



# PEPSICO

PepsiCo Financial Analysis

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ECON 118: Financial Accounting Analysis and Planning

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# *Significant Assets*

Pepsi is constantly expanding its network of property and improving their manufacturing equipment

- Their most significant asset on their balance sheet is Property Plant and Equipment

2019: PPE was \$19,305 million

2020: PPE was \$21,369 million

Side Note: Coca Cola's PPE was \$10,777 million in 2020



# *Significant Assets - Relation to Business Strategy*

Pepsi has a heavy emphasis on cost efficiency within their business strategy

Meaning, they primarily focus on manufacturing and distribution efficiency in order to gain a competitive edge over their competitors

- Relates to their most significant asset, PPE, because acquiring manufacturing businesses allows them to expand their warehouses and property worldwide, delivering their snacks and beverages seamlessly throughout the globe.



# Our brands

- Frito-Lay
- Gatorade
- Pepsi-Cola
- Quaker
- Tropicana



# Our Distribution Network

- Direct-Store-Delivery
- Customer Warehouse
- Distributor Networks
- E-commerce
- Ingredients and Other Supplies





# Risk factors concerning PepsiCo

- Reduction in future demand
  - PepsiCo must respond to consumer trends and preferences
  - Consumer perceptions of Pepsi products being unhealthy would negatively impact sales
  - Higher demand for healthier alternatives can have adverse effects on sales
- How has PepsiCo addressed this issue?
  - Invested in data analytics to better understand consumer preferences
  - Offering alternatives such as Bubly and diet drinks



# Risk factors cont.

- Limitations on the marketing or sale of products
  - Governments are concerned about public health, as diet-related diseases are on the rise
  - Possible limitations include taxing sugary beverages, color labeling ingredients, and limiting the sale in certain locations
- How has PepsiCO addressed this issue
  - Lobbying?
  - Adapt different business strategies in certain locations



# Evolution & Growth

- Acquiring and Combinations
  - Consistently merges with different manufacturers to acquire a larger inventory or products and to become a greater presence globally
  - Invests billions into advertising and marketing so that their products are viewed by consumers
  - Forms partnerships with other industries like the sports industry to relate to consumers





# Evolution & Growth

- Going Forward

- Has recently launched sustainability agenda designed to meet changing consumer and societal needs
- In the future they may begin acquiring and combining with healthier and environmentally conscious manufacturers and companies to further diversify their products and push for a healthier world

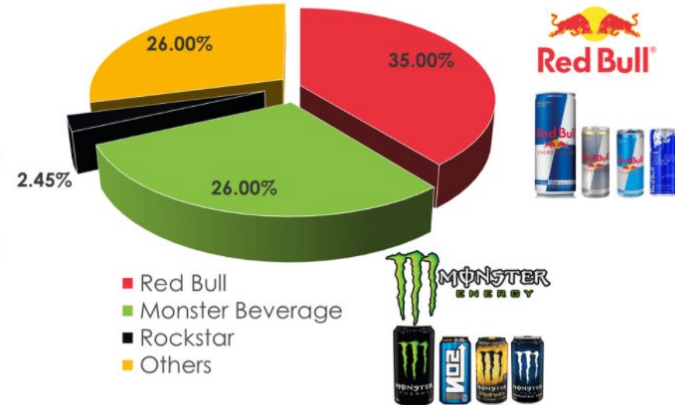


## 6) Financial Statement Foresight

- Net receivables increased from 7,822 → 8,404
- Land increased from 1,130 → 1,171
- Buildings and improvements increased from 9,314 → 10,214
- Cash and cash equivalents increased from 5,509 → 8,185
- Dividends payable increased from 1,351 → 1430.
- Pepsi has a negative cash conversion cycle
- PepsiCo's acquisition of Rockstar Energy Drinks



Leading Energy Drink Companies in U.S.



