22E	2Q22E	3Q22E	4Q22E	2022E	1Q23E	2Q23E	3Q23E	4Q23E	2023E	2024E
Total Net Revenue	70,372	14,820	19,217	20,189	25,248	79,474	15,559	19,526	20,454	27,357	82,897	16,010	20,497	21,403	28,799	86,709	90,813
Cost of Sales (GAAP)	31,797	6,671	8,880	9,394	12,130	37,075	7,180	9,176	9,473	12,856	38,684	7,331	9,550	9,891	13,476	40,248	41,972
Cost of Sales	31,799	6,705	8,877	9,370	12,054	37,006	7,180	9,176	9,473	12,856	38,684	7,331	9,550	9,891	13,476	40,248	41,972
% of sales	45.2%	45.2%	46.2%	46.4%	47.7%	46.6%	46.1%	47.0%	46.3%	47.0%	46.7%	45.8%	46.6%	46.2%	46.8%	46.4%	46.2%
Gross Profit (GAAP)	38,575	8,149	10,337	10,795	13,118	42,399	8,380	10,350	10,982	14,502	44,213	8,678	10,947	11,512	15,323	46,461	48,842
Gross Profit	38,573	8,115	10,340	10,819	13,194	42,468	8,380	10,350	10,982	14,502	44,213	8,678	10,947	11,512	15,323	46,461	48,842
% of sales	54.8%	54.8%	53.8%	53.6%	52.3%	53.4%	53.9%	53.0%	53.7%	53.0%	53.3%	54.2%	53.4%	53.8%	53.2%	53.6%	53.8%
Change (bps)	(46)	(139)	(178)	(118)	(121)	(138)	(90)	(80)	10	75	(10)	35	40	10	20	25	20
Selling, general and administrative expenses (GAAP)	28,495	5,837	7,208	7,636	10,556	31,237	3,151	7,118	7,596	11,288	29,153	6,238	7,482	7,903	11,855	33,478	34,977
Selling, general and administrative expenses	28,042	5,851	7,171	7,578	10,454	31,054	6,151	7,118	7,596	11,288	32,153	6,238	7,482	7,903	11,855	33,478	34,977
% of sales	39.8%	39.5%	37.3%	37.5%	41.4%	39.1%	39.5%	36.5%	37.1%	41.3%	38.8%	39.0%	36.5%	36.9%	41.2%	38.6%	38.5%
Change (bps)	36	(137)	(249)	(42)	62	(77)	5	(86)	(40)	(14)	(29)	(57)	5	(21)	(10)	(18)	(9)
Amortization of intangible assets	10,080	2,312	3,129	3,159	2,562	11,162	5,228	3,232	3,386	3,214	15,060	2,440	3,465	3,609	3,468	12,983	13,865
Operating profit (GAAP)	10,080	2,312	3,129	3,159	2,562	11,162	5,228	3,232	3,386	3,214	15,060	2,440	3,465	3,609	3,468	12,983	13,865
Operating Profit	10,531	2,264	3,169	3,241	2,740	11,414	2,228	3,232	3,386	3,214	12,060	2,440	3,465	3,609	3,468	12,983	13,865
% of sales	15.0%	15.3%	16.5%	16.1%	10.9%	14.4%	14.3%	16.6%	16.6%	11.7%	14.5%	15.2%	16.9%	16.9%	12.0%	15.0%	15.3%
Change (bps)	(62)	(2)	71	(77)	(184)	(60)	(95)	6	50	89	19	92	35	31	30	42	29
Other Pension and Post-Retirement Income (Expense) - GAAP	117	120	126	118	158	522	126	127	119	160	532	127	129	120	161	537	543
Other Pension and Post-Retirement Income (Expense)	342	126	125	119	174	544	126	127	119	160	532	127	129	120	161	537	543
Equity income	-	-	-	-	-	-	12	27	27	18	84	19	28	28	19	93	95
Interest (expense) income - GAAP	(1,128)	(258)	(241)	(232)	(1,132)	(1,863)	(252)	(262)	(252)	(251)	(1,017)	(250)	(249)	(248)	(247)	(995)	(978)
Interest (expense) income	(1,128)	(258)	(241)	(232)	(290)	(1,021)	(252)	(262)	(252)	(251)	(1,017)	(250)	(249)	(248)	(247)	(995)	(978)
Income before Income Taxes	9,069	2,174	3,014	3,045	1,588	9,821	5,115	3,124	3,280	3,140	14,659	2,336	3,372	3,509	3,401	12,618	13,525
