



# PepsiCo, Inc (PEP)

Updated October 8<sup>th</sup>, 2024 by Nathan Parsh

## Key Metrics

|                             |       |  |       |                                  |                       |
|-----------------------------|-------|--|-------|----------------------------------|-----------------------|
| <b>Current Price:</b>       | \$170 | <b>5 Year CAGR Estimate:</b>               | 11.8% | <b>Market Cap:</b>               | \$233 B               |
| <b>Fair Value Price:</b>    | \$198 | <b>5 Year Growth Estimate:</b>             | 6.0%  | <b>Ex-Dividend Date:</b>         | 11/29/24 <sup>1</sup> |
| <b>% Fair Value:</b>        | 86%   | <b>5 Year Valuation Multiple Estimate:</b> | 3.0%  | <b>Dividend Payment Date:</b>    | 01/03/25 <sup>2</sup> |
| <b>Dividend Yield:</b>      | 3.2%  | <b>5 Year Price Target</b>                 | \$264 | <b>Years Of Dividend Growth:</b> | 52                    |
| <b>Dividend Risk Score:</b> | A     | <b>Retirement Suitability Score:</b>       | B     | <b>Rating:</b>                   | Buy                   |

## Overview & Current Events

PepsiCo is a global food and beverage company that generates \$89 billion in annual sales. The company's products include Pepsi, Mountain Dew, Frito-Lay chips, Gatorade, Tropicana orange juice and Quaker foods. The company has more than 20 \$1 billion brands in its portfolio. PepsiCo was founded in 1898 and currently employs 315,000 people around the world.

On February 9<sup>th</sup>, 2024, PepsiCo announced that it would increase its annualized dividend by 7.1% to \$5.42 starting with the payment that was made in June 2024, extending the company's dividend growth streak to 52 consecutive years.

On October 8<sup>th</sup>, 2024, PepsiCo reported third quarter results for the period ending September 30<sup>th</sup>, 2024. For the quarter, revenue fell 0.5% to \$23.3 billion, which was \$460 million below estimates. Adjusted earnings-per-share of \$2.31 compared favorably to \$1.97 the prior year and was \$0.02 ahead of expectations. Currency exchange reduced revenue and earnings-per-share by ~2%.

Organic sales improved 1.3% for the second quarter and 1.9% year-to-date. Volumes for both food and beverage were down 2%. PepsiCo Beverages North America's revenue once again grew 1% organically as higher prices more than offset a 3% decline in volume. Revenue for Frito-Lay North America declined 1% as volume was lower by 1.5%. Quaker Foods North America decreased 13%, driven almost entirely by weaker volumes. As with prior quarters, this mostly due to product recalls. Revenues in Europe improved 6%, mostly due to pricing as food volume improved 1% and beverage was flat. Latin America grew 3%, Africa/Middle East/South Asia was up 6%, and the Asia Pacific/Australia/New Zealand/China region declined 1%.

PepsiCo reaffirmed much of its previous guidance for 2024, with the company still expecting adjusted earnings-per-share growth of at least 8% for the year. Organic sales are now projected to be low single-digits, compared to ~4% and least 4% previously. We maintain our EPS forecast for the year.

## Growth on a Per-Share Basis

| Year                      | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   | 2023   | 2024          | 2029           |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|----------------|
| <b>EPS</b>                | \$4.27 | \$4.66 | \$4.85 | \$5.23 | \$5.65 | \$5.53 | \$5.52 | \$6.26 | \$6.42 | \$7.62 | <b>\$8.23</b> | <b>\$11.01</b> |
| <b>DPS</b>                | \$2.53 | \$2.79 | \$2.96 | \$3.12 | \$3.47 | \$3.82 | \$4.02 | \$4.25 | \$4.53 | \$4.83 | <b>\$5.42</b> | <b>\$7.25</b>  |
| <b>Shares<sup>3</sup></b> | 1488   | 1448   | 1428   | 1420   | 1410   | 1400   | 1388   | 1390   | 1385   | 1381   | <b>1378</b>   | <b>1365</b>    |

PepsiCo grew earnings at a rate of 6.6% per year from 2014 to 2023. We reaffirm our expected earnings growth rate to 6% from 5.5% to better reflect the long-term growth trends for the company as well its portfolio of billion dollar brands. PepsiCo's growth over this time period will accrue from organic sales growth and share repurchases.