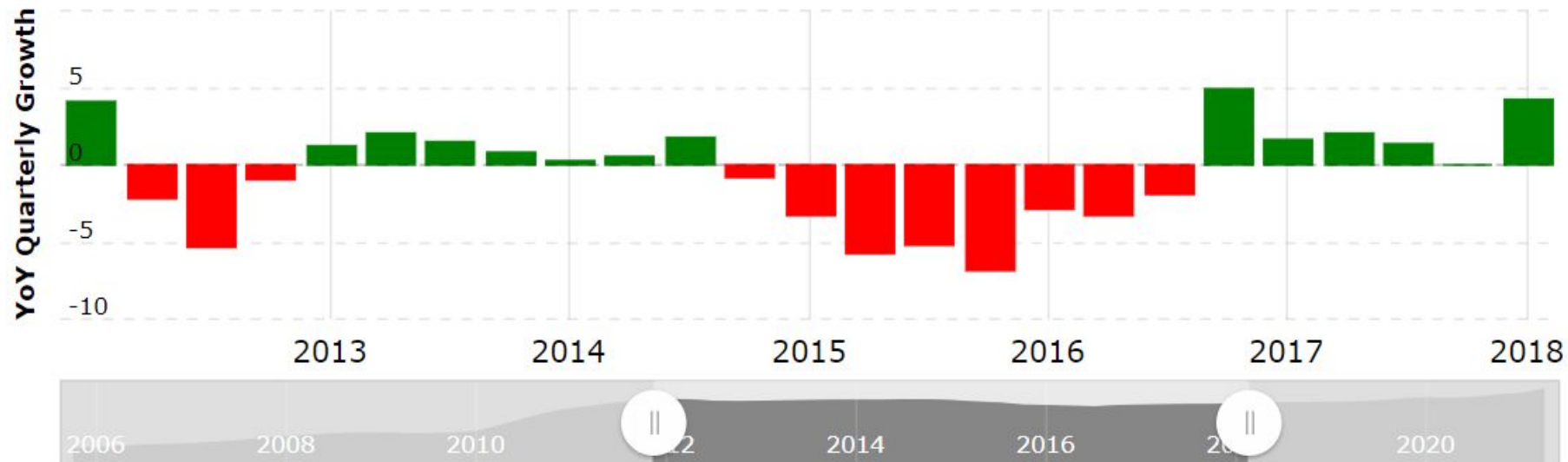
# Financial Statement Foresight cont.

- **We can see that their payables and are increasing at a rate similar to that of their receivables which may possibly point to some stagnation in the business cycle.**
  - Could be due to factors such as their long-term debt consolidation plans surrounding land acquisitions and building improvements.
- **Another point of concern could be Pepsico's ability to continue to generate revenue proportional to their advertising expenditures.**
  - PepsiCo spent nearly 1.7B on ad spend alone in 2019.