Income before Income Taxes	9,745	2,132	3,053	3,128	2,624	10,937	2,115	3,124	3,280	3,140	11,659	2,336	3,372	3,509	3,401	12,618	13,525
% of sales	13.8%	14.4%	15.9%	15.5%	10.4%	13.8%	13.6%	16.0%	16.0%	11.5%	14.1%	14.6%	16.5%	16.4%	11.8%	14.6%	14.9%
Provision for Income Taxes (GAAP)	1,894	451	642	802	247	2,142	1,023	625	656	628	2,932	491	708	737	714	2,650	2,840
Provision for Income Taxes	2,002	439	647	626	475	2,187	423	625	656	628	2,332	491	708	737	714	2,650	2,840
Effective tax rate	20.5%	20.6%	21.2%	20.0%	18.1%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
Net Income (GAAP)	7,175	1,723	2,372	2,243	1,341	7,679	4,092	2,499	2,624	2,512	11,727	1,845	2,664	2,772	2,687	9,969	10,685
Net Income	7,743	1,693	2,406	2,502	2,149	8,750	1,692	2,499	2,624	2,512	9,327	1,845	2,664	2,772	2,687	9,969	10,685
Less: Net Income Attributable to Noncontrolling Interests (GAAP)	55	9	14	19	19	61	12	17	18	18	65	13	19	19	19	70	75
Less: Net Income Attributable to Noncontrolling Interests	55	9	14	19	20	62	12	17	18	18	65	13	19	19	19	70	75
% of Consolidated Net Income	0.7%	0.5%	0.6%	0.8%	0.9%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
Net Income Attributable to PepsiCo (GAAP)	7,120	1,714	2,358	2,224	1,322	7,618	4,080	2,482	2,606	2,494	11,662	1,832	2,645	2,753	2,668	9,899	10,610
Net Income Attributable to PepsiCo	7,688	1,684	2,392	2,483	2,129	8,688	1,680	2,482	2,606	2,494	9,262	1,832	2,645	2,753	2,668	9,899	10,610
EPS (GAAP)	\$5.11	\$1.24	\$1.70	\$1.60	\$0.95	\$5.48	\$2.93	\$1.79	\$1.88	\$1.80	\$8.40	\$1.32	\$1.91	\$1.99	\$1.93	\$7.15	\$7.68
EPS (Non-GAAP)	\$5.52	\$1.21	\$1.72	\$1.79	\$1.53	\$6.26	\$1.21	\$1.79	\$1.88	\$1.80	\$6.67	\$1.32	\$1.91	\$1.99	\$1.93	\$7.15	\$7.68
Basic Average Shares Outstanding	1,385	1,380	1,382	1,382	1,384	1,382	1,384	1,383	1,382	1,381	1,383	1,380	1,379	1,377	1,376	1,378	1,374
Diluted Average Shares Outstanding	1,392	1,387	1,388	1,389	1,390	1,389	1,390	1,389	1,388	1,387	1,389	1,386	1,385	1,383	1,382	1,385	1,381
Depreciation & Amortization Expense	2,548.0	560.0	653.0	650.0	847.0	2,710.0	610.7	683.1	681.0	899.1	2,873.9	665.1	743.1	739.8	975.2	3,123.2	3,521.2
EBITDA	13,079.0	2,824.0	3,822.0	3,891.0	3,587.0	14,124.0	2,839.1	3,915.1	4,066.9	4,112.8	14,933.9	3,105.2	4,208.0	4,349.1	4,443.7	16,106.0	17,386.0
EBITDA Margin	18.6%	19.1%	19.9%	19.3%	14.2%	17.8%	18.2%	20.1%	19.9%	15.0%	18.0%	19.4%	20.5%	20.3%	15.4%	18.6%	19.1%
EBITDA per Share	\$9.40	\$2.04	\$2.75	\$2.80	\$2.58	\$10.17	\$2.04	\$2.82	\$2.93	\$2.97	\$10.75	\$2.24	\$3.04	\$3.14	\$3.21	\$11.63	\$12.59
Dividend paid per share	\$4.02	\$1.02	\$1.08	\$1.08	\$1.08	\$4.25	\$1.08	\$1.15	\$1.15	\$1.15	\$4.53	\$1.15	\$1.21	\$1.21	\$1.21	\$4.77	\$5.01
Dividend Growth Rate (%)	6.1%	7.1%	5.1%	5.1%	5.1%	5.6%	5.1%	7.0%	7.0%	7.0%	6.5%	7.0%	5.0%	5.0%	5.0%	5.5%	5.0%

