

PepsiCo, Inc.

Recommendation **STRONG BUY** ★★★★★

Price USD 135.81 [as of market close Sep 11, 2020] **12-Mo. Target Price** USD 155.00

Report Currency USD

Investment Style Large-Cap Blend

Equity Analyst Garrett Nelson

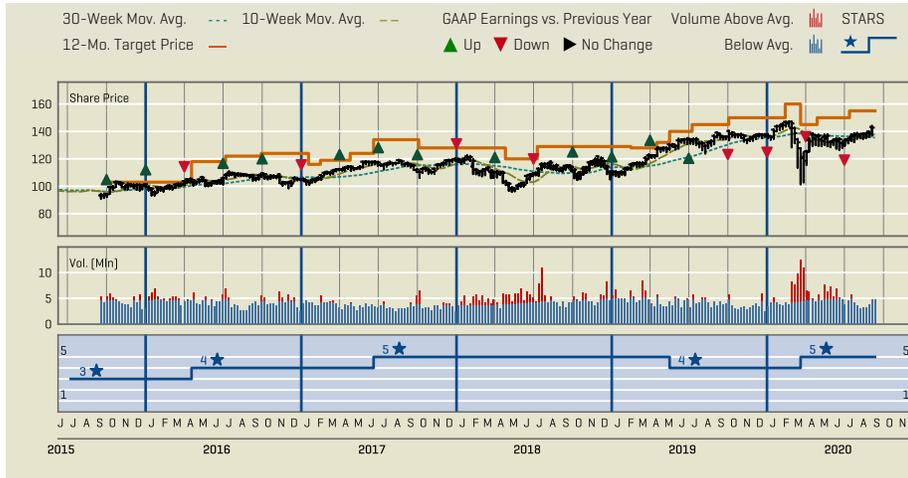
GICS Sector Consumer Staples
Sub-Industry Soft Drinks

Summary PepsiCo is a major international producer of branded beverage and snack food products.

Key Stock Statistics [Source: CFRA, S&P Global Market Intelligence (SPGMI), Company Reports]

52-Wk Range	USD 146.99 - 103.93	Oper.EPS2020E	USD 5.40	Market Capitalization[B]	USD 188.05	Beta	0.59
Trailing 12-Month EPS	USD 4.9	Oper.EPS2021E	USD 5.95	Yield [%]	3.01	3-yr Proj. EPS CAGR[%]	2
Trailing 12-Month P/E	27.7	P/E on Oper.EPS2020E	25.15	Dividend Rate/Share	USD 4.09	SPGMI's Quality Ranking	B+
\$10K Invested 5 Yrs Ago	\$ 17,178.0	Common Shares Outstg.[M]	1,385.00	Institutional Ownership [%]	72.0		

Price Performance



Source: CFRA, S&P Global Market Intelligence

Past performance is not an indication of future performance and should not be relied upon as such.

Analysis prepared by Garrett Nelson on Jul 13, 2020 09:18 AM ET, when the stock traded at **USD 134.46**.

Highlights

- ▶ We expect net sales to rise about 1% in 2020, after foreign currency headwinds, reflecting organic growth of about 2%. In 2019, PEP's net sales rose 3.9% driven by organic growth of 4.5% [led by emerging markets]. We see organic sales growth driven by increased snacks volume and pricing gains in emerging markets. We think PEP has many levers it can pull to drive growth in both beverage and snack products, and has been proactive in shifting its portfolio toward healthier products [e.g. Bubly flavored sparkling water, Sabra Hummus, Stacy's Pita Chips] and energy drinks, agreeing to purchase Rockstar Energy in March 2020.
- ▶ We expect EBITDA margins to decline slightly in 2020 from the 2019 level of 19.4%, as benefits from price increases and higher volumes and are fully offset by lower productivity from impacts related to Covid-19 safety precautions.
- ▶ We forecast adjusted EPS of \$5.40 in 2020, followed by an increase to \$5.95 in 2021. In 2020, we expect a slight EPS decline from \$5.53 in 2019 and estimate cash returns to shareholders of \$7.5B [\$5.5B dividends / \$2.0B share repurchases]. PEP recently announced a 7.1% increase in its annualized dividend to \$4.09/share starting with the June 2020 payment.