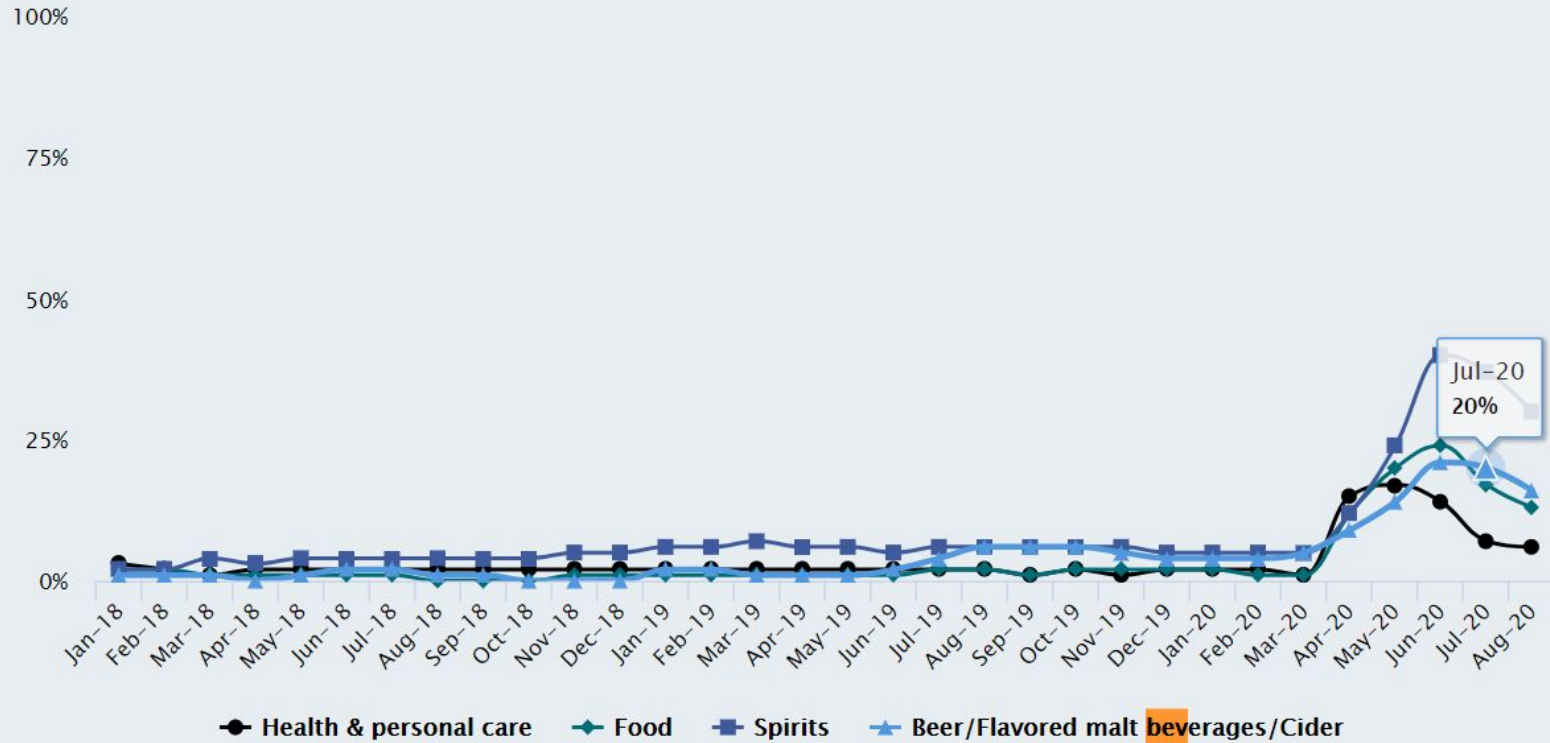
# Potential Manipulation

- Early revenue recognition
- provisions for income tax, it seems like it could be one of the main factors to use to control net income.

## PEP Revenue Growth Rate



## U.S. market growth across staple categories



Source: J.P. Morgan Research estimates



# Effectiveness of COVID-19 Vaccines in Preventing SARS-CoV-2 Infection Among Frontline Workers Before and During B.1.617.2 (Delta) Variant Predominance — Eight U.S. Locations, December 2020–August 2021

Weekly / August 27, 2021 / 70(34);1167-1169

*On August 24, 2021, this report was posted online as an MMWR Early Release.*

Ashley Fowlkes, ScD<sup>1</sup>; Manjusha Gaglani, MBBS<sup>2</sup>; Kimberly Groover, PhD<sup>3</sup>; Matthew S. Thiese, PhD<sup>4</sup>; Harmony Tyner, MD<sup>5</sup>; Katherine Ellingson, PhD<sup>6</sup>; HEROES-RECOVER Cohorts ([View author affiliations](#))

[View suggested citation](#)

During December 14, 2020–April 10, 2021, data from the HEROES-RECOVER Cohorts,\* a network of prospective cohorts among frontline workers, showed that the Pfizer-BioNTech and Moderna mRNA COVID-19 vaccines were approximately 90% effective in preventing symptomatic and asymptomatic infection with SARS-CoV-2, the virus that causes COVID-19, in real-world conditions (1,2). This report updates vaccine effectiveness (VE) estimates including all COVID-19 vaccines available through August 14, 2021, and examines whether VE differs for adults with increasing time since completion of all recommended vaccine doses. VE before and during SARS-CoV-2 B.1.617.2 (Delta) variant predominance, which coincided with an increase in reported COVID-19 vaccine breakthrough infections, were compared (3,4).

## Article Metrics

Altmetric:



- News (224)
- Blogs (4)
- Twitter (2882)
- Facebook (5)
- Wikipedia (2)
- Reddit (4)