PepsiCo has raised its dividend for more than 50 consecutive years, making the company a member of the Dividend Kings.

<sup>1</sup> Estimated ex-dividend date

<sup>2</sup> Estimated dividend payment date

<sup>3</sup> Share count in millions

Disclosure: This analyst has a long position in the security discussed in this research report.



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## Valuation Analysis

| Year      | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Now  | 2029 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E  | 20.8 | 20.7 | 21.4 | 21.6 | 19.1 | 26.3 | 28.8 | 31.6 | 32.9 | 26.9 | 20.7 | 24.0 |
| Avg. Yld. | 2.8% | 2.9% | 2.9% | 2.8% | 3.1% | 2.9% | 2.9% | 2.4% | 2.5% | 2.8% | 3.2% | 2.7% |

PepsiCo's stock has gained \$6, or 3.7%, since our July 15<sup>th</sup>, 2024 report. Based off earnings guidance for 2024, the stock has a P/E of 20.7. The stock has an average P/E ratio of 29.3 over the last decade and 25.0 over the last five years. We are reaffirming our 2029 target P/E of 24 to better match the stock's average valuation over the medium-term as well as because of the quality of recent results. Reaching our target by 2029 would add 3.0% to annual returns over the next five years. Shares offer a 3.2% yield currently, which is ahead of the stock's long-term average yield of 2.8%.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

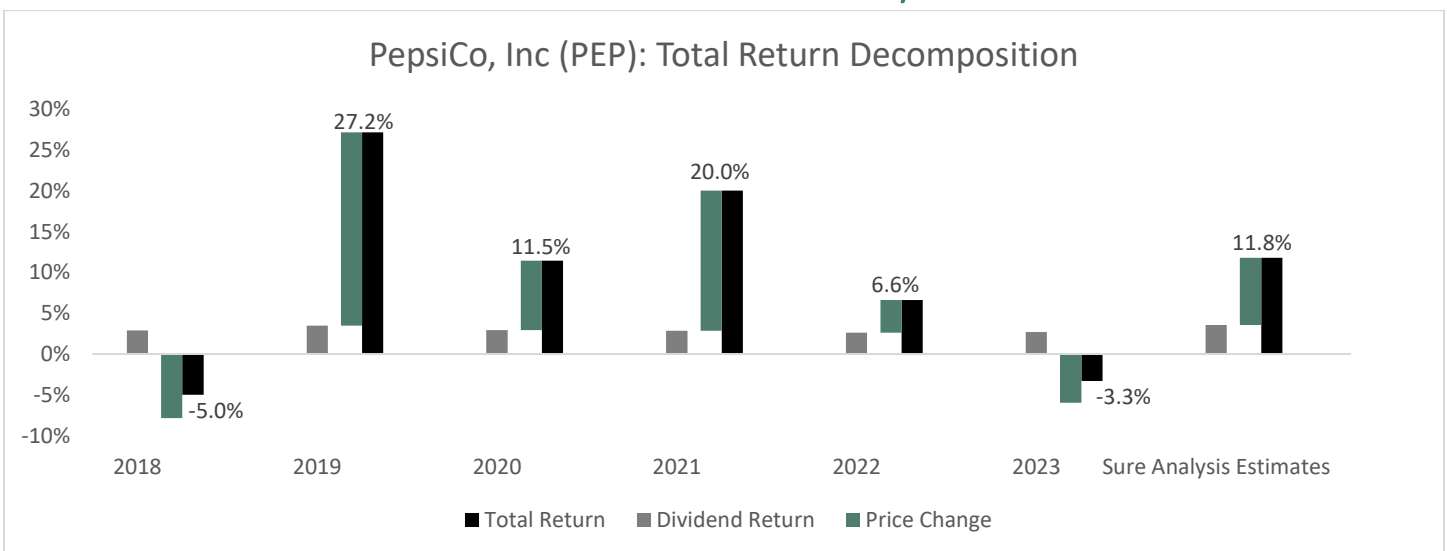
| Year   | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 59%  | 60%  | 61%  | 60%  | 61%  | 69%  | 73%  | 68%  | 71%  | 63%  | 66%  | 66%  |

