

Equity Research

WELLS
FARGO

Price Target Change — October 12, 2022

Beverages

PepsiCo, Inc. (PEP)

PEP: PepsiCo 2023...Now the Focus

Our Call

Q322 was marked by +16% organic sales growth, driven by pricing +17% but nevertheless with just -1% volume impact as elasticities remain low. SG&A stayed in check, and EPS beat handily ([first take](#)). 2022 seems a wrap with a doable Q4 (guide implies investment), with the PEP story now firmly on 2023, in our view. Here, the shape of results will be different — pricing to counteract commodity/FX/other inflation will remain, but much less so vs 2022; PEP will need to slow the rate of SG&A increases relative to recent years, unless it over-delivers on organic sales again; and, the company will be lapping the benefit of an extra week in N. America in Q4. Scope of beats may narrow with multiple expansion tougher. That said, PEP has its hands firmly on the wheel of its own destiny here.

Raise estimates. FY22e/FY23e EPS is +\$0.08/\$0.07 to \$6.75/\$7.23, on higher sales (Q3 over-delivery, raising Q4), with margins in both years generally unchanged.

Raise target. We go up \$2 to \$174, flowing higher EPS on unchanged 24x CY23e EPS (past 3/5/10/20yr NTM P/E avg 23.9/22.7/20.1/19.6x). We stay Equal Weight — PEP is demonstrating its qualities and will likely prove an outlier this EPS season. Upside seems to depend on multiple expansion, however, more difficult in this market.

Confirmation on incremental pricing in Q422. This should wrap into 2023, and we expect pricing to remain the key driver of organic sales growth (even if lesser vs 2022). We model 2023 organic sales +6% y/y with pricing +5% and volume +1%.

Inflation likely to carry into FY23. Commodity inflation was a -42% headwind to op profit in Q3, or a 14.5% impact to COGS. Based on our commodity model, we see +11.8%/+4.8% to COGS in FY22/FY23 — i.e., inflation slowing in FY23, but not reversing. PEP hedges 6-9 months ahead, so most of the FY23 commodity bucket is unhedged.

This will temper gross margin expansion. We updated our GM bridge (see herein) and continue to model FY23 gross margin expansion +25bps. Drivers: price/mix +220bps, volume leverage +10bps, FX -20bps, productivity +60bps, commodities -220bps, other -30bps. Recall: our model assumes pricing offsets commodities in \$, but not on margin.

SG&A increases will need to slow into 2023. We think PEP will need to manage SG&A a bit tighter to hit our +7% EPS growth in 2023 (~+9.5% ex FX). Perspective: we model SG&A +1.9% in FY23, which is below the +7.5% CAGR since 2018 (see note). Key FY23 assumptions: distribution costs +5% (even with DSD labor inflation currently running +MSD-HSD, so that may prove aggressive), ad spend/R&D/share-based comp +2.8% (all flat as % of sales), with "other SG&A" -2.5% (all much slower vs recent trends). Should FY23 SG&A grow +7.5%, PEP would need another +2pts of top-line growth vs our model to keep earnings unchanged (i.e., over deliver on organic sales algorithm - not out of the question, but something to monitor).

53rd week headwind in FY23. Due to timing of its fiscal year-end, PEP will benefit from an extra week in North America in Q422. Recall this is expected to mitigate the FY22 earnings dilution from the Tropicana divestiture. The calendar shifts back to 52 weeks in FY23. Unmitigated, this is a 1-2pt headwind to FY23 EPS growth. This dynamic in N. America last happened in Q416 (extra week benefit) and Q417 (headwind from one less week).