	Forecast										Continuing Terminal	
Year	Growth	2019	Growth	2020	Growth	2021	Growth	2022	Growth	2023	Growth	2024
Net Revenue	3.00%	66600.83	10.00%	73260.91	8.00%	79121.786	2.00%	80704.22	1.50%	81914.79	1.00%	82733.93294
Cost of Sales	2.03%	29977.43	2.03%	30585.98	2.03%	31206.872	2.03%	31840.37	2.03%	32486.73	2.03%	33146.21119
Gross Profit	3.81%	36623.40	16.52%	42674.94	12.28%	47914.915	1.98%	48863.85	1.15%	49428.05	0.32%	49587.72175
SG&A	5.00%	26428.50	10.00%	29071.35	10.00%	31978.485	5.00%	33577.41	5.00%	35256.28	3%	36313.9681
Operating Profit(EBIT)	0.84%	10194.90	33.44%	13603.59	17.15%	15936.430	-4.08%	15286.44	-7.29%	14171.77	-6.34%	13273.75365
Pension/Retiree Medical benefits	20.00%	357.60	-30.00%	250.32	150.00%	625.800	20.00%	750.96	15.00%	863.60	-20%	690.8832
Interest Expense	-20.00%	1220.00	10.00%	1342.00	10.00%	1476.200	3.00%	1520.49	-20.00%	1216.39	-10%	1094.74992
Provision for Income Tax	-150.00%	1685.00	20.00%	2022.00	20.00%	2426.400	5.00%	2547.72	3.00%	2624.15	-50%	1312.0758
Non-Controlling interest	-10.00%	39.60	-15.00%	33.66	-10.00%	30.294	-100.00%	0.00	N/A	0.00	N/A	0
Net income	-45.12%	6892.70	44.44%	9955.61	14.28%	11377.736	-8.00%	10467.28	-9.55%	9467.63	7.48%	10176.04473
Depreciation and amortization	1%	2422.99	2%	2471.4498	2%	2520.878796	2%	2571.296372	2%	2622.722299	2%	2675.176745
Share-based compensation expense	10%	281.6	30%	366.08	20%	439.296	-30%	307.5072	-20%	246.00576	-10%	221.405184
Restructuring and impairment charges	30%	400.4	20%	480.48	20%	576.576	-30%	403.6032	-20%	322.88256	40%	452.035584
Cash payment for restructuring charges	10%	-280.5	20%	-336.6	20%	-403.92	-30%	-282.744	-20%	-226.1952	-20%	-180.95616
Charge related to the transaction with Tingvi	N/A	0	N/A	0	N/A	0	N/A	0	N/A	0	N/A	0
Pension and retiree medical plan expenses	300%	884	-40%	530.4	-40%	318.24	30%	413.712	30%	537.8256	-10%	484.04304
Pension and retiree medical plan contributions	-50%	-854	10%	-939.4	20%	-1127.28	30%	-1465.464	-10%	-1318.9176	-15%	-1121.07996
Deferred income taxes and other tax charge and credits	-200%	531	20%	637.2	-300%	-1274.4	30%	-1656.72	-5%	-1573.884	-20%	-1259.1072
Other net tax benefits related to international reorganiza	N/A	0	N/A	0	N/A	0	N/A	0	N/A	0	N/A	0
Net tax(benefit)/expense related to the TCJ Act	N/A	0	N/A	0	N/A	0	N/A	0	N/A	0	N/A	0
Change in assets and liabilities:												
Accounts and notes receivable	10%	-278.3	50%	-417.45	40%	-584.43	-40%	-350.658	-30%	-245.4606	-40%	-147.27636
Inventories	5%	-182.7	80%	-328.86	50%	-493.29	-60%	-197.316	-20%	-157.8528	-30%	-110.49696
Prepaid expenses and other current assets	500%	54	300%	216	50%	324	-20%	259.2	-30%	181.44	-20%	145.152
Accounts payable other current liabilities	-50%	441	100%	882	50%	1323	-30%	926.1	-30%	648.27	30%	842.751
Income tax payable	-150%	-166.5	-250%	249.75	50%	374.625	-10%	337.1625	-10%	303.44625	20%	364.1355
Other. net	-10%	-230.4	-10%	-207.36	-5%	-196.992	10%	-216.6912	10%	-238.36032	10%	-262.196352
Net Cash Provided by Operating Activities	5.31%	9915.2857	36.75%	13559.2966	-2.84%	13174.0393	-12.58%	11516.2636	-8.22%	10569.5524	16.18%	12279.6308
Capital spending	10%	-3610.2	15%	-4151.73	20%	-4982.076	10%	-5480.2836	-15%	-4658.24106	-25%	-3493.680795
Sales of property, plant and equipment	15%	154.1	15%	177.215	50%	265.8225	-50%	132.91125	-30%	93.037875	30%	120.9492375
Free Cash flow for common Equity, non-GAAP measu	3.07%	6459.1857	48.39%	9584.7816	-11.76%	8457.7858	-27.06%	6168.8912	-2.67%	6004.3492	48.34%	8906.8992
Taxed Cash Flow (21%)		5102.756703		7571.977451		6681.650784		4873.424054		4743.435853		7036.450392
Present Value Factor		0.93		0.87		0.80		0.74		0.67		
Present Value Free Cash Flows		4,770		6,585		5,375		3,603		3,197		



