Coca-Cola vs. PepsiCo

The Investment Club
SS4960 - Final Report

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Executive Summary

PepsiCo is one of the leading beverage and snack companies in the world. With a high market share and a diversified product portfolio, the company is well-positioned in the industry. PepsiCo has a bold marketing strategy and is known for its supreme brand value, which has helped it to maintain a strong presence in the industry.

One of the key reasons to invest in PepsiCo is its increasing profitability. The company has consistently reported strong financial performance, with revenue and profit margins growing at a steady pace. This trend is expected to continue in the future, making PepsiCo a lucrative investment opportunity.

In addition to its financial strength, PepsiCo is consistent with our activity analysis and qualitative analysis. The company strongly focuses on sustainability and has implemented several initiatives to reduce its environmental impact, such as reducing its carbon footprint and limiting the usage of recyclable waste, and kickstart social initiatives such as Stacy's Rise Project for women empowerment. This has helped build trust with our two primary stakeholders: consumers and investors - showcasing that the company is committed to operating responsibly and ethically.

Furthermore, PepsiCo has a strong brand image that continues to attract customers. The company has a long history of successful marketing campaigns and has developed a brilliant reputation for providing high-quality products. This has helped it to maintain a loyal customer base and build a strong brand that is recognized around the world in over 200 countries.

Overall, PepsiCo is a solid investment opportunity due to its high market share, diversified product portfolio, bold marketing strategy, increasing revenue streams, and iconic brand value. With a positive forecast and a consistent track record of meeting investor expectations, PepsiCo is well-positioned for continued success in the future.

Introduction

This report will evaluate the duopoly of powerhouses that control and drive the carbonated beverage industry, Coca-Cola and PepsiCo. A full, in-depth analysis of qualitative and quantitative aspects will be thoroughly examined. Topics in this report include but are not limited to the missions, visions, objectives, business models, and SWOT (Strengths, Weaknesses, Opportunities & Threats) analyses for each company. Furthermore, the analysis expands laterally into three of the duopoly's significant competitors; KDP (Keurig-Dr. Pepper), Nestlé, and FIZZ (National Beverage). Past five fiscal years of data from January 2014- December 2019 have been used, with the exception of FIZZ for which the fiscal year ends in April, and hence the years' 2015-2020 have been used instead. From a quantitative perspective, this report will investigate various aspects catered specifically to this industry and analyze each company's Activity, Liquidity, Solvency and Profitability ratios.

Analysis

Business Framework - Coca-Cola

Mission

Coca-Cola's mission is to craft the brands and choice of drinks that people love, to refresh them in body and in spirit. Within this mission lies three major components designed to leave its legacy imprinted wherever it operates. Coca-Cola is set on improving lives, improving communities, and exceeding the expectations of its customers.

Vision

Coca-Cola's vision is to refresh the world, inspire moments of optimism and happiness, to create value, and make a difference. They elaborate on this idea by aiming to achieve this vision through performing business while improving sustainability, as well as sharing a better future that makes a difference in people's lives, communities, and ultimately, our planet.

Objectives

Coca-Cola is one of the leading beverage companies in the world, serving around 1.9 billion people daily. The company has a strong brand identity and holds retailers responsible for maintaining its high standards. Coca-Cola offers a broad portfolio of products, providing a wide range of options and encompassing several target audiences for its customers. To make itself available and accessible to customers worldwide, Coca-Cola has over 700,000 system associates worldwide, 225 bottling partners with around 900 bottling plants, and 30 million retail customer outlets. The company has also been working on sustainability, with initiatives such as collecting and recycling a bottle or can for each unit sold, making 100% of its packaging recyclable. They also have progressed on their goals of maximizing water conservation and reducing their carbon footprint.

In addition to these efforts, Coca-Cola has been evolving its customer satisfaction approach. The company has launched digitally enabled customer experience feedback systems and invested in digital commerce, implementing dynamic pricing strategies. They have also used data and analytical capabilities to identify and capture opportunities and demand forecasting. This has helped Coca-Cola to better understand and respond to customer needs and preferences. Overall, Coca-Cola's business objectives focus on providing high-quality products, supporting local communities, and exceeding customer expectations. The company uses a range of metrics to evaluate its progress and regularly reviews its strategies to ensure that it is on track to achieve its goals.

Business Model

Coca-Cola has a unique business model consisting of 2 distinct segments. A key thing to keep in mind is that they do not actually complete the beverage from start to finish, almost ever. One of its two segments is their sale of concentrated syrups. They sell their invented syrup to authorized and exclusive bottling partners who use the product and convert it into finished bottles. Coca-Cola binds these independent bottlers into customizable contracts to generate revenue and maintain controlling rights throughout the partnership. Its' most successful innovation to this date was the birth of Bottling Investment Group (BIG) in 2006 which focused on acquisition and funding of independent bottling partners all around the globe. This helps them operationalize their beverages from factory to points of sale, as well as create accessible streams of repetitive revenue from contractors, wholesalers, and retailers. Through this model, Coca-Cola has shifted from a bottling industry into a short-term financing company and a long-term franchising company. As their bottling partners take off after the financial boost, Coca-Cola divests their equity stakes and establish a franchise which allows them to be independent of the bottling partner but still connected to the iconic brand.

The second segment is their area of expertise in bottling finished products. Coca-Cola oversees and manages several bottling options and collects revenue on these finished products. They utilize this strategy to undercut costs on production and transportation and focus solely on creating sales channels to consumers through their reputable brand image and loyal customer base.

Coca-Cola's strongest point which has let them be in the lead of their industry since more than a century is their promotional marketing strategy. For example, they have spent an enormous $4.4 billion in 2019 in marketing budget, to translate costs into tangible returns by following the same guideline since inception of focusing on nostalgia and targeting an emotion. Loyal Coca-Cola consumers like to see that and encourage their circle and the forthcoming generation to buy their products again, simply due to a chain of unparalleled allegiance to the iconic red letters.

