

# PepsiCo Inc.

## 3Q20 Earnings Prep

**Stock Rating/Industry View:** Equal Weight/Neutral

**Price Target:** USD 137.00

**Price (29-Sep-2020):** USD 137.16

**Potential Upside/Downside:** -0%

**Tickers:** PEP

### Current Consensus Expectations

#### ---- 3Q20 ----

- 3Q20 EPS: \$1.49 [\$1.46-\$1.54 range, Barclays = \$1.50]
- 3Q20 sales growth: +0.3% [-2.5% to +2.4% range, Barclays = +1.5%, +1.6% organic]

#### ---- 2020 ----

- 2020 EPS: \$5.36 [\$5.19-\$5.70 range, Barclays = \$5.29]
- 2020 sales growth: +1.3% [-0.8% to +2.7% range, Barclays = +1.9%, +2.6% organic]

#### ---- 2021 ----

- 2021 EPS: \$5.94 [\$5.71-\$6.27 range, Barclays = \$5.71]
- 2021 sales growth: +5.0% [Barclays = +5.2%, +4.3% organic]

### Our Thoughts

While PEP shares are up just +1% YTD (in-line with the XLP), the stock continues to outperform other pure-play beverage brand-owners such as KO (-11%) given lower exposure to the on-premise channel (just ~10% of sales globally) and a more diversified portfolio (including breakfast and snacking, both of which have seen significant tailwinds over the crisis). While we are largely on board with the notion that top line at PEP should prove relatively more stable than other Beverage peers this year, we are below Consensus on earnings as we believe management's bias will be to reinvest behind long-term growth. With CEO Ramon Laguarta referencing a "zero based spending mindset" and stress tests to "optimize" how capital is deployed on the 2Q earnings call, we would expect potential savings and the degree of flow-through to the bottom line from this to be key topics of conversation on tomorrow's call.

For 3Q in particular, we look for organic sales to be up +1.6%. We expect currency headwinds (+2.5%) to be fully offset by tailwinds from M&A (+2.5%), bringing our all-in estimate for total company sales to up +1.6% for the quarter. In North America, we expect growth to be led by Frito Lay (+5%) and Quaker (+6%) but note that we are expecting the strongest sequential improvement in PBNA (-0.5% vs. -7% in 2Q) reflecting improved consumer mobility in the U.S. and its impact on demand in the convenience and gas channel (which inflected back to growth in June following double-digit declines in March). Look overseas, we expect growth to be led by Asia-Pacific (+6%), reflecting improved trends in China and India, with Latin-America and Europe flattish and AMESA down -1%. On profitability, we look for gross margin to be down -30 bps including expansion in the base PEP business offset by dilution from acquired businesses (primarily Pioneer). We model SG&A up +50 bps (vs. +200 bps in 2Q) including volume deleverage in the base PEP business, sequentially lower PPE costs and the impact of lower SG&A in acquired businesses.

### What Matters Most To Us

- Impact of COVID-19 on global consumption
- 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 ----

- FX impact: 3% headwind to revenues and earnings
- Tax rate approximately 21 percent
- Dividends ~\$5.5 billion
- Share repurchases ~\$2 billion

### ---- 3Q20 ----

- Low single-digit increase in organic sales growth
- Operating margins to contract at a lower rate than in 2Q
- FX impact: 3% headwind to revenues and earnings

### ---- 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 3Q20 Earnings Call Details

- Thursday (October 1<sup>st</sup>):
  - § 6:30 a.m. EDT – Pre-recorded Management Prepared Remarks [[www.youtube.com/Pepsico](http://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: 5839826.

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

Best,

Lauren

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**PepsiCo Inc.** (PEP, 29-Sep-2020, USD 137.16), Equal Weight/Neutral, A/CD/CE/D/J/K/L/M

**Valuation Methodology:** Our \$137 price target is based on a 24x P/E multiple on CY21 EPS of \$5.71.

**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
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
05-Oct-2017	110.45	113.00

On 30-Sep-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 114.00.

Source: Bloomberg, Barclays Research

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