PepsiCo is a relatively recession-proof company. Earnings grew during the last recession and it offers a generous dividend yield. The company is expecting to return \$8.2 billion in cash to shareholders in the form of dividends and share repurchases in 2024. PepsiCo has several key competitive advantages that set it apart from the competition. The company is one of the largest in its sector, which gives it pricing power with vendors. While known for their carbonated beverages, Pepsi's food and snacks make up slightly more than half of sales. PepsiCo has also adjusted to changing consumer habits. The company's line of "Better for You" offerings are designed to meet consumers' desire for healthier food and drink options. Products with less than 70 calories from added sugar make up about half of sales.

## Final Thoughts & Recommendation

After third quarter earnings results, PepsiCo is projected to produce an annual return of 11.8% through 2029, down from our prior estimate of 12.6%. Our projected return stems from a 6.0% earnings growth rate, a starting yield of 3.2%, and a low single-digit contribution from multiple expansion. PepsiCo's results were mixed again, but the company did see organic growth during the period. The company continues to demonstrate pricing power thanks to its portfolio of products. We reaffirm our 2029 price target of \$264. We also note the solid current yield and the length of the company's dividend growth streak. PepsiCo continues to receive a buy recommendation due to projected returns.

## Total Return Breakdown by Year



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## Income Statement Metrics

| Year                    | 2014   | 2015   | 2016   | 2017   | 2018    | 2019   | 2020   | 2021   | 2022   | 2023   |
|-------------------------|--------|--------|--------|--------|---------|--------|--------|--------|--------|--------|
| <b>Revenue</b>          | 66,683 | 63,056 | 62,799 | 63,525 | 64,661  | 67,161 | 70,372 | 79,474 | 86,392 | 91,471 |
| <b>Gross Profit</b>     | 35,445 | 34,325 | 34,577 | 34,729 | 35,280  | 37,029 | 38,575 | 42,399 | 45,816 | 49,590 |
| <b>Gross Margin</b>     | 53.2%  | 54.4%  | 55.1%  | 54.7%  | 54.6%   | 55.1%  | 54.8%  | 53.3%  | 53.0%  | 54.2%  |
| <b>SG&amp;A Exp.</b>    | 25,772 | 24,613 | 24,773 | 24,453 | 25,170  | 26,738 | 28,495 | 31,237 | 34,459 | 36,677 |
| <b>D&amp;A Exp.</b>     | 2,625  | 2,416  | 2,368  | 2,369  | 2,399   | 2,844  | 3,026  | 3,215  | 3,280  | 3,518  |
| <b>Operating Profit</b> | 9,581  | 9,712  | 9,804  | 10,276 | 10,110  | 10,291 | 10,080 | 11,162 | 11,357 | 12,913 |
| <b>Op. Margin</b>       | 14.4%  | 15.4%  | 15.6%  | 16.2%  | 15.6%   | 15.3%  | 14.3%  | 14.0%  | 13.1%  | 14.1%  |
| <b>Net Profit</b>       | 6,513  | 5,452  | 6,329  | 4,857  | 12,515  | 7,314  | 7,120  | 7,618  | 8,910  | 9,074  |
| <b>Net Margin</b>       | 9.8%   | 8.6%   | 10.1%  | 7.6%   | 19.4%   | 10.9%  | 10.1%  | 9.6%   | 10.3%  | 9.9%   |
| <b>Free Cash Flow</b>   | 7,647  | 8,106  | 7,623  | 7,061  | 6,133   | 5,417  | 6,373  | 6,991  | 5,604  | 7,924  |
| <b>Income Tax</b>       | 2,199  | 1,941  | 2,174  | 4,694  | (3,370) | 1,959  | 1,894  | 2,142  | 1,727  | 2,262  |