SWOT Analysis - Coca-Cola

Strengths

- **Multinational Brand:** Coca-Cola's epitome strength is its iconic presence in the market. With the highest global market share encompassing over 200 countries and regions in the soft-drinks industry of 44%, they have developed a brand value of $57 billion.
- **Distribution System:** Coca-Cola's business model helps provide them with an efficient, thorough, and global distribution system network that allows them to operate over 900 bottling plants.
- **Diverse Beverages**: Specializing in one sector, it has launched more than 500 new products through innovation of complements and substitutes to their default Coca-Cola beverages.
- **High Acquisition Rate** – The BIG subsidiary pinpoints independent bottlers and finance them in the short-term, and franchises them for long-term to complete a thorough acquisition with ease.

Weaknesses

- **Health Concerns** – Being in the soft-drinks industry comes with a compromise of increasing health issues associated with carbonation and sodas. This encourages obesity and Type 1 diabetes which is correlated with consumer repulsion due to health reasons.
- **Potential Lawsuits** – Coca-Cola has had incidents damaging their brand due to lawsuits from health-conscious stakeholders and consumers regarding their sugar level in older beverages since 1990.
- **Narrow Product Portfolio** – Unlike its competitors, Coca-Cola depends heavily on beverages alone. This specialization decreases their market opportunity in the food & snacks industry. Furthermore, if the beverage industry's demand goes down, so does the entirety of the portfolio due to having a riskier and less-diversified portfolio.
- **Carbon Emissions** – Coca-Cola is the #2 in leading carbon footprint in the entire world across all industries. This not only puts them in the red regarding environmental friendliness, but also in the plateau of carbon taxes.
- **Overdependence on third parties** – Instead of having their own software, they have always relied on their outsourcing partnership for their technological usage. Currently, they have signed a 5-year contract with Microsoft to use their supply business software.

Opportunities

- **Healthier Drinks** – By reducing the sugar and calories in their new products, such as Coke Zero and Diet Coke, their new offerings can touch the healthier audience, which can contribute to an increase in sales and a positive brand image.
- **More Acquisitions** – With the success of BIG since 2006, they can continue to invest in bottling companies and acquire those that need institutionalizing to drive operations from a dedicated point of view.
- **Geographical Development** – Studies show that hotter countries have had a 37% increase in cold beverages in the last decade. Penetrating further in the Middle East and African region would be an excellent opportunity to increase the market share and revenue stream from these regions.
- **Advanced Supply Chain** – Coca-Cola is no longer in the beverage industry, but in the supply logistics and franchise industry. They can create their own dedicated network to reduce urban and global transportation costs and not be affected by fuel prices.

Threats

- **Excessive Innovation** – Innovation is great and leads to refined products. However, too much innovation can cause customers to get confused. Coca-Cola has an extremely loyal consumer base and does not like change in taste. The drink "New Coke" was a reaction to Pepsi's better taste during the Pepsi Challenge which resulted in callbacks and losses in the new drinks' creation
- **Health-conscious Consumers** – Consumers are looking to progress towards healthier lifestyles and avoid unhealthy products such as sodas. This increase in health consciousness is moving profits away from Coca-Cola's regular sales
- **Direct & Indirect Competitors** – Although it is primarily a duopoly in direct competition, sales are shifting away to healthier drinks' industry in the indirect competition market such as sugarless drinks, tea, coffee etc.

Business Framework - PepsiCo

Mission

PepsiCo's mission is to create more smiles with every sip and every bite. They are dedicated towards creating joyful moments through unique brand experiences for consumers, driving game-changing innovation for customers, creating meaningful opportunities to work and gain new skills for associates and communities, conserving resources and increasing sustainability for our planet, and delivering top-tier total shareholder returns and corporate governance for stakeholders.

Vision

PepsiCo's vision is to be the global leader in convenient foods and beverages by winning with a purpose. They are determined to continue to innovate end-to-end strategic transformations that puts sustainability and human capital at the center of the creation of value and growth. This is implemented through operating within planetary boundaries as well as an inspiring positive change for the planet and people.

Objectives

PepsiCo has seen great success in its operations, evidenced by its impressive sales volume and global reach. With over 1 billion daily servings of its products consumed worldwide, PepsiCo's popularity is undeniable. The company's products are available in over 200 countries and regions, and its extensive product portfolio, consisting of over 500 beverage and snack brands such as Cheetos, Lay's, and Bubbly are widely recognized. Additionally, PepsiCo's commitment to sustainability is demonstrated through its adoption of targeted drip-irrigation and its goal to achieve 100% recyclable packaging by 2025. This, combined with its large workforce and focus on employee satisfaction, has solidified PepsiCo's position as a leader in the industry.

Business Model

PepsiCo entered the Cola wars with their Pepsi Soda drink. The company builds on strong relations with retail stores, grocery shops, food stalls, fast food companies and wholesalers to sell its refreshing beverages in a contracted number of goods at a mark-up. With their unique hybrid everyday pricing model, they follow a competitive pricing strategy to refresh the urban communities across the planet. Their strong connections in the beverage industry have propelled them into a transformative multinational food and beverage company. The company's business model involves the production, distribution, and marketing of a wide range of snacks, beverages, and other food products. This includes well-known brands such as Pepsi, Mountain Dew, Lay's, Gatorade, Tropicana, and Quaker, among others, through acquisition and horizontal industrial integration of similar food and snacks. Another strong trait of their model is their sponsorship models with sporting agencies, teams, and events. This is billed as their highest form of advertisement, as the youth participate in it as well as watch their role models be associated with the iconic PepsiCo symbols. This creates a yearn in their customers to feel young again, creating a repeat sale each time they think or come across such advertised models.

