

PepsiCo Inc.

4Q20 Earnings Prep

Stock Rating/Industry View: Equal Weight/Neutral

Price Target: USD 147.00

Price (05-Feb-2021): USD 140.96

Potential Upside/Downside: 4%

Tickers: PEP

Current Consensus Expectations

---- 4Q20 ----

- 4Q20 EPS: \$1.45 [\$1.43-\$1.47 range, Barclays = \$1.44]
- 4Q20 sales growth: 5.5% [+2.3% to +7.1% range, Barclays = +6.8%, +4.5% organic]

---- 2020 ----

- 2020 EPS: \$5.52 [\$5.48-\$5.60 range, Barclays = \$5.50]
- 2020 sales growth: +3.7% [+2.7% to +4.4% range, Barclays = +4.2%, +4.0% organic]

---- 2021 ----

- 2021 EPS: \$6.05 [\$5.80-\$6.27 range, Barclays = \$5.99]
- 2021 sales growth: +5.6% [Barclays = +6.4%, +4.6% organic]

Our Thoughts

Heading into 4Q20 earnings, we expect 2021 guidance to be a key area of focus for investors, specifically with easing currency creating greater flexibility in the P&L. To this point, while Street estimates are looking for close to +10% EPS growth in 2021, we expect reinvestment for the long-term to continue to be an important part of the PEP's strategy in 2021 and look for earnings to be up +9%. In terms of other topics, we expect the abrupt termination of PEP's distribution agreement with Bang Energy (initiated last March) to also be a key topic of conversation vis a vis ongoing litigation and the ultimate implications for PEP's longer-term strategy in the energy category. Separately, we'll also be curious to hear more about investments PEP is making to capitalize on to increase in e-commerce penetration grocery has seen over the crisis so far and learnings from its direct-to-consumer platform Snacks.com launched last May.

For 4Q, we're modeling organic sales up +4.5% led by continued strength in the Frito-Lay North America franchise (+6%), with Quaker Foods North America also remaining robust (+6%) and both benefitting from continued stay at home trends. To this point, scanner data reflects FLNA sales up +8% (vs. +9% in 3Q) and Quaker Foods up +7% (vs. +5% in 3Q). We expect PBNA to be up +3% with strong scanner data (up +10% vs. +10% in 3Q), offset slightly by weakness in on-premise. Internationally, we expect Asia-Pac to lead growth (+8%) followed by Europe and Latin America (up ~5% each) with AMESA flat. Including greater currency headwinds (-2% to sales) and M&A tailwinds from Pioneer, Be & Cheery and Rockstar (+4.5%), all-in, we model net sales up +6.8% for the quarter. From a profitability standpoint, we model gross margins down -100 bps with volume leverage in the core business offset by currency headwinds and a margin drag from acquisitions. We look for SG&A to be down -40 bps with continued reinvestment offset by lower distribution costs related to acquired assets.

What Matters Most To Us

- 2021 guidance and the balance of reinvestment vs. flow-through to earnings
- Strategy in energy specifically with regards to the recent termination of the Bang distribution agreement
- Incremental color on potential savings from new ways of working through the crisis and reinvestment plans to support a recovery in markets emerging from the outbreak

Guidance Recap

---- 2020 ----

- Organic sales +4%
- Core EPS: \$5.50
- FX impact: 2% headwind to revenues and earnings
- Tax rate approximately 21 percent
- CFO \$10 billion
- CFC \$6 billion
- Capex \$4 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 4Q20 Earnings Call Details

- Thursday (February 11th):
 - § 6:30 a.m. EDT – Pre-recorded Management Prepared Remarks [PDF on company website]
 - § 8:15 a.m. EDT – Live Management Q&A [Details TBA]

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

Best,

Lauren

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Mentioned Stocks (Ticker, Date, Price)

PepsiCo Inc. (PEP, 05-Feb-2021, USD 140.96), Equal Weight/Neutral, A/CD/CE/D/J/K/L/M

Valuation Methodology: Our \$147 price target is based on a 25x P/E multiple on CY21 EPS of \$5.99.

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
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
27-Apr-2018	101.71	108.00
15-Mar-2018	111.99	113.00
14-Feb-2018	109.11	116.00

On 06-Feb-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 113.00.

Source: Bloomberg, Barclays Research

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