

Flash Comment — April 26, 2022

Beverages

PepsiCo, Inc. (PEP)

PEP: Q122 First Take—Top-Line Driven Beat; Raising 2022 Organic Sales, Trimming EPS

Initial Thoughts

PEP Q122 beat on top line, with margins slightly better all-in, driving EPS ahead too. Strength was broad-based, with top-line ahead of WFS/Street in every division, with a notable beat in Latin America. Profit was more uneven—strength in PBNA, LatAm, and AMESA, more muted profit growth in FLNA, QFNA, and APAC, and particular weakness in Europe where op profit halved. The organic sales outlook was raised for 2022, but trimmed on EPS, in our view highlighting a certain "stretch to meet" dynamic with PEP's EPS algorithm currently, putting the onus on multiple expansion from here, even if cognizant of PEP's qualities amidst a macro rotation to defensives. **Variance tables with WFS vs. Street herein.**

2022 guidance raised top line, lowered bottom line. For 2022, PEP now expects organic sales +8% y/y (prior +6%) given the strong start to the year (*we note that PEP has an extra week this year in Q422, ~2pt potential benefit on top of the underlying +8% rate*). There is no change to core constant currency EPS +8% y/y (vs +7% in Q1). FX is expected a 2pt negative headwind to sales and EPS (was -1.5pt impact), implying core EPS growth of ~+6% (was +6.5% y/y), i.e., now implying core EPS of \$6.63 (vs. a base of \$6.26) vs prior \$6.67 (vs. WFS \$6.65 and Street \$6.64 per Visible Alpha). Other details: there was no change to PEP's expectations for a core tax rate 20%, cash returns \$7.7bn on dividends \$6.2bn, and buybacks \$1.5bn (a part of PEP's recently announced \$10bn program through Feb 28, 2026).

Tidbits from prepared remarks released at 6:30am et. China grew MSD (reminder: only includes January/February in Int'l). **Expectations:** *N. America to stay resilient, but watching channel mix amidst inflation; International—expected to perform well despite geopolitics; deeper focus on managing costs, including through mix.*

Q122 sales driven beat. Organic sales were +13.7% y/y (volume +3%, price/mix +10%), decelerating -150bps on a 2yr stack to 16.1% (vs Q421 2yr of 17.6%). This came in well ahead of WFS for total PEP +9.1% (vol +0.9%, price +8.2%) and Street +9.4% (vol +2.1%, price +7.1%), with volumes about in line but pricing higher. **Org sales by category.** Global beverage +13% (volume +6%) and convenient food +14% (volume +3%). **Org sales by region.** North America +13% with International +15% (Int'l Food +15%, Int'l Beverage +13%) and developing and emerging markets +18%. **GM and OM ahead.** Core gross margin was +5bps y/y to 54.8% vs. WFS/Street both 53.9%, while core op margin was -50bps y/y to 14.8% vs WFS/Street 14.3%/14.7%. **EPS** was \$1.29 vs. WFS/Street \$1.21/1.24.

Segment organic sales. **FLNA** +14% (vol +2%, price +12%) vs. WFS/Street +9.5%/+9.6%, **QFNA** +11% (vol -1.5%, price +12%) vs. +7.0%/+6.8%, **PBNA** +13% (vol +4% with price +8%) vs. +9.0%/+9.7%, **LatAm** +22% (vol +6%, price +16%) vs. +13.5%/+13.2%, **Europe** +11% (vol flat, price +11%) vs. +10.5%/+8.6%, **AMESA** +18% (vol +11%, price +7%) vs. +10.6%/+9.8%, **APAC** +9% (vol +2%, price +8%) vs. -1.2%/+4.4%.

Segment margins vs. WFS and Street. **FLNA** op profit was +3.3% y/y with margin -170bps y/y to 28.0% vs. WFS/Street 28.2%/28.8%, **QFNA** op profit was +6.0% y/y with margin -20bps y/y to 23.0% vs. 21.9%/22.1%, **PBNA** op profit was +21% y/y with margin +120bps y/y to 8.5% vs. 6.9%/7.3%, **LatAm** op profit was +50% y/y with margin +660bps y/y to 24.3% vs. 18.6%/17.9%, **Europe** op profit was -54% y/y with margin -430bps y/y to 3.6% vs. 7.8%/7.6%, **AMESA** op profit was +30% y/y with margin +430bps y/y to

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

PepsiCo, Inc. (PEP)

Equal Weight

Price: \$173.74/Price Target: \$175.00

Market Cap: \$240,326 MM

Note: Pricing as of 04/25/2022

Source: Company Data, Wells Fargo Securities estimates, and Refinitiv.