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Rating	Equal Weight
Ticker	PEP
Price Target/Prior:	\$174.00/\$172.00
Upside/(Downside) to Target	2.7%
Price (10/12/2022)	\$169.39
52 Week Range	\$153.37 - 181.07
Shares Outstanding	1,380,084,844
Market Cap (MM)	\$233,773
Enterprise Value (MM)	\$266,500
Average Daily Volume	4,561,957
Average Daily Value (MM)	\$773
Dividend (NTM)	\$4.60
Dividend Yield	2.7%
Net Debt (MM) - last reported	\$32,727
ROIC - Current year est.	15%
3 Yr EPS CAGR from current year (unless otherwise noted)	8%

\$	2021A	2022E	2022E	2023E	2023E
EPS		Curr.	Prior	Curr.	Prior
Q1 (Mar)	1.21 A	1.29 A	NC	1.42 E	1.41 E
Q2 (Jun)	1.72 A	1.86 A	NC	2.03 E	1.97 E
Q3 (Sep)	1.79 A	1.97 A	1.85 E	2.14 E	1.98 E
Q4 (Dec)	1.53 A	1.63 E	1.67 E	1.64 E	1.79 E
FY	6.26 A	6.75 E	6.67 E	7.23 E	7.16 E
P/E	27.0x	25.1x		23.4x	

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

Exhibit 1 - PEP's gross margin bridge

	FY20	Q121	Q221	Q321	Q421	FY21	Q122	Q222	Q322	Q422E	FY22E	Q123E	Q223E	Q323E	Q423E	FY23E	FY24E	FY25E
WFS Estimates (\$mn)																		
Net Revenue	70,372	14,820	19,217	20,189	25,248	79,474	16,200	20,225	21,971	26,606	85,002	16,680	20,667	22,775	26,829	86,952	91,230	95,765
Cost of Sales	31,799	6,705	8,877	9,370	12,054	37,006	7,321	9,436	10,242	12,729	39,728	7,571	9,622	10,526	12,702	40,420	41,953	43,560
Gross Profit	38,573	8,115	10,340	10,819	13,194	42,468	8,879	10,789	11,729	13,877	45,274	9,109	11,046	12,249	14,128	46,531	49,277	52,205
Gross Margin	54.8%	54.8%	53.8%	53.6%	52.3%	53.4%	54.8%	53.3%	53.4%	52.2%	53.3%	54.6%	53.4%	53.8%	52.7%	53.5%	54.0%	54.5%
Change (bps)	(46)	(139)	(178)	(118)	(121)	(138)	5	(46)	(20)	(10)	(17)	(20)	10	40	50	25	50	50
WFS vs Street																		
WFS Gross Margin %	54.8%	54.8%	53.8%	53.6%	52.3%	53.4%	54.8%	53.3%	53.4%	52.2%	53.3%	54.6%	53.4%	53.8%	52.7%	53.5%	54.0%	54.5%
Street Gross Margin %	54.8%	54.8%	53.8%	53.6%	52.3%	53.4%	54.8%	53.3%	53.4%	52.2%	53.3%	55.0%	53.7%	53.6%	52.5%	53.6%	53.9%	54.1%
WFS vs Street GM (bps)										2	4	(41)	(25)	17	12	(5)	16	42
Gross Margin Bridge (bps)																		
Price/Mix	88	169	212	215	304	215	411	495	674	502	531	321	332	171	113	223	126	126
Volume Leverage	23	(11)	69	43	54	43	31	11	(11)	(46)	(8)	(10)	(24)	23	43	11	23	23
FX	12	26	28	2	0	12	0	48	(1)	(37)	1	(3)	(18)	(28)	(19)	(19)	0	0
Productivity	71	63	63	63	63	63	76	76	76	76	76	58	58	58	58	58	55	52
Commodities	0	(72)	(105)	(211)	(293)	(186)	(405)	(564)	(620)	(460)	(516)	(469)	(311)	(104)	(95)	(220)	127	16
Other	(239)	(314)	(445)	(230)	(250)	(285)	(108)	(113)	(140)	(46)	(101)	84	(26)	(80)	(49)	(28)	(281)	(168)
Gross Margin Change	(46)	(139)	(178)	(118)	(121)	(138)	5	(46)	(20)	(10)	(17)	(20)	10	40	50	25	50	50