Investment Rationale/Risk

- ▶ Our Strong Buy opinion reflects our view that PEP is a low-beta, more defensive blue-chip name with a strong balance sheet and high degree of earnings stability. Despite some recent weakness in beverage trends, we look for improvement in 2021 and beyond. Longer term, we see faster growing international markets and the Frito-Lay business as the primary growth drivers. In addition to its leading market positions, PEP's focus on healthier snacks and beverages will likely continue to drive the top line, and we look for strong returns to shareholders in the form of dividends and share repurchases.
- ▶ Risks to our recommendation and target price include lower-than-expected demand for its beverage and snack food products, unfavorable weather conditions, and increased competition. Political and currency risks are also material.
- ▶ Our 12-month target of \$155 reflects a '21 P/E of 26.1x, higher than its five-year average P/E of 21.9x, which we view as justified by PEP's increased diversification, growth potential, and generous cash returns to shareholders. We see valuation benefiting from an expected improvement in beverage and snack food trends as well as management's pivot toward higher growth categories.

Analyst's Risk Assessment

LOW	MEDIUM	HIGH
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Our risk assessment reflects the relatively stable nature of the company's end markets; its strong cash flow; leading global market positions; corporate governance practices that we view as favorable versus peers; and above-average long-term record of earnings and dividend growth.

Revenue/Earnings Data

Revenue (Million USD)	Revenue/Earnings Data				
	1Q	2Q	3Q	4Q	Year
2020	13,881	15,945	--	--	--
2019	12,884	16,449	17,188	20,640	67,161
2018	12,562	16,090	16,485	19,524	64,661
2017	12,049	15,710	16,240	19,526	63,525
2016	11,862	15,395	16,027	19,515	62,799
2015	12,217	15,923	16,331	18,585	63,056

Earnings Per Share (USD)

Earnings Per Share (USD)	Earnings Per Share (USD)				
	1Q	2Q	3Q	4Q	Year
2021	E 1.12	E 1.48	E 1.70	E 1.65	E 5.95
2020	1.07	1.32	E 1.52	E 1.49	E 5.40
2019	1.00	1.44	1.49	1.26	5.20
2018	0.94	1.28	1.75	4.83	8.78
2017	0.92	1.46	1.49	-0.50	3.38
2016	0.64	1.38	1.37	0.97	4.36

Fiscal Year ended Dec 31. EPS Estimates based on CFRA's Operating Earnings; historical GAAP earnings are as reported in Company reports.

Dividend Data

Amount (USD)	Date Decl.	Ex-Div. Date	Stk. of Record	Payment Date
1.02	Jul 15	Sep 03	Sep 04	Sep 30 '20
1.02	May 05	Jun 04	Jun 05	Jun 30 '20
0.96	Feb 10	Mar 05	Mar 06	Mar 31 '20
0.96	Nov 14	Dec 05	Dec 06	Jan 07 '20

Dividends have been paid since 1952. Source: Company reports

Past performance is not an indication of future performance and should not be relied as such.

Forecasts are not reliable indicator of future performance.

PepsiCo, Inc.

