



PepsiCo Inc.

## 2Q21 Earnings Preview

Staples performance YTD has been lackluster relative to the broader market this year (XLP +4% vs. SPX +16%), and while there has been some moderate progress broadly PEP comes to mind in particular as a somewhat perplexing laggard. The company continues to have among the best earnings visibility within the group, and yet shares haven't made much headway in narrowing the gap to its historical relative valuation since we upgraded the stock in March (see *More Flavor to Savor*, published 03/22/21). PEP's current premium to Large-Cap Staples is nearly half a turn below the 3-year average and its discount to Large-Cap Beverages more than 2.5x greater than the 3-year average.

We have considerable confidence in PEP's ability to post solid 2Q results and deliver on its full-year guidance with plenty of flexibility, contrasting with the uncertainty that persists for many other large/mega-cap Staples names. While potential inflationary pressures were somewhat of an open question following our upgrade, we have since grown comfortable with PEP's hedge book, not to mention the US businesses' ability to generate price/mix and noting the beverage industry's current rational pricing environment. We can also reasonably see PBNA margins returning to 12-13% by FY23 (excludes any upside from success in Energy category). Though the trajectory is dependent in part on in-market performance, recent market share gains are a positive sign. Beyond PBNA, FLNA's capacity will buildout will allow the business to pursue growth opportunities via incremental distribution & package mix (e.g. immediate consumption or variety packs for more permissible snacking brands). We believe FLNA's growth could accelerate by as much as 100bps as capacity constraints abate.

### PEP: Quarterly and Annual EPS (USD)

	2020			2021			2022			Change y/y
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2021	2022	
Q1	1.07A	1.21A	1.21A	1.21A	1.29E	1.29E	1.28E	13%	7%	
Q2	1.32A	1.49E	1.49E	1.53E	1.61E	1.61E	1.65E	13%	8%	
Q3	1.66A	1.79E	1.79E	1.76E	1.95E	1.95E	1.90E	8%	9%	
Q4	1.47A	1.63E	1.63E	1.60E	1.76E	1.76E	1.78E	11%	8%	
Year	5.53A	6.13E	6.13E	6.09E	6.61E	6.61E	6.59E	11%	8%	
P/E	27.0		24.3			22.5				

Source: Barclays Research.

Consensus numbers are from Bloomberg received on 02-Jul-2021; 12:50 GMT

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PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 4.

### Equity Research

Consumer | U.S. CHPC & Beverages  
6 July 2021

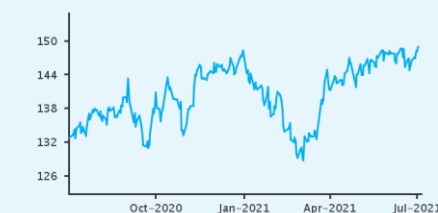
Stock Rating	<b>OVERWEIGHT</b> Unchanged
Industry View	<b>NEUTRAL</b> Unchanged
Price Target	<b>USD 155.00</b> Unchanged

Price (02-Jul-2021)	USD 148.91
Potential Upside/Downside	+4.1%
Tickers	PEP

Market Cap (USD mn)	205739
Shares Outstanding (mn)	1381.63
Free Float (%)	99.82
52 Wk Avg Daily Volume (mn)	4.7
Dividend Yield (%)	2.89
Return on Equity TTM (%)	54.69
Current BVPS (USD)	10.09

Source: Bloomberg

Price Performance	Exchange-NYSE
52 Week range	USD 149.78-128.32



Source: IDC; Link to Barclays Live for interactive charting

### U.S. CHPC & Beverages

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U.S. CHPC & Beverages	Industry View: NEUTRAL
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<b>PepsiCo Inc. (PEP)</b>	<b>Stock Rating: OVERWEIGHT</b>
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Income statement (\$mn)	2020A	2021E	2022E	2023E	CAGR
Revenue	70,372	74,927	78,547	82,418	5.4%
EBITDA (adj)	13,079	14,185	15,233	16,353	7.7%
EBIT (adj)	10,531	11,410	12,324	13,301	8.1%
Pre-tax income (adj)	9,745	10,800	11,632	12,611	9.0%
Net income (adj)	7,688	8,499	9,145	9,919	8.9%
EPS (adj) (\$)	5.53	6.13	6.61	7.18	9.1%
Diluted shares (mn)	1,391.4	1,387.0	1,384.5	1,380.5	-0.3%
DPS (\$)	4.21	4.54	4.90	5.29	7.9%