Overall, PepsiCo's business model is based on a combination of product innovation, strong brand management, and efficient operations, which together enable the company to deliver value to its customers and generate sustainable growth and profitability.

SWOT Analysis - PepsiCo

Strengths

- **Marketing Prowess** – PepsiCo's strength stems from their top-notch marketing results, becoming the #2 in market share in the soft-drinks industry and leading their numerical brand by $18 billion.
- **Iconic Youth Symbol** – As they are the symbol of youth, young consumers revel in the association with PepsiCo's beverages. Furthermore, older generations associate themselves with Coca-Cola to relive their youth and feel young again.
- **Conglomerate Company** – Being a multinational company allows them to touch every geographical market outside North America, thus increasing their global market reach and profits from all the 200 nations they are in.
- **Effective Logistics** – With an advanced and decentralized logistic system that lets them rely on only themselves, PepsiCo cuts down on the humongous cost of sales through their reliable logistics in supply chain contracts better than their competitors
- **Diversified Product Portfolio** – PepsiCo has invested into the food & snacks industry, comprising 53% of their product portfolio in 2020. This diversification allows them to divide their loss burden and thus become more reliable on returns through a growing diversified portfolio of products

Weaknesses

- **Unhealthy Culture** – The soda industry, albeit still increasing in consumer demand, has also been facing an increase in obesity and health pandemic. PepsiCo suffers the loss as customers look to shift away to healthier options in beverages and snacks
- **Plastic Pollution** – PepsiCo is vulnerable to leading in pollution for many years, leaving behind a footprint in plastic waste as the #4 in the globe. This puts them in the plateau of plastic taxation as well as being a threat to the environmentally conscious audience
- **Overdependence on One Sector** – They still over depend on the beverages' sector at the moment

Opportunities

- **Diversification of Beverages** – With an opportunity to grow into alcoholic beverages, acquiring them or starting their own line of alcoholic products is a potential for growth in their wide range of beverage portfolio.
- **E-commercial Sales** – PepsiCo also has an opportunity to create another sales channel from scratch and increase their revenue at places where retailers and wholesalers are not the most accessible points of sale
- **Snacks Advertisements** – With having a key strength and charisma in their competitive advertisement strategy for beverages, they can do the same to promote their foods & snacks in big platforms such as Superbowl and other major sporting events & sponsorships

Threats

- **Price Follower** – Being a reactionary and competitive company, PepsiCo always follows the price instead of having the first mover advantage. This puts them in potential future downfalls in market share when acquisitions and innovations take place first by their direct competitors.
- **Increment in Health Consciousness** – Consumers are progressing towards becoming healthy and taking care of themselves at a greater magnitude than before. As carbonated drinks and salted snacks directly aggravate healthiness, loyal and regular buyers are shifting towards healthier options as much as they can
- **Older Consumer Shift** – The older generation are more prone to health risks. With an increase of products by indirect competitors such as Starbucks, Lipton Tea & Juices, and Nescafe, the older generation (which was alongside PepsiCo since its origin years) has faced the greatest shift from PepsiCo products than any other audience sector in the recent past.

Financial Ratios

Activity Ratios

Inventory Turnover Ratio:

- Inventory turnover at both Coca-Cola and Nestlé have slowly decreased over the five-year period *(Appendix A)*. Through each of the last five years, they have trailed significantly below the industry average. Between 2015-2019, Coca-Cola and Nestlé have each turned over their inventory at 1.5 times the number of days than the industry average *(Appendix B)*, signifying the potential of overstocking, ineffective inventory management, as well as more detrimental causes, such as weak sales or lackluster market demand in both businesses.
- In similar fashion, inventory turnover at PepsiCo has also decreased slightly over this period. However, it has decreased at a significantly slower rate than Coca-Cola and Nestlé. Between 2015-2019, PepsiCo turned over its inventory every 37.1 days, which is a significantly shorter duration of time in comparison with the industry average of 47.2 days, and substantially better than its biggest competitor, Coca-Cola, signifying effective inventory management as well as successful sales, resulting in frequent inventory restocking.
- Moreover, National Beverage's inventory ratio is significantly above the average, similar to that of PepsiCo, with a value of 38.3 days to turnover, which is substantially quicker than the industry average of 47.2 days. This shows that both National Beverage and PepsiCo sell and restock their inventory much more frequently than the industry average, proving that their iconic increasing demand translates to revenue easily.
- Lastly, inventory turnover at Keurig-Dr. Pepper over the five-year period has shown to be extremely volatile, yielding major fluctuations throughout this period. The inventory number of days to turnover has varied anywhere from 28.6 days to 64.2 days, showing untrustworthiness and a significant lack of promise in future predictability due to the extreme variability.

Accounts Receivable Turnover Ratio:

- At National Beverage, the number of days to achieve an accounts receivable (AR) turnover is averaged at 31.2 days *(Appendix D)*, which is the shortest in the industry. This results in a quicker collection of payments from customers in comparison with its competitors.
- Coca-Cola's number of days to turnover accounts receivable, at 36.0 days, are slightly shorter than the industry average over the five-year period of 37.5 days.
- For PepsiCo, the number of days to turnover accounts receivable, at 39.8 days, are marginally longer than the industry average over the five-year period. This signifies that PepsiCo is collecting payments from its customers slightly later than its competitors, including Coca-Cola, do.

- Similarly, at Keurig-Dr. Pepper, accounts receivable turnover is averaged at 38.5 days, which is right in line with PepsiCo. However, the volatility is once again seen, showing drastic fluctuations anywhere from 26.4 days to 56.4 days, showing an overall difference of over 100% within the five-year period.
- In contrast, Nestlé's turnover is the longest of the five companies over the five-year period, sitting substantially below the industry average, at 48.3 days, with a lower turnover value than any of its competitors, of 7.58 *(Appendix C)*. This proves that Nestlé is receiving payments from its customers much later than its competitors do, which is likely due to poor debt collection methods, policies, or uncreditworthy customers.