Business Summary Jul 13, 2020

CORPORATE OVERVIEW. Originally incorporated in 1919, PepsiCo is a leader in the global snack and beverage industry. The company manufactures, markets, and sells a variety of salty, convenient, sweet, and grain-based snacks, carbonated and non-carbonated beverages, and foods. PepsiCo is organized into seven reporting segments: Frito-Lay North America [FLNA]; Quaker Foods North America [QFNA]; PepsiCo Beverages North America [PBNA]; Latin America [LatAm]; Europe; Africa, Middle East, and South Asia [AMESA]; and Asia Pacific, Australia and New Zealand, and China [APAC]. At the end of 2019, the company had approximately 267,000 employees, including 116,000 in the U.S. (43% of the total) and many of whom are subject to collective bargaining agreements. In 2019, PepsiCo generated 58% of net revenues from the U.S. and 42% internationally. In order, Mexico, Russia, Canada, the U.K., China, and Brazil were its next largest customers, together accounting for 22% of 2019 consolidated net revenue.

FLNA (25.4% of net revenue and 51.1% of operating profits in 2019) produces the best-selling line of snack foods in the U.S., including Fritos brand corn chips, Lay's and Ruffles potato chips, Doritos and Tostitos tortilla chips, Cheetos cheese-flavored snacks, and Santitas tortilla chips. FLNA branded products are sold to independent distributors and retailers. Products are transported from FritoLay's manufacturing plants to major distribution centers, principally in company-owned trucks.

QFNA (3.7%, 5.3%) manufactures, markets, and sells Cap'n Crunch and Life ready-to-eat cereals; Quaker hot cereals, Rice-A-Roni, Near East, and Pasta Roni side dishes; Aunt Jemima mixes and syrups; and Quaker grits.

PBNA (32.4%, 21.2%) manufactures or uses contract manufacturers, markets, and sells beverage concentrates, fountain syrups, and finished goods, under the brands Pepsi, Mountain Dew, Gatorade, Tropicana Pure Premium, Mist Twist, SoBe Lifewater, Tropicana juice drinks, Amp Energy, Naked juice, and Izzo. NAB also manufactures, markets, and sells ready-to-drink tea and coffee products through joint ventures with Lipton and Starbucks. In addition, it markets Aquafina water and licenses it to its bottlers.

LatAM (11.3%, 11.1%) manufactures, markets, and sells snack foods under the brands Gamesa, Doritos, Cheetos, Ruffles, Lay's, and Sabritas, as well as many Quaker-branded products.

Europe (17.5%, 12.9%) manufactures, markets, and sells snack brands including Lay's, Walkers, Doritos, Cheetos, and Ruffles, as well as beverage concentrates, fountain syrups, and finished goods under brands including Pepsi, 7UP, and Tropicana. In addition, it licenses the Aquafina water brand to some of its bottlers as well as manufactures, markets, and sells ready-to-drink tea products under the Lipton brand name.

AMESA (5.4%, 6.5%) makes, markets, distributes, and sells a number of leading snack food brands including Cheetos, Chipsy, Doritos, Kurkure, and Lay's, as well as many Quaker branded cereals and snacks. AMESA also makes, markets, distributes, and sells beverage concentrates, fountain syrups, and finished goods under various beverage brands including 7UP, Aquafina, Mirinda, Mountain Dew, and Pepsi.

APAC (4.3%, 4.6%) makes, markets, distributes, and sells a number of leading snack food brands including Cheetos, Doritos, Lay's, and Smith's, as well as many Quaker branded cereals and snacks. APAC also makes, markets, distributes, and sells beverage concentrates, fountain syrups, and finished goods under various beverage brands including 7UP, Aquafina, Mirinda, Mountain Dew, and Pepsi.

Corporate overhead accounted for a 12.7% drag on consolidated operating profit in 2019.

CORPORATE STRATEGY. While carbonated soft drinks [CSD] remain the most popular beverage, PEP recognizes that non-CSD drinks are a faster-growing category. To that end, PEP plans to continue to innovate in that area, following its success with Lipton teas, Aquafina water, Tropicana juices, SoBe, Gatorade, and Propel. In 2018, the company launched Bubly sparkling water. Another trend the company is focusing on is health and wellness. PEP is also increasingly introducing 'good for you' foods under the Quaker Oats brand.