20.2% vs. 15.9%/16.1%, **APAC** op profit was +4% y/y with margin +220bps y/y to 24.2% vs. 23.1%/22.0%.

Our Call

PEP's sales momentum gives options, but nevertheless EPS came down slightly and valuation is historically high.

Exhibit 1 - PEP Q122 variance vs. WFSe

	Actual vs. Estimate				Year/Year Change		Sequential Change	
	Reported 1Q22	1Q22E	\$ Diff	% Diff	1Q21	% Change	4Q21	% Change
Revenue								
Frito-Lay North America (FLNA)	4,839.0	4,638.4	200.6	4.3%	4,236.0	14.2%	6,167.0	-21.5%
Quaker Foods North America (QFNA)	713.0	691.2	21.8	3.2%	646.0	10.4%	912.0	-21.8%
PepsiCo Beverages North America (PBNA)	5,353.0	5,280.7	72.3	1.4%	5,074.0	5.5%	7,644.0	-30.0%
Latin America	1,474.0	1,355.6	118.4	8.7%	1,242.0	18.7%	2,799.0	-47.3%
Europe	1,797.0	1,818.7	(21.7)	-1.2%	1,795.0	0.1%	4,345.0	-58.6%
Africa, Middle East and South Asia (AMESA)	1,004.0	901.1	102.9	11.4%	883.0	13.7%	1,928.0	-47.9%
Asia Pacific, Australia and New Zealand and China Region (APAC)	1,020.0	893.0	127.0	14.2%	944.0	8.1%	1,453.0	-29.8%
Total Net Revenue	16,200.0	15,578.7	621.3	4.0%	14,820.0	9.3%	25,248.0	-35.8%
Cost of Sales	7,321.0	7,188.5	132.5	1.8%	6,705.0	9.2%	12,054.0	-39.3%
Gross Profit	8,879.0	8,390.2	488.8	5.8%	8,115.0	9.4%	13,194.0	-32.7%
Selling, general and administrative expenses	6,487.0	6,161.4	325.6	5.3%	5,851.0	10.9%	10,454.0	-37.9%
Frito-Lay North America (FLNA)	1,299.0	1,307.3	(8.3)	-0.6%	1,257.0	3.3%	1,662.0	-21.8%
Quaker Foods North America (QFNA)	159.0	151.5	7.5	5.0%	150.0	6.0%	193.0	-17.6%
PepsiCo Beverages North America (PBNA)	450.0	363.6	86.4	23.7%	371.0	21.3%	515.0	-12.6%
Latin America	329.0	252.2	76.8	30.4%	220.0	49.5%	417.0	-21.1%
Europe	65.0	141.6	(76.6)	-54.1%	142.0	-54.2%	360.0	-81.9%
Africa, Middle East and South Asia (AMESA)	182.0	143.3	38.7	27.0%	140.0	30.0%	160.0	13.8%
Asia Pacific, Australia and New Zealand and China Region (APAC)	216.0	206.6	9.4	4.5%	208.0	3.8%	78.0	176.9%
Corporate	(308.0)	(337.3)	29.3	-8.7%	(224.0)	37.5%	(645.0)	-52.2%
Operating Profit	2,392.0	2,228.8	163.2	7.3%	2,264.0	5.7%	2,740.0	-12.7%
Other Pension and Post-Retirement Income (Expense)	124.0	126.0	(2.0)	-1.6%	126.0	-1.6%	174.0	-28.7%
Net interest expense (income)	(240.0)	(251.6)	11.6	-4.6%	(258.0)	-7.0%	(290.0)	-17.2%
Income before Income Taxes	2,276.0	2,115.2	160.8	7.6%	2,132.0	6.8%	2,624.0	-13.3%
Provision for Income Taxes	469.0	423.0	46.0	10.9%	439.0	6.8%	475.0	-1.3%
Net Income	1,807.0	1,692.2	114.8	6.8%	1,693.0	6.7%	2,149.0	-15.9%
Less: Net Income Attributable to Noncontrolling Interests	12.0	11.8	0.2	1.3%	9.0	33.3%	20.0	-40.0%
Net Income Attributable to PepsiCo	1,795.0	1,680.3	114.7	6.8%	1,684.0	6.6%	2,129.0	-15.7%
EPS (Non-GAAP)	\$1.29	\$1.21	\$0.08	6.8%	\$1.21	6.3%	\$1.53	-15.7%
Diluted Average Shares Outstanding	1,391.0	1,390.3	0.8	0.1%	1,387.0	0.3%	1,390.0	0.1%