	2020	1Q21	2Q21	3Q21	4Q21	2021	1Q22E	2Q22E	3Q22E	4Q22E	2022E	1Q23E	2Q23E	3Q23E	4Q23E	2023E	2024E
Growth Rates Y/Y	4.8%	6.8%	20.5%	11.6%	12.4%	12.9%	5.0%	1.6%	1.3%	8.4%	4.3%	2.9%	5.0%	4.6%	5.3%	4.6%	4.7%
Net Revenue	4.8%	6.8%	20.5%	11.6%	12.4%	12.9%	5.0%	1.6%	1.3%	8.4%	4.3%	2.9%	5.0%	4.6%	5.3%	4.6%	4.7%
Organic Net Revenue (Ex-Currency)	4.3%	2.4%	12.6%	9.0%	11.9%	9.5%	8.6%	6.4%	6.4%	5.7%	6.6%	3.8%	5.0%	4.6%	5.3%	4.8%	4.7%
Costs of Sales	5.9%	10.2%	25.3%	14.5%	15.4%	16.4%	7.1%	3.4%	1.1%	6.7%	4.5%	2.1%	4.1%	4.4%	4.8%	4.0%	4.3%
Gross Profit	3.9%	4.1%	16.7%	9.2%	9.9%	10.1%	3.3%	0.1%	1.5%	9.9%	4.1%	3.6%	5.8%	4.8%	5.7%	5.1%	5.1%
Selling, general and administrative expenses	5.7%	3.2%	13.0%	10.4%	14.2%	10.7%	5.1%	-0.7%	0.2%	8.0%	3.5%	1.4%	5.1%	4.0%	5.0%	4.1%	4.5%
Amortization of intangible assets	0.4%	6.3%	23.1%	6.5%	-2.2%	8.0%	0.5%	2.4%	4.5%	14.7%	5.7%	9.4%	7.5%	6.9%	8.0%	7.8%	7.9%
Total Operating Profits	-0.7%	6.6%	26.0%	6.5%	-3.8%	8.4%	-1.6%	2.0%	4.5%	17.3%	5.7%	9.5%	7.2%	6.6%	7.9%	7.7%	6.8%
Operating Profit (Ex-Currency)	1.0%	7.0%	22.0%	5.0%	-4.0%	7.0%	0.2%	3.7%	5.7%	18.0%	7.0%	9.4%	7.2%	6.6%	7.9%	7.6%	6.8%
Income before Income Taxes	-1.5%	11.3%	29.0%	9.1%	1.0%	12.2%	-0.8%	2.3%	4.9%	19.7%	6.6%	10.4%	7.9%	7.0%	8.3%	8.2%	7.2%
Net Income	-0.9%	12.0%	30.1%	7.5%	4.6%	13.0%	-0.1%	3.9%	4.9%	16.9%	6.6%	9.1%	6.6%	5.7%	7.0%	6.9%	7.2%
EPS	0.0%	13.1%	30.6%	7.5%	4.2%	13.4%	-0.5%	3.7%	5.0%	17.4%	6.5%	9.4%	6.9%	6.0%	7.3%	7.2%	7.5%
EPS (Ex-Currency)	2.0%	14.0%	27.0%	5.5%	4.0%	12.0%	1.3%	5.4%	6.2%	18.1%	7.8%	9.3%	6.9%	6.0%	7.3%	7.1%	7.5%
Shares Outstanding - Diluted	-1.1%	-0.6%	-0.4%	-0.1%	0.1%	-0.2%	0.2%	0.1%	-0.1%	-0.2%	0.0%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%
Interest (Expense) Income	20.6%	-11.0%	2.6%	-12.1%	-14.5%	-9.5%	-2.5%	8.7%	8.7%	-13.4%	-0.4%	-0.6%	-4.9%	-1.6%	-1.6%	-2.2%	-1.6%