Walmart is the company's largest customer, accounting for 13% of net revenues in 2019.

According to Information Resources, Inc., in 2019, PepsiCo held a 22% retail sales share in the U.S. liquid refreshment beverage category, while The Coca-Cola Company had a 20% share.

COMPETITIVE LANDSCAPE. The convenient foods & beverage business is highly competitive and mature. PEP estimates that it is the second-largest manufacturer of branded food and beverages, excluding ingredients and pet products, in the world. However, competition is fierce, with large rivals such as Nestle, Kraft, Unilever, The Coca-Cola Company, Groupe Danone, and Cadbury Schweppes all attempting to grow respective 'share of stomach.'

FINANCIAL TRENDS. Pepsi's revenues have increased from \$63.5 billion in 2017 to \$64.7 billion in 2018 and \$67.2 billion in 2019, while its adjusted EPS has gone from \$5.23 in 2017 to \$5.66 in 2018 and \$5.53 in 2019. In Q1 2020, the company posted a 10.3% increase in adjusted EPS versus the prior-year period [\$1.07 versus \$0.97], as net revenue increased 7.8% and organic revenue by 7.9% but margins contracted.

As of June 13, 2020, Pepsi had approximately \$9.12 billion of cash, cash equivalents, and short-term investments, up from \$5.74 billion on December 28, 2019. PEP had total debt of \$44.98 billion, up from \$32.07 billion on December 28, 2019.

PepsiCo said it plans to return approximately \$7.5 billion to shareholders in 2020 via dividend payments of \$5.5 billion and share repurchases of \$2 billion. Pepsi's current annualized dividend is \$4.09/share, which it raised from \$3.82 in February 2020. PEP is a member of the S&P Dividend Aristocrat Index, having increased its dividend for 48 consecutive years now and having paid a quarterly dividend ever since 1965. PEP repurchased \$3 billion of stock in 2019 after buying back \$2 billion in both 2018 and 2017.

Corporate information

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Officers

Chairman & CEO

R. L. Laguarda

Vice Chairman, Executive VP & CFO

H. F. Johnston

Executive Vice President of Global Operations

G. Puma

Executive VP, General Counsel & Corporate Secretary

D. Yawman

Board Members

A. Weisser

C. Conde

D. C. Page

D. Dublon

D. L. Vasella

D. Walker

I. M. Cook

J. O. Agbaje

M. D. Gass

R. C. Pohlad

R. L. Laguarda

R. W. Fisher

S. L. Brown

Domicile

North Carolina

Founded

1898

Employees

267,000

Stockholders

109,312

Auditor

KPMG LLP - Klynveld Peat Marwick Goerdeler

PepsiCo, Inc.

Quantitative Evaluations						Expanded Ratio Analysis					
Fair Value Rank	NR	1	2	3	4	5					
		LOWEST				HIGHEST					
		Based on CFRA's proprietary quantitative model, stocks are ranked from most overvalued [1] to most undervalued [5].									
Fair Value Calculation	N/A										
Volatility		LOW	AVERAGE	HIGH							
Technical Evaluation	BULLISH	Since July, 2020, the technical indicators for PEP have been BULLISH"									
Insider Activity		UNFAVORABLE	NEUTRAL	FAVORABLE							
							2019	2018	2017	2016	
							Price/Sales	2.88	2.43	2.71	2.42
							Price/EBITDA	15.38	12.34	13.57	12.27
							Price/Pretax Income	20.78	17.11	17.96	17.76
							P/E Ratio	26.45	12.57	35.50	24.00
							Avg. Diluted Shares Outstg. [M]	1407.00	1425.00	1438.00	1452.00
							Figures based on fiscal year-end price				
Key Growth Rates and Averages											
Past Growth Rate [%]							1 Year	3 Years	5 Years		
							Net Income	NM	4.94	2.35	
							Sales	3.87	2.26	0.14	
Ratio Analysis [Annual Avg.]											
							Net Margin [%]	10.89	12.63	11.32	
							% LT Debt to Capitalization	62.41	63.32	63.43	
							Return on Equity [%]	49.90	64.11	56.89	