	Actual vs. Estimate				Year/Year Change		Sequential Change	
	Reported 1Q22	1Q22E	Diff (bps)		1Q21	Diff (bps)	4Q21	Diff (bps)
Margins & Tax Rate								
Gross Margin	54.8%	53.9%	95		54.8%	5	52.3%	255
Selling & Administrative - normalized (% of sales)	40.0%	39.6%	49		39.5%	56	41.4%	(136)
EBITDA margin - normalized (% of sales)	18.2%	18.2%	(4)		19.1%	(86)	14.2%	398
Operating Margin	14.8%	14.3%	46		15.3%	(51)	10.9%	391
Tax Rate	20.6%	20.0%	61		20.6%	2	18.1%	250

Source: Company reports and Wells Fargo Securities, LLC estimates

\$mn except per share data

Exhibit 2 - PEP Q122 variance vs. WFSe - segment details

Segment Profitability Metrics	Actual vs. Estimate			Year/Year Change		Sequential Change	
	Reported 1Q22	1Q22E	bps Diff	1Q21	bps Change	4Q21	bps Change
Segment Operating Margin							
Frito-Lay North America (FLNA)	26.8%	28.2%	(134)	29.7%	(283)	26.9%	(11)
Quaker Foods North America (QFNA)	22.3%	21.9%	38	23.2%	(92)	21.2%	114
PepsiCo Beverages North America (PBNA)	8.4%	6.9%	152	7.3%	109	6.7%	167
Latin America	22.3%	18.6%	371	17.7%	461	14.9%	742
Europe	3.6%	7.8%	(417)	7.9%	(429)	8.3%	(467)
Africa, Middle East and South Asia (AMESA)	18.1%	15.9%	223	15.9%	227	8.3%	983
Asia Pacific, Australia and New Zealand and China Region (APAC)	21.2%	23.1%	(196)	22.0%	(86)	5.4%	1,581