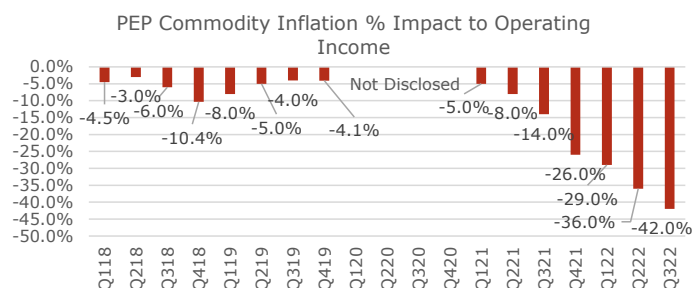
Source: Company reports and Wells Fargo Securities, LLC estimates

Exhibit 2 - PEP's SG&A bridge

SG&A Breakdown (\$mn)	2018	2019	2020	2021	2022E	2023E	2024E	2025E	Assumptions
Net Revenue	64,661	67,161	70,372	79,474	85,002	86,952	91,230	95,765	
Operating Profit	10,620	10,600	10,531	11,414	12,181	13,009	13,961	15,002	
SG&A									
Distribution Costs	10,500	10,900	11,900	13,700	15,070	15,824	16,615	17,445	
Advertising & Other Marketing	4,200	4,700	4,600	5,100	5,100	5,217	5,474	5,746	
R&D	680	711	719	752	804	823	863	906	
Share-Based Comp	276	245	275	321	343	351	368	387	
Other SG&A	9,090	9,963	10,548	11,181	11,775	11,307	11,995	12,719	
Total SG&A	24,746	26,519	28,042	31,054	33,093	33,522	35,315	37,203	
% of Sales									
Distribution Costs	16.2%	16.2%	16.9%	17.2%	17.7%	18.2%	18.2%	18.2%	
Advertising & Other Marketing	6.5%	7.0%	6.5%	6.4%	6.0%	6.0%	6.0%	6.0%	Hold flat as % of sales FY23-FY25
R&D	1.1%	1.1%	1.0%	0.9%	0.9%	0.9%	0.9%	0.9%	Hold flat as % of sales
Share-Based Comp	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	Hold flat as % of sales
Other SG&A	14.1%	14.8%	15.0%	14.1%	13.9%	13.0%	13.1%	13.3%	
Total SG&A	38.3%	39.5%	39.8%	39.1%	38.9%	38.6%	38.7%	38.8%	
y/y Change (%)									
Distribution Costs		3.8%	9.2%	15.1%	10.0%	5.0%	5.0%	5.0%	Assume +10% growth in FY22, then +5% thereafter
Advertising & Other Marketing		11.9%	-2.1%	10.9%	0.0%	2.3%	4.9%	5.0%	Assume flat in FY22
R&D		4.6%	1.1%	4.6%	7.0%	2.3%	4.9%	5.0%	
Share-Based Comp		-11.2%	12.2%	16.7%	7.0%	2.3%	4.9%	5.0%	
Other SG&A		9.6%	5.9%	6.0%	5.3%	-4.0%	6.1%	6.0%	Implies Other SG&A +5.3% y/y in FY22 and -4.0% in FY23
Total SG&A		7.2%	5.7%	10.7%	6.6%	1.3%	5.4%	5.3%	
y/y Change (\$)									
Distribution Costs		400	1,000	1,800	1,370	754	791	831	
Advertising & Other Marketing		500	(100)	500	0	117	257	272	
R&D		31	8	33	52	18	40	43	
Share-Based Comp		(31)	30	46	22	8	17	18	
Other SG&A		873	585	633	594	(468)	688	724	
Total SG&A		1,773	1,523	3,012	2,039	429	1,794	1,888	

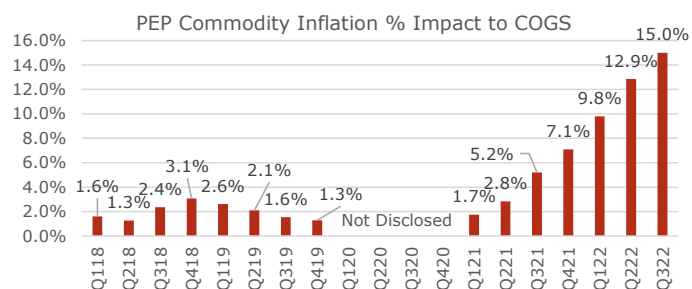
Source: Company reports and Wells Fargo Securities, LLC estimates

Exhibit 3 - Commodities were a -42pt headwind to op. profit in Q322...