Company Financials Fiscal year ending Dec 31										
Per Share Data [USD]	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Tangible Book Value	-12.05	-11.44	-12.35	-11.64	-10.49	-7.71	-5.39	-7.18	-8.01	-4.55
Free Cash Flow	3.87	4.33	4.96	5.30	5.52	5.07	4.47	3.70	3.56	2.70
Earnings	5.20	8.78	3.38	4.36	3.67	4.27	4.32	3.92	4.03	3.92
Earnings [Normalized]	4.32	4.06	4.16	3.88	3.78	3.75	3.60	3.45	3.74	3.63
Dividends	3.79	3.59	3.17	2.96	2.76	2.53	2.24	2.13	2.02	1.89
Payout Ratio [%]	73.00	39.00	92.00	67.00	74.00	57.00	51.00	53.00	49.00	47.00
Prices: High	140.45	122.51	120.57	110.94	103.44	100.70	87.06	73.66	71.89	68.11
Prices: Low	106.73	95.94	101.06	93.25	76.48	77.01	67.39	62.15	58.50	58.75
P/E Ratio: High	27.00	13.90	35.70	25.50	28.20	23.60	20.20	18.80	17.80	17.40
P/E Ratio: Low	20.50	10.90	29.90	21.40	20.80	18.10	15.60	15.80	14.50	15.00
Income Statement Analysis [Million USD]										
Revenue	67,161	64,661	63,525	62,799	63,056	66,683	66,415	65,492	66,504	57,838
Operating Income	10,725	10,545	10,565	10,229	10,009	10,066	9,878	9,552	10,375	9,499
Depreciation + Amortization	2,266	2,195	2,145	2,154	2,214	2,417	2,466	2,493	2,581	2,190
Interest Expense	1,135	1,525	1,151	1,342	970.00	909.00	911.00	899.00	856.00	903.00
Pretax Income	9,312	9,189	9,602	8,553	7,442	8,757	8,891	8,304	8,834	8,232
Effective Tax Rate	21.00	-36.70	48.90	25.40	26.10	25.10	23.70	25.20	26.90	23.00
Net Income	7,314	12,515	4,857	6,329	5,452	6,513	6,740	6,178	6,443	6,320
Net Income [Normalized]	6,080	5,785	5,985	5,629	5,610	5,731	5,618	5,429	5,966	5,856
Balance Sheet and Other Financial Data [Million USD]										
Cash	5,738	8,993	19,510	16,125	12,009	8,726	9,678	6,619	4,425	6,369
Current Assets	17,645	21,893	31,027	26,450	23,031	20,663	22,203	18,720	17,441	17,569
Total Assets	78,547	77,648	79,804	73,490	69,667	70,509	77,478	74,638	72,882	68,153
Current Liabilities	20,461	22,138	20,502	21,135	17,578	18,092	17,839	17,089	18,154	15,892
Long Term Debt	29,148	28,295	33,796	30,053	29,592	23,821	24,333	23,544	20,568	19,999
Total Capital	48,496	46,923	50,262	48,144	45,693	46,445	54,028	50,758	47,672	46,373
Capital Expenditures	4,232	3,282	2,969	3,040	2,758	2,859	2,795	2,714	3,339	3,253
Cash from Operations	9,649	9,415	10,030	10,663	10,864	10,506	9,688	8,479	8,944	8,448
Current Ratio	0.86	0.99	1.51	1.25	1.31	1.14	1.24	1.10	0.96	1.11
% Long Term Debt of Capitalization	62.40	60.30	67.20	62.40	64.80	51.30	45.00	46.40	43.10	43.10
% Net Income of Revenue	10.90	19.40	7.60	10.10	8.60	9.80	10.10	9.40	9.70	10.90
% Return on Assets	8.58	8.37	8.61	8.93	8.93	8.50	8.12	8.09	9.20	10.99
% Return on Equity	49.90	98.20	44.30	54.90	37.20	31.30	29.00	28.70	30.50	32.60

Source: S&P Global Market Intelligence. Data may be preliminary or restated; before results of discontinued operations/special items. Per share data adjusted for stock dividends; EPS diluted. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

PepsiCo, Inc.