Revenue Drivers	Actual vs. Estimate			Year/Year Change		Sequential Change	
	Reported 1Q22	1Q22E	% pt Diff	1Q21	% pt Diff	4Q21	% pt Diff
Organic Revenue Growth							
Frito-Lay North America (FLNA)	14.0%	9.5%	4.5%	3.0%	11.0%	13.0%	1.0%
Quaker Foods North America (QFNA)	11.0%	7.0%	4.0%	1.0%	10.0%	9.0%	2.0%
PepsiCo Beverages North America (PBNA)	13.0%	9.0%	4.0%	2.0%	11.0%	12.0%	1.0%
Latin America	22.0%	13.5%	8.5%	3.0%	19.0%	17.0%	5.0%
Europe	11.0%	10.5%	0.5%	0.0%	11.0%	9.0%	2.0%
Africa, Middle East and South Asia (AMESA)	18.0%	10.6%	7.4%	-1.0%	19.0%	8.0%	10.0%
Asia Pacific, Australia and New Zealand and China Region (APAC)	<u>9.0%</u>	<u>-1.2%</u>	<u>10.2%</u>	<u>18.0%</u>	<u>-9.0%</u>	<u>13.0%</u>	<u>-4.0%</u>
Organic Net Revenue (Ex-Currency)	13.7%	9.1%	4.6%	2.4%	11.3%	11.9%	1.8%
Operating Profit Growth (Ex-Currency)							
Frito-Lay North America (FLNA)	3.0%	4.0%	-1.0%	2.0%	1.0%	5.0%	-2.0%
Quaker Foods North America (QFNA)	6.0%	1.0%	5.0%	-1.0%	7.0%	6.0%	0.0%
PepsiCo Beverages North America (PBNA)	21.0%	-2.0%	23.0%	23.0%	-2.0%	-9.0%	30.0%
Latin America	53.0%	19.0%	34.0%	1.0%	52.0%	20.0%	33.0%
Europe	-50.0%	5.4%	-55.4%	-4.0%	-46.0%	-10.0%	-40.0%
Africa, Middle East and South Asia (AMESA)	32.0%	10.9%	21.1%	2.0%	30.0%	-31.0%	63.0%
Asia Pacific, Australia and New Zealand and China Region (APAC)	<u>5.0%</u>	<u>3.6%</u>	<u>1.4%</u>	<u>39.0%</u>	<u>-34.0%</u>	<u>-17.0%</u>	<u>22.0%</u>
Operating Profit (Ex-Currency)	6.0%	0.1%	5.9%	7.0%	-1.0%	-4.0%	10.0%
Volume Growth							
Frito-Lay North America (FLNA)	2.0%	0.5%	1.5%	-1.0%	3.0%	4.0%	-2.0%
Quaker Foods North America (QFNA)	-1.5%	-3.0%	1.5%	-4.0%	2.5%	-2.0%	0.5%
PepsiCo Beverages North America (PBNA)	4.0%	1.0%	3.0%	-4.5%	8.5%	7.0%	-3.0%
Latin America	6.0%	3.5%	2.5%	-2.0%	8.0%	6.0%	0.0%
Europe	0.0%	1.5%	-1.5%	0.0%	0.0%	1.0%	-1.0%
Africa, Middle East and South Asia (AMESA)	11.0%	4.6%	6.4%	2.0%	9.0%	5.0%	6.0%
Asia Pacific, Australia and New Zealand and China Region (APAC)	<u>2.0%</u>	<u>-3.2%</u>	<u>5.2%</u>	<u>17.0%</u>	<u>-15.0%</u>	<u>16.0%</u>	<u>-14.0%</u>
Reported Volume Growth	3.0%	0.9%	2.1%	-1.0%	4.0%	5.0%	-2.0%
Effective Net Pricing							
Frito-Lay North America (FLNA)	12.0%	9.0%	3.0%	4.0%	8.0%	9.0%	3.0%
Quaker Foods North America (QFNA)	12.0%	10.0%	2.0%	5.0%	7.0%	11.0%	1.0%
PepsiCo Beverages North America (PBNA)	8.0%	8.0%	0.0%	6.0%	2.0%	6.0%	2.0%
Latin America	16.0%	10.0%	6.0%	4.0%	12.0%	11.0%	5.0%
Europe	11.0%	9.0%	2.0%	-1.0%	12.0%	8.0%	3.0%
Africa, Middle East and South Asia (AMESA)	7.0%	6.0%	1.0%	-3.0%	10.0%	2.0%	5.0%
Asia Pacific, Australia and New Zealand and China Region (APAC)	<u>8.0%</u>	<u>2.0%</u>	<u>6.0%</u>	<u>2.0%</u>	<u>6.0%</u>	<u>-2.0%</u>	<u>10.0%</u>
Reported Effective Pricing	10.0%	8.2%	1.8%	4.0%	6.0%	7.0%	3.0%
Currency Impact on Revenue							
Frito-Lay North America (FLNA)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Quaker Foods North America (QFNA)	0.0%	0.0%	0.0%	0.5%	-0.5%	0.0%	0.0%
PepsiCo Beverages North America (PBNA)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Latin America	-3.0%	-4.4%	1.4%	-8.0%	5.0%	-1.0%	-2.0%
Europe	-8.0%	-5.7%	-2.3%	-2.0%	-6.0%	-1.0%	-7.0%
Africa, Middle East and South Asia (AMESA)	-2.0%	-8.6%	6.6%	-1.0%	-1.0%	1.0%	-3.0%
Asia Pacific, Australia and New Zealand and China Region (APAC)	<u>-1.0%</u>	<u>-4.3%</u>	<u>3.3%</u>	<u>8.0%</u>	<u>-9.0%</u>	<u>2.0%</u>	<u>-3.0%</u>
Reported Currency Impact	-1.0%	-1.8%	0.8%	-0.5%	-0.5%	0.0%	-1.0%

Source: Company reports and Wells Fargo Securities, LLC estimates

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. This is a +50% premium to SPX vs historically +20%, reflecting PEP's defensive qualities in the current macro backdrop, but below other large-cap peers with better visibility on earnings.