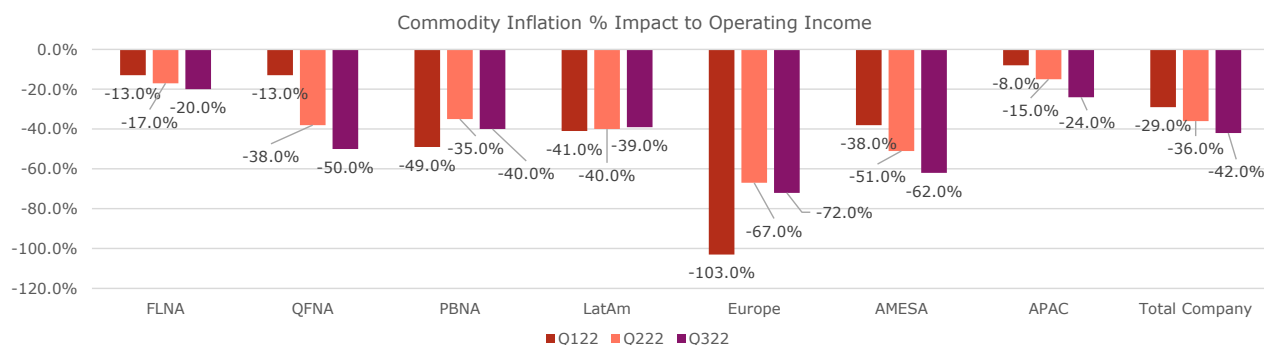
Source: Company reports and Wells Fargo Securities, LLC

Exhibit 4 - ... which translates to a 12.9% impact to COGS



Source: Company reports and Wells Fargo Securities, LLC

Exhibit 5 - The headwind from commodities worsened in Q3 in 6 of 7 segments



Source: Company reports and Wells Fargo Securities, LLC

Exhibit 6 - PEP guidance vs WFSe

FY 2022 Guidance							Our FY23 Estimate
Guidance Provided as of:	Q321 Earnings October 5, 2021	Q421 Earnings February 10, 2022	Q122 Earnings April 26, 2022	Q222 Earnings July 12, 2022	Q322 Earnings October 12, 2022	Our Estimate	
Sales							
Organic Revenue Growth	+4-6%	+6%	+8%	+10%	+12%	12.4%	6.0%
Currency Impact on Revenue		-1.5%	-2%	-2%	-2.5%	-2.7%	-2.0%
Tropicana Divestiture						-3.8%	-0.3%
Extra Week						1.4%	0.0%
Margins							
Gross Margin		"pretty well intact"	"pretty level"			-17 bps	25 bps
Operating Margin		"pretty well intact"	"pretty level"			-3 bps	63 bps
EPS							
EPS		\$6.67	\$6.63	\$6.63	\$6.73	\$6.75	\$7.23
EPS Growth - Constant Currency	+HSD%	+8%	+8%	+8%	+10%	10.1%	9.2%
Currency Impact on EPS		-1.5%	-2%	-2%	-2.5%	-2.3%	-2.2%
Other Items							
Tax Rate		20%	20%	20%	20%	20.2%	21.0%
Dividends		\$6.2bn	\$6.2bn	\$6.2bn	\$6.2bn	\$6.2bn	\$6.6bn
Share Repurchases		\$1.5bn	\$1.5bn	\$1.5bn	\$1.5bn	\$1.5bn	\$2.0bn