Sub-Industry Outlook

CFRA's 12-month fundamental outlook for the Soft Drinks sub-industry is positive, reflecting an uptick in consumer staples-related spending in the U.S. and abroad due to Covid-19 coronavirus impacts. We expect strong growth for product categories such as energy drinks and value-added water in North America, and resilient sales of carbonated soft drinks and other products in emerging markets. We think these factors help offset weaker "on premise" sales volumes [sales at restaurants, movie theaters, and other event venues] of carbonated beverages, or sales at restaurants, movie theaters, and other event venues. Over the next 12 months, we expect earnings and cash flow to grow, driven by growth in emerging markets, and new product introductions.

For the group, we see a revenue decline of approximately 3% in 2020, after an increase of 6.9% in 2019 and a 1.8% decline in 2018. We see improved demand for non-carbonated beverages as consumers continue to seek healthier products. We see challenging trends for carbonated and sugary beverages over the longer term, as consumer preferences [particularly those of millennials] increasingly shift towards healthier and lower-calorie beverages. According to the Beverage Marketing Corporation, U.S. Liquid Refreshment Beverage volumes increased by 1.4% and revenues by 3.5% in 2019, with the breakdown of volume growth by product (and in order) being: Energy Drinks [+8.7%], Value-Added Water [+8.5%], Ready-To-Drink Coffee [+6.6%], Bottled Water [+3.6%], Sports Drinks [+2.0%], Carbonated Soft Drinks [-1.1%], Fruit Beverages [-1.7%], and Ready-To-Drink Tea [-1.8%].

Overall, we think domestic non-alcoholic unit sales volume growth will improve on increased advertising and promotional spending, as well as new product launches. Longer term, we think volume trends will benefit from increased penetration into non-traditional markets and growing consumer demand for non-alcoholic products, which should continue to raise non-alcoholic beverage per-capita consumption levels.

In the near term, we think manufacturers will look to address concerns surrounding artificial sweeteners in the U.S., which have led to declines in diet soda volumes over the past few years.

We are more positive on near-term prospects for U.S. beverage companies in foreign markets, where we see significant opportunities for consumption growth in emerging markets. Certain soft drink companies are also diversifying their product mix by acquiring smaller and faster-growing beverage and snack foods brands. We think longer-term prospects are good, given our view of improving profit margins stemming from productivity enhancements, higher prices for products and favorable product mix trends. We expect dividend yields and ongoing share repurchases to lend support to share price levels, noting that the two largest players in the space, Coca-Cola and PepsiCo, are members of the S&P Dividend Aristocrats Index. However, we think share repurchases are likely to be far less than in recent years.

Year to date through May 29, the S&P Soft Drinks Index is down 8.7% versus a 6.7% decline for the S&P 1500 Index. In 2019, the S&P Soft Drinks Index was up 20.7% versus a 28.3% gain for the S&P 1500 Index, and was down 2.1% versus a 6.8% decline for the S&P 1500 in 2018. The industry's five-year CAGR is 5.1%, which compares to 6.5% growth for the S&P 1500 Index.