Margin and return data	Average				
Gross margin (%)	54.8	54.5	54.8	55.0	54.8
EBITDA (adj) margin (%)	18.6	18.9	19.4	19.8	19.2
EBIT (adj) margin (%)	15.0	15.2	15.7	16.1	15.5
Pre-tax (adj) margin (%)	13.8	14.4	14.8	15.3	14.6
Net (adj) margin (%)	10.9	11.3	11.6	12.0	11.5
ROIC (%)	13.7	17.0	17.7	18.3	16.7
ROA (%)	9.0	10.8	11.2	11.5	10.6
ROE (%)	54.1	57.5	54.6	55.3	55.4

Balance sheet and cash flow (\$mn)	CAGR				
Cash and equivalents	8,185	9,964	11,521	12,488	15.1%
Total assets	92,918	83,252	87,274	91,575	-0.5%
Short and long-term debt	44,150	43,806	43,731	43,656	-0.4%
Total liabilities	79,366	67,250	69,797	73,191	-2.7%
Net debt/(funds)	34,599	32,476	30,844	29,802	-4.9%
Shareholders' equity	13,552	16,002	17,477	18,385	10.7%
Change in working capital	339	169	239	255	-9.0%
Cash flow from operations	10,316	12,293	13,154	14,099	11.0%
Capital expenditure	-4,240	-4,121	-3,927	-4,121	N/A
Free cash flow	6,076	8,172	9,227	9,978	18.0%

Valuation and leverage metrics	Average				
P/E (adj) (x)	27.0	24.3	22.5	20.7	23.6
EV/sales (x)	3.4	3.2	3.0	2.8	3.1
EV/EBITDA (adj) (x)	18.2	16.7	15.4	14.3	16.1
EV/EBIT (adj) (x)	22.6	20.7	19.0	17.6	20.0
Equity FCF yield (%)	2.9	4.0	4.5	4.9	4.1
P/BV (x)	15.3	12.9	11.8	11.2	12.8
Dividend yield (%)	2.8	3.0	3.3	3.6	3.2
Total debt/capital (%)	76.5	73.2	71.4	70.4	72.9
Net debt/EBITDA (adj) (x)	2.6	2.3	2.0	1.8	2.2

Selected operating metrics	Average				
Organic sales growth (%)	4.4	4.4	4.9	4.9	4.6
Volume growth (%)	2.1	1.8	2.3	2.3	2.1
Price growth (%)	2.2	2.6	2.6	2.6	2.5

Price (02-Jul-2021) **USD 148.91**  
 Price Target **USD 155.00**

**Why Overweight?** We see PEP as a multi-year stock appreciation story with not just clear visibility into achieving its algorithm in 2021 but also a viable path to accelerating top-line and profit delivery longer-term.

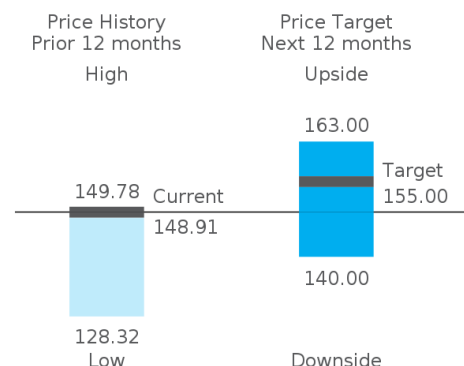
**Upside case** **USD 163.00**

Our upside case assumes PEP trades at a +14.5% premium to Large-Cap Staples peers on our upside CY21 EPS of \$6.17.

**Downside case** **USD 140.00**

Our downside case assumes PEP trades at a peer multiple to Large-Cap Staples peers on our downside CY21 EPS of \$6.09.