## Balance Sheet Metrics

| Year                          | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   | 2023    |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|
| <b>Total Assets</b>           | 70,509 | 69,667 | 73,490 | 79,804 | 77,648 | 78,547 | 92,918 | 92,377 | 92,187 | 100,495 |
| <b>Cash &amp; Equivalents</b> | 6,134  | 9,096  | 9,158  | 10,610 | 8,721  | 5,509  | 8,185  | 5,596  | 4,954  | 9,711   |
| <b>Acc. Receivable</b>        | 5,817  | 5,497  | 5,709  | 5,956  | 6,079  | 6,447  | 6,892  | 7,172  | 8,192  | 8,675   |
| <b>Inventories</b>            | 3,143  | 2,720  | 2,723  | 2,947  | 3,128  | 3,338  | 4,172  | 4,347  | 5,222  | 5,334   |
| <b>Goodwill &amp; Int.</b>    | 29,053 | 27,258 | 27,863 | 28,582 | 30,633 | 31,544 | 38,072 | 37,046 | 33,788 | 32,657  |
| <b>Total Liabilities</b>      | 52,961 | 57,637 | 62,291 | 68,823 | 63,046 | 63,679 | 79,366 | 76,226 | 74,914 | 81,858  |
| <b>Accounts Payable</b>       | 5,127  | 5,546  | 6,158  | 6,727  | 7,213  | 8,013  | 8,853  | 9,834  | 10,732 | 11,635  |
| <b>Long-Term Debt</b>         | 28,897 | 33,284 | 36,945 | 39,281 | 32,321 | 32,068 | 44,150 | 40,334 | 39,071 | 44,105  |
| <b>Total Equity</b>           | 17,397 | 11,882 | 11,054 | 10,848 | 14,518 | 14,786 | 13,454 | 16,043 | 17,149 | 18,503  |
| <b>LTD/E Ratio</b>            | 1.66   | 2.79   | 3.33   | 3.61   | 2.23   | 2.17   | 3.28   | 2.51   | 2.28   | 2.38    |

## Profitability & Per Share Metrics

| Year                    | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  | 2023  |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Return on Assets</b> | 8.8%  | 7.8%  | 8.8%  | 6.3%  | 15.9% | 9.4%  | 8.3%  | 8.2%  | 9.7%  | 9.4%  |
| <b>Return on Equity</b> | 31.3% | 37.2% | 55.2% | 44.4% | 98.7% | 49.9% | 50.4% | 51.7% | 53.7% | 50.5% |
| <b>ROIC</b>             | 13.0% | 11.9% | 13.5% | 9.9%  | 25.8% | 15.6% | 13.6% | 13.3% | 15.8% | 15.2% |
| <b>Shares Out.</b>      | 1,488 | 1,448 | 1,428 | 1,420 | 1,410 | 1,400 | 1,388 | 1,390 | 1,385 | 1,383 |
| <b>Revenue/Share</b>    | 43.67 | 42.46 | 43.25 | 44.18 | 45.38 | 47.73 | 50.55 | 57.22 | 62.29 | 66.14 |
| <b>FCF/Share</b>        | 5.01  | 5.46  | 5.25  | 4.91  | 4.30  | 3.85  | 4.58  | 5.03  | 4.04  | 5.73  |

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

### Disclaimer

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