	2020	1Q21	2Q21	3Q21	4Q21	2021	1Q22E	2Q22E	3Q22E	4Q22E	2022E	1Q23E	2Q23E	3Q23E	4Q23E	2023E	2024E
Margins	54.8%	54.8%	53.8%	53.6%	52.3%	53.4%	53.9%	53.0%	53.7%	53.0%	53.3%	54.2%	53.4%	53.8%	53.2%	53.6%	53.8%
Gross Margin	54.8%	54.8%	53.8%	53.6%	52.3%	53.4%	53.9%	53.0%	53.7%	53.0%	53.3%	54.2%	53.4%	53.8%	53.2%	53.6%	53.8%
EBITDA Margin	18.6%	19.1%	19.9%	19.3%	14.2%	17.8%	18.2%	20.1%	19.9%	15.0%	18.0%	19.4%	20.5%	20.3%	15.4%	18.6%	19.1%
Operating Margin	15.0%	15.3%	16.5%	16.1%	10.9%	14.4%	14.3%	16.6%	16.6%	11.7%	14.5%	15.2%	16.9%	16.9%	12.0%	15.0%	15.3%
Operating Expense Leverage	-1.7%	-4.8%	1.9%	3.0%	7.4%	1.6%	5.9%	1.4%	1.8%	2.3%	2.6%	0.0%	0.0%	0.0%	0.0%	1.7%	1.5%
Net Margin	11.0%	11.4%	12.5%	12.4%	8.5%	11.0%	10.9%	12.8%	12.8%	9.2%	11.3%	11.5%	13.0%	13.0%	9.3%	11.3%	11.8%
Minority interest % of consolidated net income	0.7%	0.5%	0.6%	0.8%	0.9%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
Underlying Effective Tax Rate	20.5%	20.6%	21.2%	20.0%	18.1%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
% of Sales	2020	1Q21	2Q21	3Q21	4Q21	2021	1Q22E	2Q22E	3Q22E	4Q22E	2022E	1Q23E	2Q23E	3Q23E	4Q23E	2023E	2024E
Cost of Goods Sold	45.2%	45.2%	46.2%	46.4%	47.7%	46.6%	46.1%	47.0%	46.3%	47.0%	46.7%	46.4%	46.6%	46.2%	46.8%	46.4%	46.2%
Selling, Advertising and Administrative	39.8%	39.5%	37.3%	37.5%	41.4%	39.1%	39.5%	36.5%	37.1%	41.3%	38.8%	39.0%	36.5%	36.9%	41.2%	38.6%	38.5%
Other operating charges	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Interest Income	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Interest Expense	1.6%	1.7%	1.3%	1.1%	1.3%	1.5%	1.3%	1.5%	1.2%	1.6%	1.2%	1.5%	1.2%	1.5%	1.1%	1.2%	1.1%
Other income (loss)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%