Asset Turnover Ratio:

- The industry's average asset turnover has slightly decreased over the five-year period, and this trend has been seen for PepsiCo and Coca-Cola as well *(Appendix E)*. Thus, in 2019, for the industry as a whole, assets have slowed down in generating revenue as quickly as they did in 2015.
- At Coca-Cola, the asset turnover ratio of 0.45 is nearly half of the industry average of 0.91, meaning that Coca-Cola is not efficiently using its assets to generate sales.
- Similarly, for Keurig-Dr. Pepper, the asset turnover ratio of 0.43 is also below the rest of its competitors, using assets to generate sales at 48% efficiency in respect to the industry's average, ultimately suggesting the possibility of internal problems, such as surplus production capacity, poor inventory management, and bad tax collection methods.
- In contrast, PepsiCo's asset turnover ratio of 0.85 is close to on par with the industry average, suggesting that PepsiCo is using its assets to generate sales that measure in line with the industry average.
- Over the five-year period, asset turnover ratio has decreased by approximately 13% at Coca-Cola, which is over two times PepsiCo's 6% drop, showing a greater loss of growth of sales versus asset acquisition for Coca-Cola. Thus, Coca-Cola's assets are not generating revenue as quickly as they used to, at a more alarming rate than its competitors.
- Lastly, National Beverage's asset turnover ratio of 2.10 is more than double the industry average, showing that they are a new emerging contender in the carbonated beverage industry, using their assets to generate sales more efficiently than any other competitor in the industry.
- However, it is noted that from 2018-2019, National Beverage experienced a significant drop of over 30% in its asset turnover ratio, showing a trend of the company's regression towards the industry average.

Liquidity Ratios

Current Ratio:

- Coca-Cola performs well in its current ratio (*Appendix F)*. Although it was below the industry average, the ratio was always above 1.00 during these five years. Indeed, the ratio was continuously rising, implying that Coca-Cola has an increasing ability to pay off its short-term liabilities with its current liabilities under emergency conditions.
- PepsiCo's current ratio decreased rapidly in 2018. It suddenly dropped from 1.51 to 0.99, largely below the industry average. This likely means PepsiCo has been unable to cover its short-term liabilities with its current assets, since 2018. The sudden drop in the current ratio could be explained by PepsiCo's acquisition of SodaStream in December 2018. Some cash and cash equivalents were restricted as collateral held by PepsiCo's paying agent in connection with the acquisition of SodaStream. This resulted in decreasing current assets but increasing current liabilities, which led to an overall decline in the ratio.
- Keurig-Dr. Pepper's current ratio rose from 2015 to 2016, but suddenly dropped in 2017. Since then, its current ratio has been below the industry average and has plummeted. It had a fragile ability to return short-term liabilities and was very untrustworthy.
- Over the five-year period, Nestlé experienced a current ratio fluctuant between 0.85 and 0.95. It changed marginally throughout the years but was consistently below the industry average. This implies Nestlé always had fewer current assets than its current liabilities, so it might not be able to repay liabilities in the event of an emergency.
- National Beverage's current ratio was consistently above the industry average. It is a good sign that National Beverage can bear liabilities according to assets. However, given that National Beverage's current assets were three times greater than its current liabilities, if the current ratio continues at a very high level, National Beverage might face the risk of having too much inventory.

Solvency Ratios

Debt-to-Equity Ratio:

- Coca-Cola's debt-to-equity ratio for the five years was 30% above the industry average. It did not fluctuate much, remaining stable at around 2.5% year-over-year (*Appendix G*). This illustrates that Coca-Cola is a company that thrives on debt, not on shares. This is understandable because the Coca-Cola bottling company had many production plants on hand that could be used as collateral to borrow money from banks.
- Overall, PepsiCo's debt-to-equity ratio has exceeded 40% of the industry, in the span of the five years. It is important to note that the debt-to-equity ratio dropped by about 35% from 2017 to 2018. This could be due to the fact that PepsiCo had a $3.4 billion tax benefit in that year, which paid off some of its debt.
- Keurig-Dr. Pepper's debt-to-equity ratio is below the industry average and is trending downward overall, having been below a value of 1.0 since 2017. This is believed to be due to an intra-financial crisis in 2017, which led to an inability to repay outstanding debts. As a result, the company made an equity offering, significantly changing the debt-to-equity ratio.
- Nestlé's debt-to-equity ratio is well below the industry average, remaining below 1.0 throughout the five-year period, despite having risen slightly in 2018. Maintaining a debt-to-equity ratio below 1.0 indicates Nestlé does not rely on debt for growth, which signifies fewer interest payments and lower financial leverage.
- Since National Beverage's long-term debt remained almost zero during the five-year period, this resulted in a debt-to-equity ratio and a debt-to-capital ratio equaling approximately zero. This means that the company is composed almost entirely of shareholder investments.

Debt-to-Capital-Ratio:

- Coca-Cola's debt-to-capital ratio has remained around 0.70 over these five years, above the industry by approximately 30%, with no fluctuations (*Appendix H*). This data illustrates that Coca-Cola has a relatively high percentage of debt in its capital, meaning it generally would have to pay a higher interest rate. In contrast, it also means that investors can earn more money with less money.
- During these five years, PepsiCo's debt-to-capital ratio has remained around 0.70, with a slight decrease from 2017 to 2018 for the same reasons as the debt-to-equity ratio. However, overall, PepsiCo's capital structure is similar to Coca-Cola's.
- The debt-to-capital ratio is on an overall downward trend over the five-year period. In 2016, the company's debt-to-capital ratio was close to 0.70; however, in 2017, the company's debt-to-capital ratio improved, valued close to 0.40. Such a significant decline in the ratio implies that the company has made significant adjustments to its capital structure in 2017.
- Nestlé's debt-to-capital ratio is trending up and staying below 0.40. The slow increase in debt in conjunction with the company's market cap performance illustrates the company's growth.