#### Upside/Downside scenarios



Source: Company data, Bloomberg, Barclays Research  
 Note: FY End Dec

For the quarter itself, we look for organic sales to grow +6.2% with volumes up +3.4% and a ~280 bps tailwind from price/mix. In North America, we expect growth to be led by PBNA (+10% OSG) driven by HSD volume growth as the business laps an easy Covid comp and stronger mix as reopenings progress (particularly in the US). We anticipate FLNA to grow +6%, with the majority attributable to favorable price/mix dynamics. In contrast, we model a -14% organic sales decline in Quaker as it laps a robust +23% from 2Q20 supported by pantry loading. In international markets, we anticipate AMESA will lead the footprint in growth (+10%) that is entirely a reflection of volumetric recovery during the period vs. year-ago levels. Trailing AMESA are Europe (+7%) and Latin America (+5%). We expect aggregate Asia Pacific to decline -5%, but we note the region was an outlier among the international business last spring having grown +15% in 2Q20. With respect to margins, we expect gross margins to contract nearly 100 bps, with a continued drag from the Pioneer transaction. The GM compression is offset by lower forecasted SG&A as percent of revenue, translating to flat operating margin YoY at 15.8%. All-in, we anticipate 2Q EPS of \$1.49.

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**PepsiCo Inc.** (PEP, 02-Jul-2021, USD 148.91), Overweight/Neutral, A/CD/CE/D/E/I/K/L/M

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Constellation Brands (STZ)	Coty Inc. (COTY)	Duckhorn Portfolio Inc (NAPA)
Edgewell Personal Care Company (EPC)	Energizer Holdings, Inc (ENR)	International Flavors & Fragrances (IFF)

## IMPORTANT DISCLOSURES

Keurig Dr Pepper (KDP)	Kimberly-Clark Corp. (KMB)	Molson Coors Beverage Company (TAP)
Newell Brands Inc. (NWL)	PepsiCo Inc. (PEP)	Procter & Gamble (PG)
Reynolds Consumer Products (REYN)	The Coca-Cola Company (KO)	The Estée Lauder Companies (EL)

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## PepsiCo Inc. (PEP / PEP)

USD 148.91 (02-Jul-2021)

Stock Rating

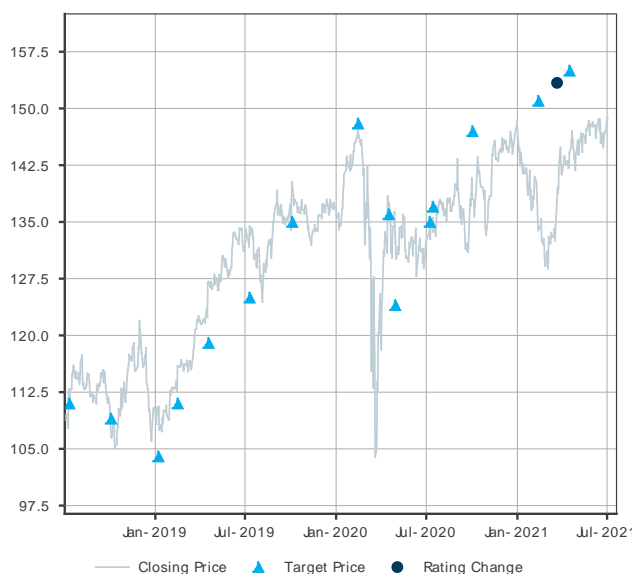
OVERWEIGHT

Industry View

NEUTRAL

## Rating and Price Target Chart - USD (as of 02-Jul-2021)

Currency=USD



Publication Date	Closing Price	Rating	Adjusted Price Target
16-Apr-2021	144.16		155.00
22-Mar-2021	137.80	Overweight	
12-Feb-2021	133.87		151.00
02-Oct-2020	138.06		147.00
14-Jul-2020	135.52		137.00
08-Jul-2020	134.22		135.00
29-Apr-2020	133.36		124.00
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

On 04-Jul-2018, 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 108.00.

Source: Bloomberg, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Source: IDC, Barclays Research

[Link to Barclays Live for interactive charting](#)

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**Valuation Methodology:** Our \$155 price target is based on a 25x P/E multiple on CY21 EPS of \$6.13.

**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. 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.

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