Investment Thesis, Valuation and Risks

PepsiCo, Inc. (PEP)

Investment Thesis

PEP results have been resilient amidst COVID; and with a consistent algorithm and valuation in line with historicals, we expect the stock to track the group. We carry a positive lean and recognize the case that could drive earnings catalysts. We simply need time to assess if these scenarios become reality, namely PBNA, and view EPS expectations as reasonable for now, hence the Equal Weight rating.

Target Price Valuation for PEP: \$175.00 from NC

Our \$175 price target is based on a 24.5x P/E multiple to our CY23 EPS estimate.

Risks to Our Price Target and Rating for PEP

Downside risks: (1) PEP is global and the world faces many risks that could slow its category growth (COVID-related for ex) and thus, company revenue/earnings; (2) PBNA margins remaining stagnant would affect our EPS estimates that embed improvement. Upside risks: (1) PBNA margins accelerating could drive upside to earnings, and (2) a faster global recovery, which would drive PEP's foodservice business.

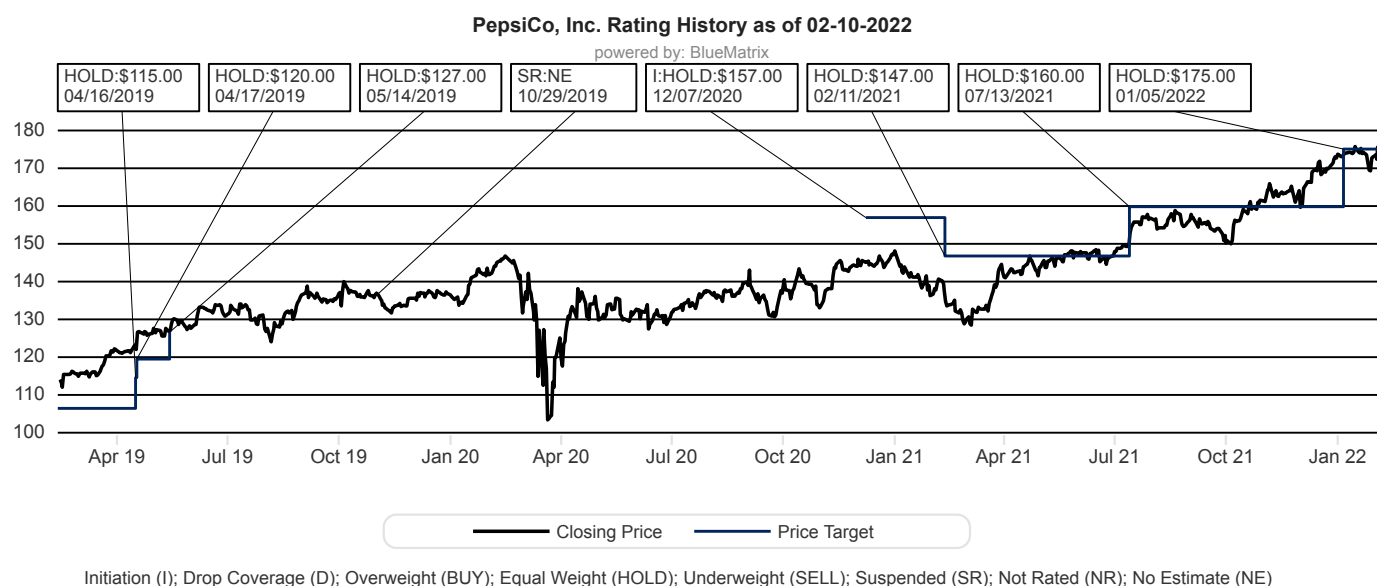
Required Disclosures

I, Chris Carey, certify that:

- 1) All views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers discussed; and
- 2) No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this research report.

Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm, which includes, but is not limited to investment banking revenue.

Additional Information Available Upon Request



Wells Fargo Securities, LLC and/or its affiliates, have beneficial ownership of 0.5% or more of any class of the common stock of PepsiCo, Inc..

Wells Fargo Securities, LLC, maintains a market in the common stock of PepsiCo, Inc..

Wells Fargo Securities, LLC, or its affiliates has a significant financial interest in PepsiCo, Inc..

STOCK RATING

1=Overweight: Total return on stock expected to be 10%+ over the next 12 months. BUY

2=Equal Weight: Total return on stock expected to be -10% to +10% over the next 12 months. HOLD

3=Underweight: Total return on stock expected to lag the Overweight- and Equal Weight-rated stocks within the analyst's coverage universe over the next 12 months. SELL

As of February 10, 2022

55.8% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Overweight.

36.0% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Equal Weight.

8.1% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Underweight.

Wells Fargo Securities, LLC has provided investment banking services for 50.4% of its Equity Research Overweight-rated companies.

Wells Fargo Securities, LLC has provided investment banking services for 42.6% of its Equity Research Equal Weight-rated companies.