Profitability Ratios

Gross Profit Margins:

- The gross profit margins of Coca-Cola have been declining over the past five years (*Appendix I*), despite increasing gross profits. This is largely due to a significant increase in the COGS (Cost Of Goods Sold), driven by rising material and labor costs.
- In contrast, PepsiCo's gross profit margins have remained relatively stable over the same period, remaining above industry averages, with significantly improved gross profits and stable COGS.
- Keurig-Dr. Pepper's gross profit margins have remained largely consistent over the past five years, comparable to PepsiCo's margins, but higher than Coca-Cola's. However, in 2019, their gross profits nearly doubled, leading to a spike in profit margins due to stable revenue and a decrease in the cost of sales.
- Nestlé has exhibited stable gross profit margins over the past five years, with consistent levels of revenue, gross profit, and COGS. While stability is a positive, it lacks growth over time. Nestlé's strong numbers are also a result of its diversified product portfolio beyond beverage sales, such as their confectionery sector.
- National Beverage's gross profit margins have been on the rise, with a significant increase in 2017 due to higher revenue compared to COGS. Their numbers align more closely with Coca-Cola, indicating lower profit margins compared to PepsiCo and Keurig-Dr. Pepper.

Operating Profit Margins:

- Coca-Cola's operating margins experienced a decline in 2018 (*Appendix J)* due to an increase in operating expenses and SG&A (Selling General and Administrative) expenses, which outpaced the company's gross profit growth. Despite this, the company has seen a rebound in iterating margins in recent years.
- In contrast, PepsiCo has maintained stable and improving operating margins over the five-year period, with a decrease in SG&A expenses and overall operating expenses, as well as a modest increase in revenue. PepsiCo's operating margins are notably higher than Coca-Cola, indicating lower financial risk and better overall profitability.
- Keurig-Dr. Pepper's operating margins have remained stable, outperforming both PepsiCo's and Coca-Cola's margins. However, a significant decline was seen in 2018 due to a rise in operating expenses. This was likely due to unforeseen increased demand for ginger ale and coffee.
- Nestlé has maintained stable operating margins, similar to those of PepsiCo. A decline was observed in 2017 due to an increase in operating expenses, but this was not offset by sufficient growth in revenue. This can be attributed to reduced consumer demand for Nestlé's food and beverage products, with the exception of its confectionery range.
- National Beverage’s operating margins have seen significant improvement since 2016, driven by a significant increase in gross profit compared to operating expenses. This growth can be attributed to an increase in volume and growth in higher margin brands, as well as a decline in the cost of sales per case by 5.7%, due to favorable product mix changes and lower raw material costs. As a result, National Beverage’s operating margins are highly competitive in comparison to other companies in the industry.

Net Profit Margins:

- In recent years, the net profit margins of Coca-Cola, PepsiCo, Keurig-Dr. Pepper, Nestlé, and National Beverage have been fluctuating (*Appendix K)*, with some companies performing better than others. Coca-Cola, for example, has struggled with profitability, with its net profit margins reaching a negative figure in 2018. This indicates a lack of stability and profitability for the company.
- On the other hand, PepsiCo has seen strong net profit margins, with a significant increase in 2018, due to a tax benefit of $3.4 billion. This demonstrates the company's ability to effectively generate earnings for its shareholders consistently, making it a more appealing option for investors.
- Keurig-Dr. Pepper's net profit margins have been decent, albeit experiencing a dip in 2018 due to increased expenses, production, and distribution challenges. Nestlé's margins have also been fluctuating but saw an increase in 2018 and 2019 as a result of rising revenue and decreasing expenses.
- National Beverage, on the other hand, has seen steady increases in its net profit margins over the past five years. This is due to increased gross profits and reduced merchandising costs, which have helped the company improve its bottom line.
- Overall, PepsiCo and National Beverage exhibit strong net profit margins and are competitive in the market. While other companies, such as Coca-Cola and Keurig-Dr. Pepper have faced challenges, these two companies have proven to be reliable options for investors seeking to capitalize on the profitability of the beverage industry.

Return on Assets:

- Coca-Cola's ROA (Return On Assets) has been subpar, with particularly low performance in 2018 and 2019 (*Appendix L)*. This has resulted in a five-year average ROA of around 1.0, indicating that the company has not been effectively utilizing its assets to generate profits. In comparison, PepsiCo's average ROA over the five-year period is 9.58, significantly higher than Coca-Cola's, and indicative of the company's success in maximizing its assets for earnings. In 2018, PepsiCo benefited from tax savings and experienced its best year in the five-year period.
- Keurig-Dr. Pepper's ROA has been strong but has seen a decrease due to challenges with production and distribution. Despite this, the company has made progress in effectively utilizing its assets, with its ROA significantly higher than that of both Coca-Cola and PepsiCo.
- Nestlé's ROA has been stable but lower compared to companies such as PepsiCo and Keurig-Dr. Pepper. Other than the dips in fiscal years 2017 and 2018, Nestlé has maintained a positive overall average.
- National Beverage has seen a significant increase in its ROA after 2016, due to growing profits and reduced expenses. This demonstrates the company's success in effectively utilizing its assets and generating strong returns on assets, outperforming its competitors and the industry.
- Overall, PepsiCo, Keurig-Dr. Pepper, and National Beverage have demonstrated superior performance to that of Coca-Cola’s, indicating their effectiveness in utilizing their assets to generate profits. This makes them attractive options for investors seeking to capitalize on the profitability of the beverage industry.

