

PepsiCo Inc.

1Q20 Earnings Prep

Stock Rating/Industry View: Equal Weight/Neutral

Price Target: USD 136.00

Price (24-Apr-2020): USD 134.36

Potential Upside/Downside: 1%

Tickers: PEP

Current Consensus Expectations

---- 1Q20 ----

- 1Q20 EPS: \$1.03 [\$0.99-\$1.07 range, Barclays = \$1.05]
- 1Q20 sales growth: +2.3% [-5.7% to +4.7% range, Barclays = +2.1%, +4.0% organic]

---- 2020 ----

- 2020 EPS: \$5.68 [\$5.50-\$5.95 range, Barclays = \$5.72]
- 2020 sales growth: +0.8% [-3.7% to +4.4% range, Barclays = flat, +3.2% organic]

---- 2021 ----

- 2021 EPS: \$6.19 [\$5.85-\$6.60 range, Barclays = \$6.16]
- 2021 sales growth: +4.5% [Barclays = +4.2%, +4.2% organic]

Our Thoughts

Down just -2% YTD (vs. XLP -7%), PEP has not seen the same investor exodus as other names across the beverage universe by virtue of the company's relatively lower exposure to disruption from social distancing in the on-premise channel (just 10% of sales globally) and U.S. scanner data pointing to robust consumption across the Frito-Lay and Quaker businesses in off-premise channels through the lockdown, even beyond the peak stockpiling period. In terms of key topics for tomorrow, the impact of COVID-19 on company operations will be important. Additionally, following PEP's acquisition of Rockstar Energy ([03/11/2020: CNBC: PepsiCo to Acquire energy drink maker Rockstar Energy in a \\$3.85bn deal](#)), we will also look for an update around the company's strategy in the energy category.

For 1Q, we look for organic sales to be up +4% assuming on-premise sales are down -11% globally and off-premise sales are up +6% reflecting the lockdown beginning in March. Scanner trends for FLNA reflect sales up +8% in 1Q. (vs. +5% in 2019) with the most recent 2WE 04/04 up +12% (vs. +37% in the 2W prior). Even more strikingly, Quaker is up +18% in 1Q (vs -1% in 2019) with the most recent 2W up +35% (vs. +94% in the 2W prior). Interestingly, while PBNA did benefit from stockpiling towards the beginning of March, trends have slowed down a bit more recently perhaps by virtue of larger pack sizes with longer replenishment cycles and/or a disproportionate hit to convenience store sales given lower traffic in those channels. While sales for 1Q are up 6.5% (vs. +1% in 2019), the most recent 2W is up just +50 bps (vs. +30% in the 2W prior). In terms of our model, in North America, we expect growth to be led by Quaker (+16.5%). We look for FLNA to be up +3.5% and PBNA to be up +1.5% assuming headwinds to the on-premise channel as well as lower foot traffic in untracked convenience stores. Internationally, we model headwinds from lockdowns/social distancing in Europe (+5.5%) beginning in March and Asia-Pac/Australia/NZ/China (+2%) beginning in February. Outside of that, while we expect AMESA (+8%) and Latin America (+6%) to be unimpacted in 1Q, we are modeling headwinds both businesses beginning in 2Q. From a profitability standpoint, we model gross margins up +100 bps including volume leverage from strong demand in March as well as a likely pull back in promotional activity over this period offset by heavier currency headwinds. We look for SG&A to be up +100 bps reflecting continued reinvestment, higher distribution costs in the U.S. in order to keep up with the velocity of sales at retail stores as well as the reversal of a 3c reinsurance related gain in 1Q19.

What Matters Most To Us

- Impact of COVID-19 on consumption for snacks, Quaker and beverages
- Strategy in energy category especially with regards to media reports around Bang Energy
- Updates to 2020 outlook including currency headwinds to top-line and profitability and reinvestment plans
- Raw material supply especially with regards to CO2

Guidance Recap

---- 2020 ----

- Core EPS \$5.88 (+7% constant currency EPS growth and a -1% headwind from currency)
- Organic sales growth +4%
- FX impact sales -1%
- Tax rate approximately 21 percent
- Operating cash flow ~\$11 billion
- CapEx ~5 billion
- Free cash flow ~\$6 billion
- Dividends ~\$5.5 billion
- Share repurchases ~\$2 billion

---- Long Term Guidance ----

- 4% to 6% organic revenue growth
- Operating margin +20 to 30 bps expansion per year
- Core constant currency EPS growth to be in the high single digits
- Productivity of at least \$1 billion annually through 2023
- Core net ROIC increasing
- CapEx to moderate and to return to approximately 5% of revenue by 2022

PEP 1Q20 Earnings Call Details

- Tomorrow (April 28th):
 - § 6:15 a.m. EDT – Pre-recorded Management Prepared Remarks [www.youtube.com/Pepsico]
 - § 8:15 a.m. EDT – Live Management Q&A [Dial-in: 800-540-4194 (U.S.); +1-212-931-9775 (Int'l); Conference ID: 7436268; Passcode: Ruffles]

As always, please feel free to call with any questions or comments.

Best,

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Mentioned Stocks (Ticker, Date, Price)

PepsiCo Inc. (PEP, 24-Apr-2020, USD 134.36), Equal Weight/Neutral, A/CD/CE/D/J/K/L/M

Valuation Methodology: Our \$136 price target is based on a 22x P/E multiple on CY21 EPS of \$6.16.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Upside: 1) Emerging markets (particularly Russia) accelerate, 2) New innovation helps PEP exceed revenue expectations, 3) PEP benefits from domestic tax and fiscal policy changes. Downside: 1) Increases in commodity and fuel prices offer less margin upside, 2) Continued pressure on North America Beverages business, 3) Slowing trends in core Frito business.

Ratings and Price Target History:

PepsiCo Inc.
Currency=USD



PEP
Source: IDC, Barclays Research

Publication Date	Closing Price	Rating	Adjusted Price Target
16-Apr-2020	135.64		136.00
14-Feb-2020	146.99		148.00
04-Oct-2019	140.28		135.00

10-Jul-2019	134.41	125.00
18-Apr-2019	127.09	119.00
15-Feb-2019	115.91	111.00
07-Jan-2019	109.53	104.00
03-Oct-2018	107.52	109.00
11-Jul-2018	112.54	111.00
27-Apr-2018	101.71	108.00
15-Mar-2018	111.99	113.00
14-Feb-2018	109.11	116.00
05-Oct-2017	110.45	113.00
12-Jul-2017	114.77	114.00

On 27-Apr-2017, prior to any intra-day change that may have been published, the rating for this security was Equal Weight, and the adjusted price target was 113.00.

Source: Bloomberg, Barclays Research

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