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Present Value Free Cash Flows		4,770		6,585		5,375		3,603		3,197		

$$\begin{aligned} &\text{CAPM} \\ &= \\ &\text{Risk Free Rate of Return} \\ &+ \\ &\text{Beta} \\ &\times \\ &(\text{Market Risk Premium}-\text{Risk Free Rate of Return}) \end{aligned}$$

Beta=Covariance/Variance

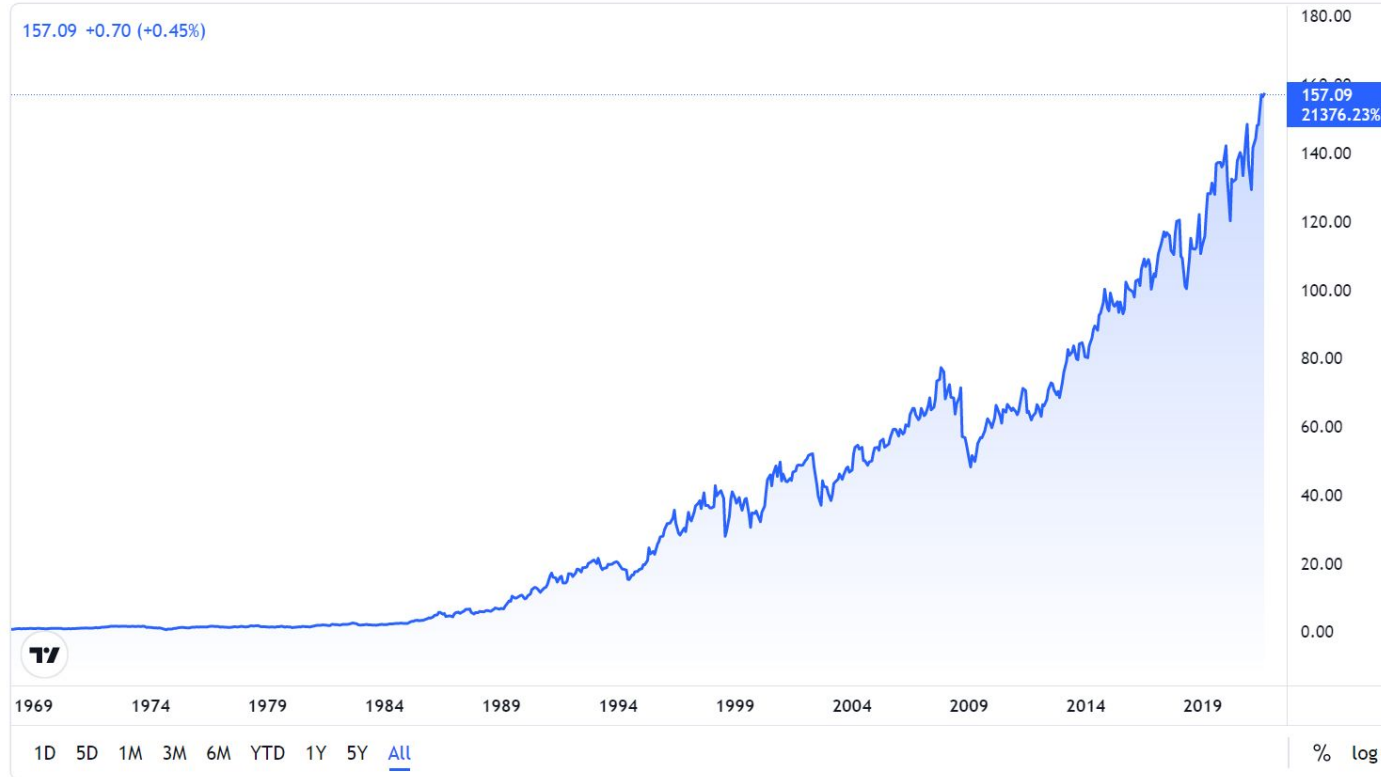
Risk Free Rate of Return=5 Year Treasury Bond Rate

Market risk Premium= Expected Market Return-Risk Free Rate of Return

Expected Market Return= Average YOY growth in S&P

Treasury Rate as 2018			2.75				
<b>Risk Free Rate of Returns 2018</b>			2.75				
Beta			1.02				
Market Risk Premium			6.45	Expected Market Return			9.2
CAPM			6.519557307				
Growth			4%	according to their CEO guidance.			
Share outstanding as 2018			1415				
Diluted			1425				
Current share price			\$156.39				
Year	2013	2014	2015	2016	2017	2018	
PEP Stock Price	100	117	128	137	162	154	
S&P	100	114	115	129	157	150	
Covariance	504						
Variance	494.7						