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.

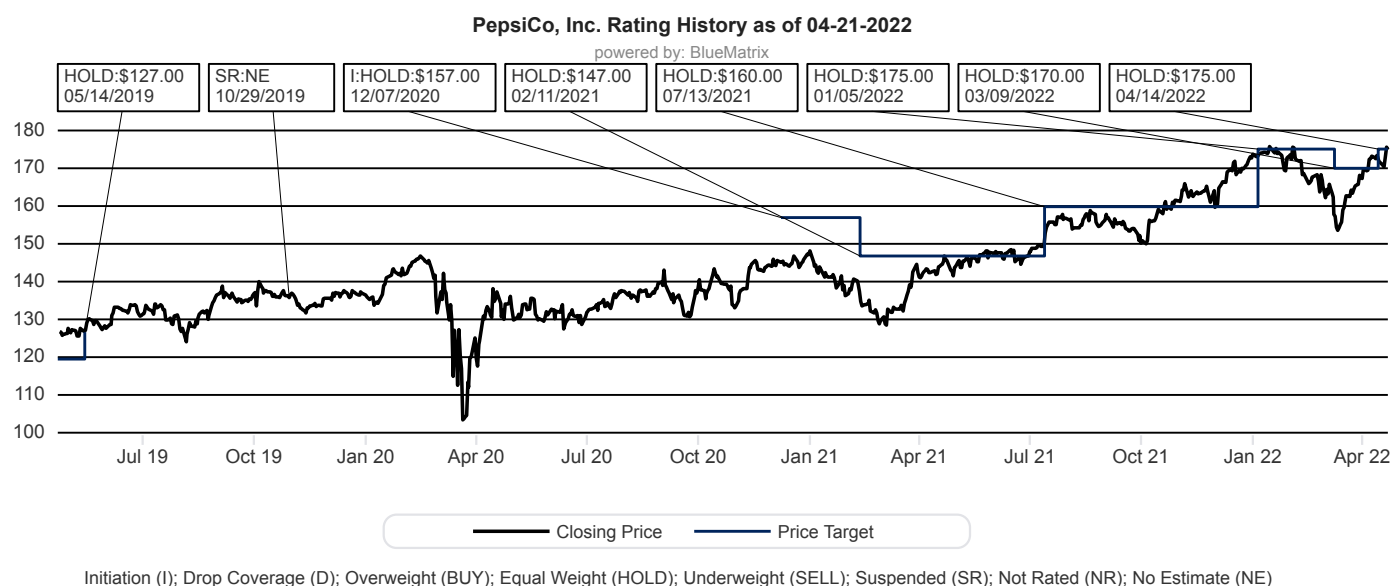
Required Disclosures

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 April 25, 2022

55.4% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Overweight.

37.4% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Equal Weight.

7.2% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Underweight.

Wells Fargo Securities, LLC has provided investment banking services for 51.1% of its Equity Research Overweight-rated companies.

Wells Fargo Securities, LLC has provided investment banking services for 44.2% of its Equity Research Equal Weight-rated companies.

Wells Fargo Securities, LLC has provided investment banking services for 34.8% 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, LLC ("Wells Fargo Securities").

WFS Research 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 WFS 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.

Brazil - This report was not created for distribution to investors resident in Brazil or to the Brazilian public in general. Wells Fargo Securities, LLC is a broker-dealer registered in United States of America with and regulated by the U.S. Securities and Exchange Commission. Wells Fargo Securities, LLC is not registered in Brazil and its products, including this report and the securities mentioned in this report, have not been and will not be publicly issued, placed, distributed, offered or negotiated in the Brazilian capital markets, and, as a result, have not been and will not be registered with the Brazilian Securities Commission (Comissão de Valores Mobiliários, the CVM). The offer of Wells Fargo Securities, LLC's products, including this report and any securities mentioned in this report, is intended only for residents in the countries in which Wells Fargo Securities, LLC is authorized to operate.

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 the time that the report was published, 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 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