Wells Fargo Securities, LLC has provided investment banking services for 33.3% of its Equity Research Underweight-rated companies.

Important Disclosure for U.S. Clients

This report was prepared by Wells Fargo Securities Global Research Department ("WFS Research") personnel associated with Wells Fargo Securities and Structured Asset Investors, LLC ("SAI"), an investment adviser subsidiary of Wells Fargo & Co. If you are paying directly for this research, it is being provided by SAI. For all other recipients in the U.S. this report is being provided by Wells Fargo Securities.

Wells Fargo Securities' research department may, from time to time, provide clients with short-term trading views in its research reports regarding subject companies on which Wells Fargo Securities currently has equity research coverage. A short-term trading view offers a view on how the market price of a subject company's common equity may trend in absolute terms during the 30 days following the date of the short-term trading view. A short-term trading view on a subject company's common equity does not impact our fundamental investment rating or price target for that company, which reflect our view of how the subject company's common equity may perform over a one-year period. A short-term trading view may reach a different conclusion than the firm's fundamental investment rating and price target for a subject company and, therefore, short-term trading views could result in short-term price movements that are contrary to our fundamental investment rating and price target. Short-term trading views are not ratings and the firm does not intend, nor undertakes any obligation, to maintain, update or close out short-term trading views. Short-term trading views may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any short-term trading views discussed in Wells Fargo Securities research reports.

Important Disclosure for International Clients

United Kingdom – The securities and related financial instruments described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. For recipients in the United Kingdom, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a UK incorporated investment firm authorised and regulated by the Financial Conduct Authority. For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 (the "Act"), the content of this report has been approved by WFSIL, an authorised person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients.

EEA – The securities and related financial instruments described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. For recipients in the EEA, this report is distributed by WFSIL or Wells Fargo Securities Europe S.A. ("WFSE"). WFSE is a French incorporated investment firm authorized and regulated by the Autorité de contrôle prudentiel et de résolution and the Autorité des marchés financiers. WFSE does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). This report is not intended for, and should not be relied upon by, retail clients.

Australia – Wells Fargo Securities, LLC, Wells Fargo Securities International Limited and Wells Fargo Securities Asia Limited are exempt from the requirements to hold an Australian financial services license in respect of the financial services they provide to wholesale clients in Australia. Wells Fargo Securities, LLC is regulated under the laws of the United States, Wells Fargo Securities International Limited is regulated under laws of the United Kingdom, and Wells Fargo Securities Asia Limited is regulated under the laws of Hong Kong. All such laws differ from Australian laws. Any offer or documentation provided to Australian recipients by Wells Fargo Securities, LLC, Wells Fargo Securities International Limited or Wells Fargo Securities Asia Limited in the course of providing the financial services will be prepared in accordance with the laws of the United States, United Kingdom or Hong Kong and not Australian laws.

Canada – This report is distributed in Canada by Wells Fargo Securities Canada, Ltd., a registered investment dealer in Canada and member of the Investment Industry Regulatory Organization of Canada (IIROC) and Canadian Investor Protection Fund (CIPF). Wells Fargo Securities, LLC's research analysts may participate in company events such as site visits but are generally prohibited from accepting payment or reimbursement by the subject companies for associated expenses unless pre-authorized by members of Research Management.

Hong Kong – This report is issued and distributed in Hong Kong by Wells Fargo Securities Asia Limited ("WFSAL"), a Hong Kong incorporated investment firm licensed and regulated by the Securities and Futures Commission to carry on types 1, 4, 6 and 9 regulated activities (as defined in the Securities and Futures Ordinance (Cap. 571 The Laws of Hong Kong), "the SFO"). This report is not intended for, and should not be relied on by, any person other than professional investors (as defined in the SFO). Any securities and related financial instruments described herein are not intended for sale, nor will be sold, to any person other than professional investors (as defined in the SFO). The author or authors of this report is or are not licensed by the Securities and Futures Commission. Professional investors who receive this report should direct any queries regarding its contents to Kelly Chiang and Mandy Wan at WFSAL (email: wfsalresearch@wellsfargo.com).