# PEP Stock Chart

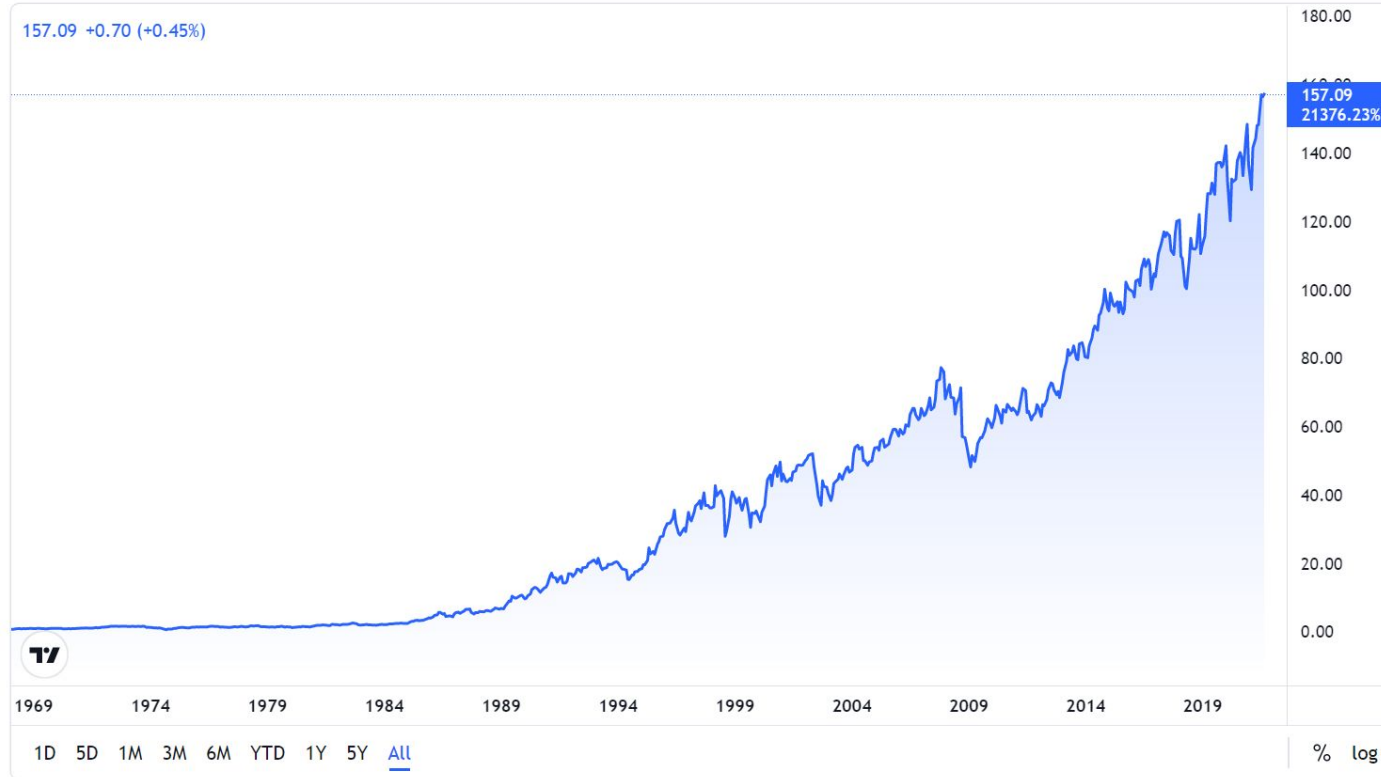


Source :Yahoo Finance



Sum of Present Value Free Cash Flow	23,529							
Present Value of Continuing Value	188203.3061	=	<u>Continuing Value(11906.02)</u>	x	0.67			
			CAPM (6.52%)-Growth Rate(4%)					
Total	211,733							
Adjusted Midyear Discount	1.032597787							
Total Present Value FCF to Equity	218634.5677							
Share outstanding as 2018	1415							
Estimated Value Per Share	154.5120619							
Current Share Price	\$157.09							
Percent Difference	-1.64%							

# PEP Stock Chart



Source :Yahoo Finance

**Thanks For Watching!**  
**Have A Wonderful Day**  
**And Stay Safe!**