Return on Equity:

- Coca-Cola's ROE (Return On Equity) over the past five years has been consistently low (*Appendix M)*, indicating a failure to effectively convert equity financing into profits. This could be due to poor management of financial resources, inefficient operations, and emerging competition in the beverage industry.
- In contrast, PepsiCo's ROE has remained stable, with a particularly strong showing in 2018 due to high income after taxes. PepsiCo's relatively stable ROE suggests that the company has consistently generated profits from its equity financing. This is because of their effective management of financial and operational resources.
- Keurig-Dr. Pepper's ROE has been comparatively weak, likely due to liabilities tripling beginning in 2017. The low ROE may indicate that the company has struggled to generate profits from its equity financing, potentially due to increased liabilities, duopolistic barriers, and shifting consumer preferences.
- Nestlé's stable but relatively low ROE suggests that the company has been able to maintain a consistent level of profitability, although not at the same level as PepsiCo and Keurig-Dr. Pepper. This could be due to a combination of internal and external factors, such as competition, changing and adapting to consumer trends, and the company's business strategies.
- National Beverage’s ROE follows a similar trend to its ROA, indicating that the company has been able to effectively use its equity financing to generate profits. This could be due to the company's specialization in a particular niche within the beverage industry, allowing it to capitalize on market opportunities and grow its business.

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- National Beverage’s ROE follows a similar trend to its ROA, indicating that the company has been able to effectively use its equity financing to generate profits. This could be due to the company's specialization in a particular niche within the beverage industry, allowing it to capitalize on market opportunities and grow its business.

Recommendations

As the world progresses towards a healthier lifestyle, a paradigm shift in types of beverages has been continuing to occur since the late 2000s. The rise of health concerns associated with carbonated beverages and sugary drinks has led to a decrease in demand for these types of products. This trend could potentially impact the financial performance of both Coca-Cola and PepsiCo. Despite this movement, consumer demand for non-alcoholic beverages has steadily increased by 17% in the last 15 years. This showcases that investing in the soft-drinks industry is still an optimal action despite the paradigm shift due to the consistency of returns backed by several decades, which verifies this as a risk-averse action.

After a thorough analysis involving the qualitative and quantitative factors for Coca-Cola, PepsiCo, and various competitors, it was evident that the company of choice to invest in for the future was PepsiCo. PepsiCo proved to be very promising in standards relating to non-metrics, as well as their past financial trends compared to their previous years and the industry. Based on the information provided in the analysis of this report, it appears that Coca-Cola and PepsiCo are both well-established companies in the beverage industry. While both companies have strengths and weaknesses, there are a few key considerations that potential investors should consider when deciding whether to invest in either company. The multiple emerging companies in beverages' duopoly could also affect the financial performance of these companies. Both Coca-Cola and PepsiCo face competition from smaller, more agile competitors who may be able to adapt more quickly to changing consumer preferences.

From the financial ratios' point of view alone in the years 2015 to 2019, National Beverage is an unprecedented company in the industry. With a further scope, they have the lowest market share (0.6%) in the entire global industry and thus are not a market influencer. Strong financials are characteristics of an emerging player but not necessarily a long-term investment opportunity. Coca-Cola has the most substantial market share with 44%, but due to a lack of profitable innovation and a low return on equity for its shareholders, looking at only the market share will also not provide us with a clear-cut answer. In fact, only a thorough analysis of several financial and non-financial tools helps us eliminate the weakly preferred companies.

Furthermore, the potential for lawsuits and other legal challenges could also impact the financial performance of these companies. Coca-Cola has faced lawsuits in the past related to the sugar content of its products, and PepsiCo has also faced legal challenges related to its marketing practices. These types of lawsuits can be costly and time-consuming and could potentially impact the financial performance of these companies. The loyal fanbase of PepsiCo, however, does not let such incidents dip its revenue or profitability due to swift turnarounds with strong drivers such as the Pepsi Challenge campaign in 1975.Having multiple segments of income and broadening the product range increases risk tolerance for a company to divide their loss potentials and increase their profitability foundation. PepsiCo's diversified portfolio in beverages as well as food and snacks portfolio puts them ahead of their competition. As a risk-averse student club, this is a safer investment strategy through mitigating risks in the possible event that the soft drinks industry recesses due to unforeseen circumstances.

PepsiCo's another key strength is overlooked - its ability to use debt to equity in an efficient manner. This propels them to be trustworthy to lenders which in turn allows them to finance their innovation and marketing campaigns globally. From an investor's perspective, this is a critical focal point not to be surprised with their high debts as they have consistently been converting that to tangible revenue in North America as well as on a global scale. Keurig-Dr. Pepper follows a similar strategy; however, despite their highs, they have their lows followed up. This variability categorizes them as a high-risk stock that is not ideal for a longevity-seeking investor. PepsiCo also efficiently allocates assets that generate revenue with lower sunk costs and unused liabilities, which shows its phenomenal ability to retain a low credit risk through its long-term debt.

Overall, PepsiCo uses its reputation from its origins and translates them into its new innovative products to scale its consistent profits. Their bold and competitive mission values are showcased in not only the beverages' advertisement campaigns but also their sustainable growth patterns, which is verified by the 147% growth of their food & snack sector in their product portfolio within the last 15 years. With increasing profitability anchored by their iconic youth symbolism, PepsiCo is not only a safe investment, but the most pareto optimal and lucrative investment opportunity for today's era.