Source: Company reports and Wells Fargo Securities, LLC estimates

Financials

	2020	1Q21	2Q21	3Q21	4Q21	2021	1Q22	2Q22	3Q22	4Q22E	2022E	1Q23E	2Q23E	3Q23E	4Q23E	2023E	2024E
Total Net Revenue	70,372	14,820	19,217	20,189	25,248	79,474	16,200	20,225	21,971	26,606	85,002	16,680	20,667	22,775	26,829	86,952	91,230
Cost of Sales (GAAP)	31,797	6,671	8,880	9,394	12,130	37,075	7,433	9,415	10,308	12,729	39,885	7,571	9,622	10,526	12,702	40,420	41,953
Cost of Sales	31,799	6,705	8,877	9,370	12,054	37,006	7,321	9,436	10,242	12,729	39,728	7,571	9,622	10,526	12,702	40,420	41,953
% of sales	45.2%	45.2%	46.2%	46.4%	47.7%	46.6%	45.2%	46.7%	46.6%	47.8%	46.7%	45.4%	46.6%	46.2%	47.3%	46.5%	46.0%
Gross Profit (GAAP)	38,575	8,149	10,337	10,795	13,118	42,399	8,767	10,810	11,663	13,877	45,117	9,109	11,046	12,249	14,128	46,531	49,277
Gross Profit	38,573	8,115	10,340	10,819	13,194	42,468	8,879	10,789	11,729	13,877	45,274	9,109	11,046	12,249	14,128	46,531	49,277
% of sales	54.8%	54.8%	53.8%	53.6%	52.3%	53.4%	54.8%	53.3%	53.4%	52.2%	53.3%	54.6%	53.4%	53.8%	52.7%	53.5%	54.0%
Change (bps)	(46)	(139)	(178)	(118)	(121)	(138)	5	(46)	(20)	(10)	(17)	(20)	10	40	50	25	50
Selling, general and administrative expenses (GAAP)	28,495	5,837	7,208	7,636	10,556	31,237	6,822	7,387	8,295	11,091	33,595	6,541	7,400	8,371	11,211	33,522	35,315
Selling, general and administrative expenses	28,042	5,851	7,171	7,578	10,454	31,054	6,487	7,381	8,134	11,091	33,083	6,541	7,400	8,371	11,211	33,522	35,315
% of sales	39.8%	39.5%	37.3%	37.5%	41.4%	39.1%	40.0%	36.5%	37.0%	41.7%	38.9%	39.2%	35.8%	36.8%	41.8%	38.6%	38.7%
Change (bps)	36	(137)	(249)	(42)	62	(77)	56	(82)	(51)	28	(14)	(83)	(69)	(27)	10	(38)	16
Divested/Impaired and Restructuring							(3,322)	1,346	15	-	(1,961)						
Operating profit (GAAP)	10,080	2,312	3,129	3,159	2,562	11,162	5,267	2,077	3,353	2,786	13,483	2,568	3,646	3,879	2,917	13,009	13,961
Operating Profit	10,531	2,264	3,169	3,241	2,740	11,414	2,392	3,408	3,595	2,786	12,181	2,568	3,646	3,879	2,917	13,009	13,961
% of sales	15.0%	15.3%	16.5%	16.1%	10.9%	14.4%	14.8%	16.9%	16.4%	10.5%	14.3%	15.4%	17.6%	17.0%	10.9%	15.0%	15.3%
Change (bps)	(62)	(2)	71	(77)	(184)	(60)	(51)	36	31	(38)	(3)	63	79	67	40	63	34
Other Pension and Post-Retirement Income (Expense) - GAAP	117	120	126	118	158	522	134	(2)	36	160	328	135	130	95	162	522	527
Other Pension and Post-Retirement Income (Expense)	342	126	125	119	174	544	124	132	95	160	511	135	130	95	162	522	527
Interest (expense) income - GAAP	(1,128)	(258)	(241)	(232)	(1,132)	(1,863)	(240)	(236)	(190)	(196)	(862)	(195)	(194)	(194)	(193)	(776)	(764)
Interest (expense) income	(1,128)	(258)	(241)	(232)	(290)	(1,021)	(240)	(236)	(190)	(196)	(862)	(195)	(194)	(194)	(193)	(776)	(764)
Income before Income Taxes	9,069	2,174	3,014	3,045	1,588	9,821	5,161	1,839	3,199	2,750	12,949	2,508	3,581	3,780	2,886	12,756	13,725
Income before income Taxes	9,745	2,132	3,053	3,128	2,624	10,937	2,276	3,304	3,500	2,750	11,830	2,508	3,581	3,780	2,886	12,756	13,725
% of sales	13.8%	14.4%	15.9%	15.5%	10.4%	13.8%	14.0%	16.3%	15.9%	10.3%	13.9%	15.0%	17.3%	16.6%	10.8%	14.7%	15.0%
Provision for Income Taxes (GAAP)	1,894	451	642	802	247	2,142	888	393	475	468	2,224	527	752	794	606	2,679	2,882
Provision for Income Taxes	2,002	439	647	626	475	2,187	469	703	745	468	2,385	527	752	794	606	2,679	2,882
Effective tax rate	20.5%	20.6%	21.2%	20.0%	18.1%	20.0%	20.6%	21.3%	21.3%	17.0%	20.2%	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	4,273	1,446	2,724	2,283	10,726	1,982	2,829	2,986	2,280	10,077	10,842