Japan – This report is distributed in Japan by Wells Fargo Securities (Japan) Co., Ltd, registered with the Kanto Local Finance Bureau to conduct broking and dealing of type 1 and type 2 financial instruments and agency or intermediary service for entry into investment advisory or discretionary investment contracts. This report is intended for distribution only to professional investors (Tokutei Touseika) and is not intended for, and should not be relied upon by, ordinary customers (Ippan Touseika).

The ratings stated on the document are not provided by rating agencies registered with the Financial Services Agency of Japan (JFSA) but by group companies of JFSA-registered rating agencies. These group companies may include Moody's Investors Services Inc., Standard & Poor's Rating Services and/or Fitch Ratings. Any decisions to invest in securities or transactions should be made after reviewing policies and methodologies used for assigning credit ratings and assumptions, significance and limitations of the credit ratings stated on the respective rating agencies' websites.

About Wells Fargo Securities

Wells Fargo Securities is the trade name for the capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including but not limited to Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission and a member of NYSE, FINRA, NFA and SIPC, Wells Fargo Prime Services, LLC, a member of FINRA, NFA and SIPC, Wells Fargo Securities Canada, Ltd., a member of IIROC and CIPF, Wells Fargo Bank, N.A. and Wells Fargo Securities International Limited, authorized and regulated by the Financial Conduct Authority.

This report is for your information only and is not an offer to sell, or a solicitation of an offer to buy, the securities or instruments named or described in the report. This report, including any ratings it contains, should not be considered a recommendation tailored to a particular investor with respect to (i) the security or securities or (ii) any investment strategy or strategies discussed in the report. Interested parties are advised to contact the entity with which they deal, or the entity that provided this report to them, if they desire further information or they wish to effect transactions in the securities discussed in this report. The information in this report has been obtained or derived from sources believed by Wells Fargo Securities Global Research Department ("WFS Research"), to be reliable, but WFS Research does not represent that this information is accurate or complete. Any opinions or estimates contained in this report represent the judgment of WFS Research, at this time, and are subject to change without notice. Certain text, images, graphics, screenshots and audio or video clips included in this report are protected by copyright law and owned by third parties (collectively, "Third Party Content"). Third Party Content is made available to clients by Wells Fargo

under license or otherwise in accordance with applicable law. Any use or publication of Third Party Content included in this report for purposes other than fair use requires permission from the copyright owner. Any external website links included in this publication are not maintained, controlled or operated by Wells Fargo Securities. Wells Fargo Securities does not provide the products and services on these websites and the views expressed on these websites do not necessarily represent those of Wells Fargo Securities. Please review the applicable privacy and security policies and terms and conditions for the website you are visiting. All Wells Fargo Securities and SAI research reports published by WFS Research are disseminated and available to all clients simultaneously through electronic publication to our internal client websites. Additional distribution may be effected via email, fax or regular mail. Clients may also receive our research via third party vendors. Not all research content is redistributed to our clients or available to third-party aggregators, nor is WFS Research responsible for the redistribution of our research by third party aggregators. Equity Strategists focus on investment themes across the equity markets and sectors. Any discussion within an Equity Strategy report of specific securities is not intended to provide a fundamental analysis of any individual company described therein. The information provided in Equity Strategy reports is subject to change without notice, and investors should not expect continuing information or additional reports relating to any security described therein. Wells Fargo Securities' Signature Picks is a product of the Equity Strategy team and represents a portfolio of stocks selected from the Equity Research Department's universe of Overweight rated stocks. Stocks with this designation are selected by the Signature Picks Committee based on factors such as volatility, risks, market cap and liquidity and may not represent the fundamental analysts' top rated stock in their respective coverage universe. For research or other data available on a particular security, please contact your sales representative or go to <http://research.wellsfargosecurities.com>. For the purposes of the U.K. Financial Conduct Authority's rules, this report constitutes impartial investment research. Each of Wells Fargo Securities, LLC, Wells Fargo Securities International Limited and Wells Fargo Securities Europe S.A. is a separate legal entity and distinct from affiliated banks. Copyright © 2022 Wells Fargo Securities, LLC

SECURITIES: NOT FDIC-INSURED - MAY LOSE VALUE - NO BANK GUARANTEE