Appendix

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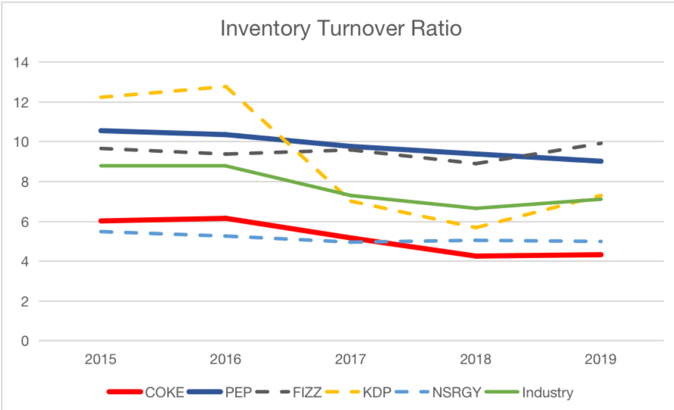

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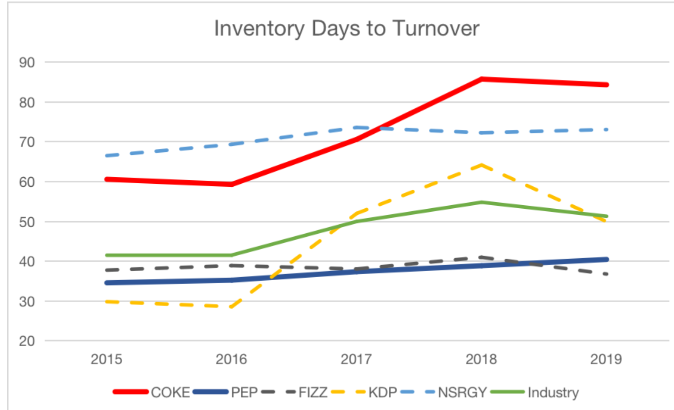

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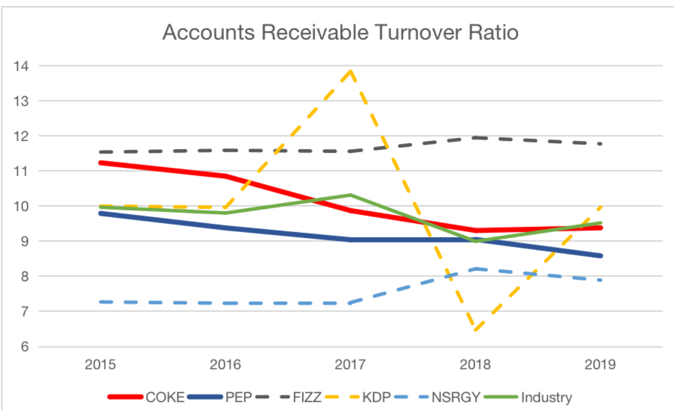

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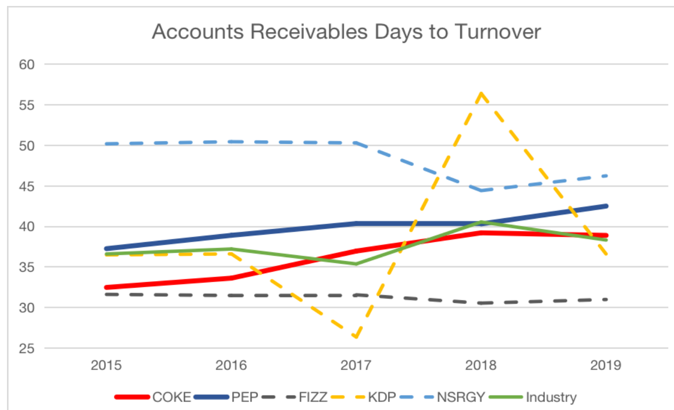

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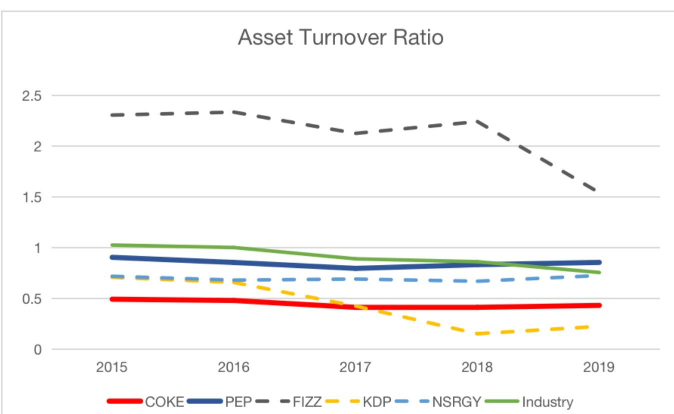

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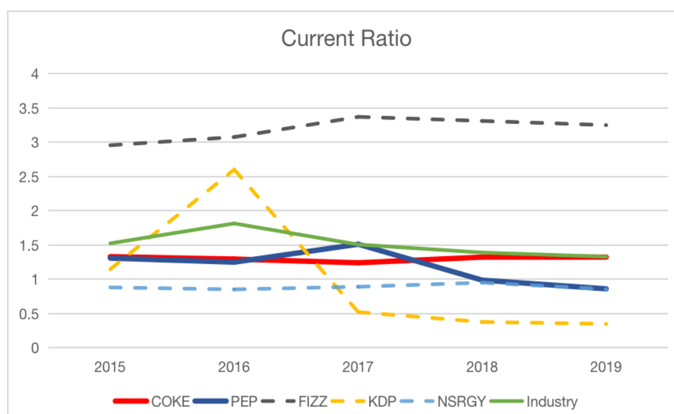

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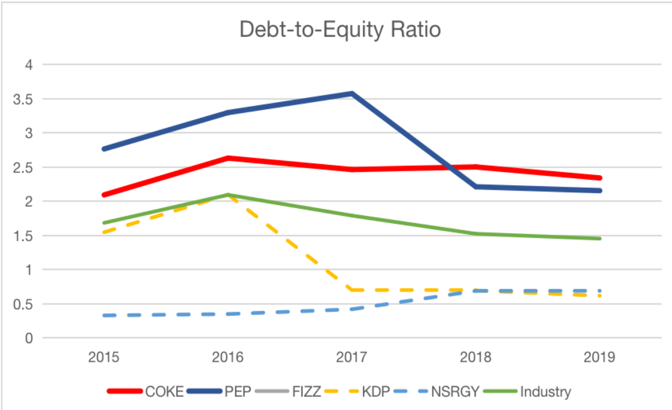