Net Income	7,743	1,693	2,406	2,502	2,149	8,750	1,807	2,601	2,755	2,283	9,446	1,982	2,829	2,986	2,280	10,077	10,842
Less: Net Income Attributable to Noncontrolling Interests (GAAP)	55	9	14	19	19	61	12	17	22	16	67	14	20	21	16	71	76
Less: Net Income Attributable to Noncontrolling Interests	55	9	14	19	19	62	12	18	22	16	68	14	20	21	16	71	76
% of Consolidated Net Income	0.7%	0.5%	0.6%	0.8%	0.9%	0.7%	0.7%	0.7%	0.8%	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	4,261	1,429	2,702	2,267	10,659	1,968	2,809	2,965	2,264	10,006	10,767
Net Income Attributable to PepsiCo	7,688	1,684	2,392	2,483	2,129	8,688	1,795	2,583	2,733	2,267	9,378	1,968	2,809	2,965	2,264	10,006	10,767
EPS (GAAP)	\$5.11	\$1.24	\$1.70	\$1.60	\$0.95	\$5.48	\$3.06	\$1.03	\$1.95	\$1.63	\$7.68	\$1.42	\$2.03	\$2.14	\$1.64	\$7.23	\$7.80
EPS (Non-GAAP)	\$5.52	\$1.21	\$1.72	\$1.79	\$1.53	\$6.26	\$1.29	\$1.86	\$1.97	\$1.63	\$6.75	\$1.42	\$2.03	\$2.14	\$1.64	\$7.23	\$7.80
Basic Average Shares Outstanding	1,385	1,380	1,382	1,382	1,384	1,382	1,383	1,382	1,380	1,379	1,381	1,378	1,377	1,376	1,375	1,376	1,372
Diluted Average Shares Outstanding	1,392	1,387	1,388	1,389	1,390	1,389	1,391	1,389	1,387	1,386	1,388	1,385	1,384	1,383	1,382	1,384	1,380
Depreciation & Amortization Expense	2,548.0	560.0	653.0	650.0	847.0	2,710.0	555.0	640.0	659.0	900.8	2,754.8	619.6	699.9	724.9	866.2	3,030.7	3,429.8
EBITDA	13,079.0	2,824.0	3,822.0	3,891.0	3,587.0	14,124.0	2,947.0	4,048.0	4,254.0	3,686.7	14,935.7	3,187.7	4,345.7	4,603.5	3,903.3	16,040.1	17,391.2
EBITDA Margin	18.6%	19.1%	19.9%	19.3%	14.2%	17.8%	18.2%	20.0%	19.4%	13.9%	17.6%	19.1%	21.0%	20.2%	14.5%	18.4%	19.1%
EBITDA per Share	\$9.40	\$2.04	\$2.75	\$2.80	\$2.58	\$10.17	\$2.12	\$2.91	\$3.07	\$2.66	\$10.76	\$2.30	\$3.14	\$3.33	\$2.82	\$11.59	\$12.60
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	1Q22	2Q22	3Q22	4Q22E	2022E	1Q23E	2Q23E	3Q23E	4Q23E	2023E	2024E
Growth Rates Y/Y																	
Net Revenue	4.8%	6.8%	20.5%	11.6%	12.4%	12.9%	9.3%	5.2%	8.8%	5.4%	7.0%	3.0%	2.2%	3.7%	0.8%	2.3%	4.9%
Organic Net Revenue (Ex-Currency)	4.3%	2.4%	12.8%	9.0%	11.9%	9.5%	13.7%	13.0%	16.0%	7.7%	12.4%	6.7%	5.5%	5.9%	6.1%	6.0%	4.9%
Costs of Sales	5.9%	10.2%	25.3%	14.5%	15.4%	16.4%	9.2%	6.3%	9.3%	5.6%	7.4%	3.4%	2.0%	2.8%	-0.2%	1.7%	3.8%
Gross Profit	3.9%	4.1%	16.7%	9.2%	9.9%	10.1%	9.4%	4.3%	8.4%	5.2%	6.6%	2.6%	2.4%	4.4%	1.8%	2.8%	5.9%
Selling, general and administrative expenses	5.7%	3.2%	13.0%	10.4%	14.2%	10.7%	10.9%	2.9%	7.3%	6.1%	6.6%	0.8%	0.3%	2.9%	1.1%	1.3%	5.4%
Amortization of intangible assets																	
EBITDA	0.4%	6.3%	23.1%	6.5%	-2.2%	8.0%	4.4%	5.9%	9.3%	2.8%	5.7%	8.2%	7.4%	8.2%	5.9%	7.4%	8.4%
Total Operating Profits	-0.7%	6.8%	26.0%	6.5%	-3.8%	8.4%	5.7%	7.5%	10.9%	1.7%	6.7%	7.4%	7.0%	7.9%	4.7%	6.8%	7.3%
Operating Profit (Ex-Currency)	1.0%	7.0%	22.0%	5.0%	-4.0%	7.0%	6.0%	10.0%	14.0%	4.5%	9.0%	9.4%	10.1%	10.6%	5.3%	9.0%	7.3%
Income before Income Taxes	-1.5%	11.3%	29.0%	9.1%	1.0%	12.2%	6.8%	8.2%	11.9%	4.8%	8.2%	10.2%	8.4%	8.0%	4.9%	7.8%	7.6%
Net Income	-0.9%	12.0%	30.1%	7.5%	4.6%	13.0%	6.7%	8.1%	10.1%	6.2%	7.9%	9.7%	8.8%	8.4%	-0.1%	6.7%	7.6%
EPS	0.0%	13.1%	30.6%	7.5%	4.2%	13.4%	6.3%	7.9%	10.2%	6.7%	7.8%	10.1%	9.2%	8.8%	0.2%	7.0%	7.9%
EPS (Ex-Currency)	2.0%	14.0%	27.0%	5.5%	4.0%	12.0%	7.0%	10.0%	14.0%	9.6%	10.1%	12.1%	12.3%	11.5%	0.8%	9.2%	7.9%
Shares Outstanding - Diluted	-1.1%	-0.6%	-0.4%	-0.1%	0.1%	-0.2%	0.3%	0.1%	-0.1%	-0.3%	0.0%	-0.4%	-0.4%	-0.3%	-0.3%	-0.3%	-0.3%
Interest (Expense) Income	20.6%	-11.0%	2.6%	-12.1%	-14.5%	-9.5%	-7.0%	-2.1%	-18.1%	-32.5%	-15.6%	-18.7%	-17.6%	1.9%	-1.5%	-10.0%	-1.5%

Margins	2020	1Q21	2Q21	3Q21	4Q21	2021	1Q22	2Q22	3Q22	4Q22E	2022E	1Q23E	2Q23E	3Q23E	4Q23E	2023E	2024E
Gross Margin	54.8%	54.8%	53.8%	53.6%	52.3%	53.4%	54.8%	53.3%	53.4%	52.2%	53.3%	54.6%	53.4%	53.8%	52.7%	53.5%	54.0%
EBITDA Margin	18.6%	19.1%	19.9%	19.3%	14.2%	17.8%	18.2%	20.0%	19.4%	13.9%	17.6%	19.1%	21.0%	20.2%	14.5%	18.4%	19.1%
Operating Margin	15.0%	15.3%	16.5%	16.1%	10.9%	14.4%	14.8%	16.9%	16.4%	10.5%	14.3%	15.4%	17.6%	17.0%	10.9%	15.0%	15.3%
Operating Expense Leverage	-1.7%	-3.8%	3.2%	2.5%	-3.5%	0.1%	4.8%	4.6%	3.5%	2.9%	4.0%	0.0%	0.0%	0.0%	0.0%	1.4%	1.5%
Net Margin	11.0%	11.4%	12.5%	12.4%	8.5%	11.0%	11.2%	12.9%	12.5%	8.6%	11.1%	11.9%	13.7%	13.0%	8.5%	11.6%	11.9%
Minority interest % of consolidated net income	0.7%	0.5%	0.6%	0.8%	0.9%	0.7%	0.7%	0.7%	0.8%	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%	20.8%	18.1%	20.0%	20.6%	21.3%	21.3%	17.0%	20.2%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%