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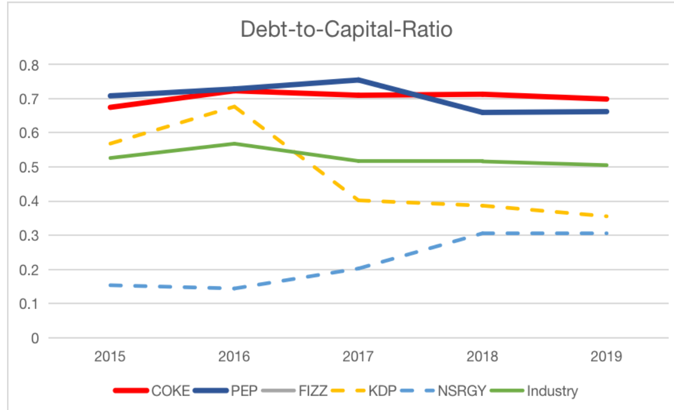

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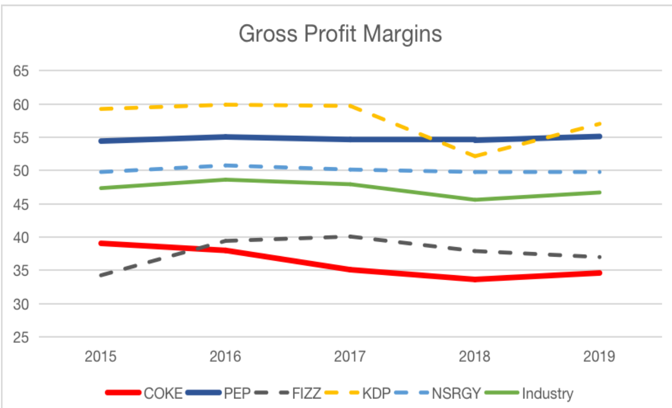

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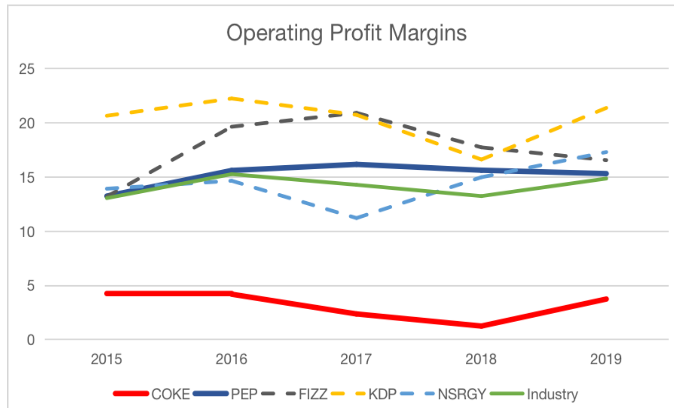

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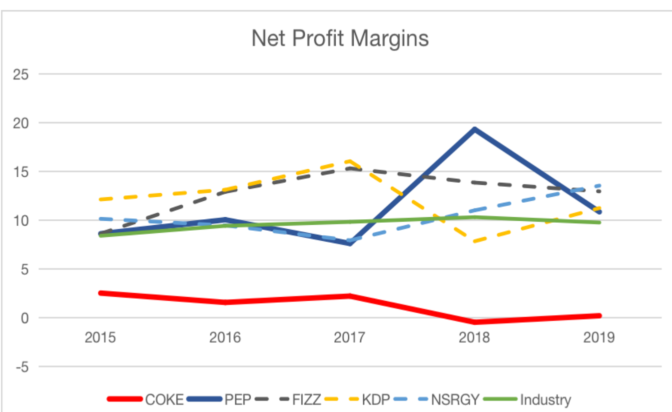

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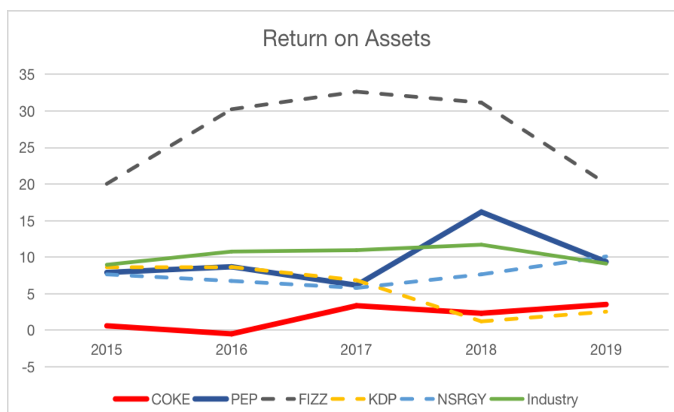

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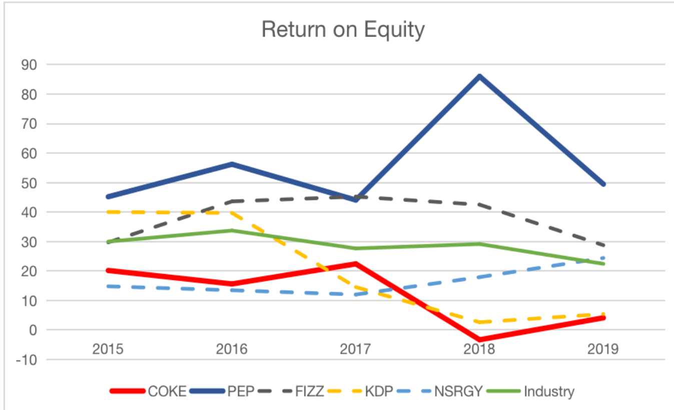
Return on Equity
90
80
70
60
50
40
30
20
10
0
-10
2015
2016
2017
2018
2019
COKE
PEP
FIZZ
KDP
NSRGY
Industry
Appendix M