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: \$174.00 from \$172.00

Our \$174 price target is based on a 24x P/E multiple to our CY23 EPS estimate. This is a +50% premium to SPX vs. historically +25%, 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 include (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 include: (1) PBNA margins accelerating could drive upside to earnings, and (2) a faster global recovery, which would drive PEP's foodservice business.

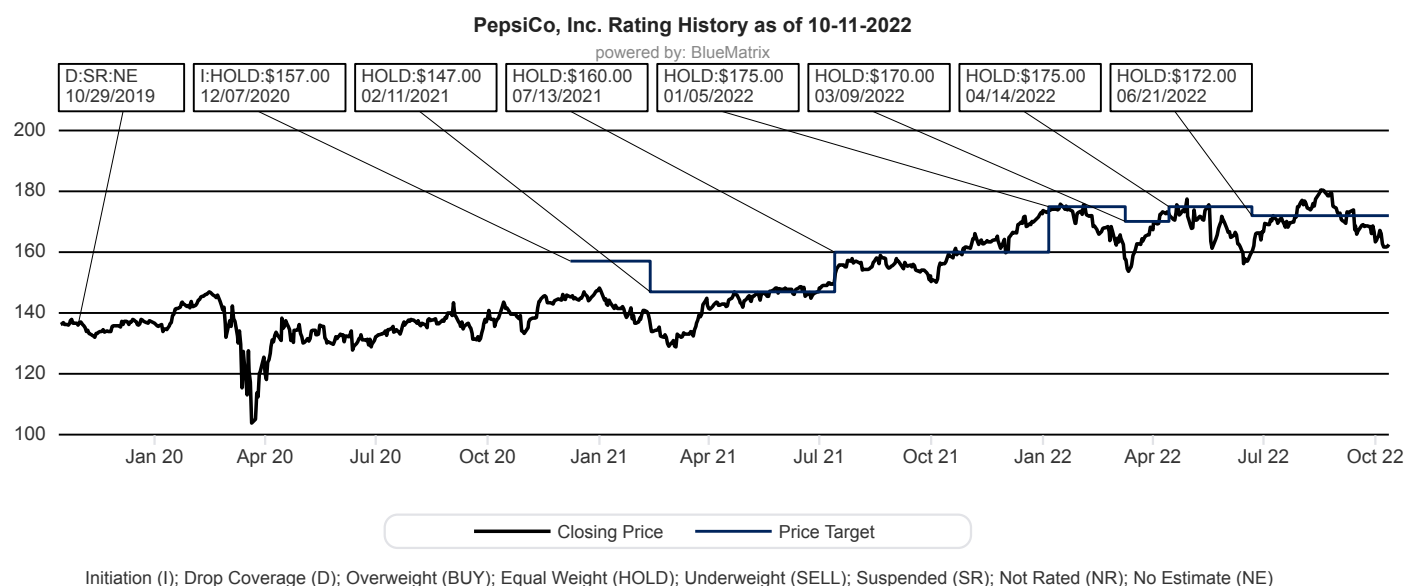
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2=Equal Weight: Total return on stock expected to be -10% to +10% over the next 12 months. HOLD

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 October 11, 2022

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