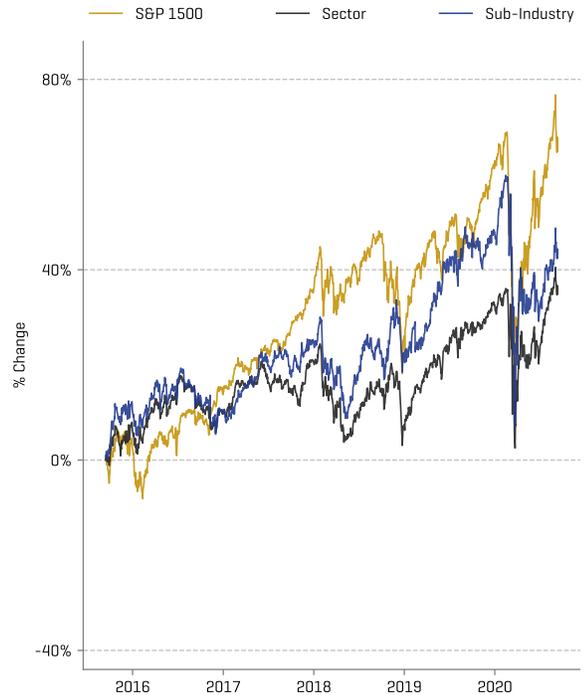
/ Garrett Nelson

Industry Performance

GICS Sector: Consumer Staples Sub-Industry: Soft Drinks

Based on S&P 1500 Indexes

Five-Year market price performance through Sep 12, 2020



NOTE: A sector chart appears when the sub-industry does not have sufficient historical index data.

All Sector & Sub-Industry information is based on the Global Industry Classification Standard (GICS).

Past performance is not an indication of future performance and should not be relied upon as such.

Source: CFRA, S&P Global Market Intelligence

Sub-Industry: Soft Drinks Peer Group*: Soft Drinks

Peer Group	Stock Symbol	Exchange	Currency	Recent Stock Price	Stk. Mkt. Cap. [M]	30-Day Price Chg. [%]	1-Year Price Chg. [%]	P/E Ratio	Fair Value Calc.	Yield [%]	Return on Equity [%]	LTD to Cap [%]
PepsiCo, Inc.	PEP	NasdaqGS	USD	135.81	188,047.0	-1.4	-1.1	26.0	N/A	3.0	49.9	62.4
Arca Continental, S.A.B. de C.V.	EMBV.F	OTCPK	USD	4.40	8,016.0	-7.0	-18.2	17.0	N/A	N/A	8.4	24.2
Coca-Cola Amatil Limited	CCLAY	OTCPK	USD	6.63	4,742.0	4.1	-13.3	18.0	N/A	N/A	19.9	49.0
Coca-Cola European Partners plc	CCEP	NYSE	USD	44.82	20,101.0	4.1	-20.1	16.0	N/A	N/A	17.1	44.7
Fomento Económico Mexicano, S.A.B. de C.V.	FMX	NYSE	USD	56.27	18,346.0	-5.6	-39.4	207.0	N/A	N/A	8.5	29.2
Ito En, Ltd.	ITOE.F	OTCPK	USD	59.50	5,974.0	N/A	34.5	98.0	N/A	N/A	5.3	25.5
Keurig Dr Pepper Inc.	KDP	NYSE	USD	28.83	40,569.0	-4.2	4.2	33.0	26.84	N/A	5.5	35.1
Monster Beverage Corporation	MNST	NasdaqGS	USD	81.34	42,898.0	-1.6	41.6	40.0	104.44	N/A	28.5	0.6
Osotspa Public Company Limited	OSOP.F	OTCPK	USD	1.18	3,677.0	N/A	N/A	34.0	N/A	N/A	18.0	2.2
Suntory Beverage & Food Limited	STBFY	OTCPK	USD	18.66	11,532.0	1.3	-14.1	9.0	N/A	N/A	9.8	12.7
The Coca-Cola Company	KO	NYSE	USD	51.06	219,325.0	5.4	-7.4	25.0	44.46	3.2	44.8	43.9

*For Peer Groups with more than 10 companies or stocks, selection of issues is based on market capitalization.

NA-Not Available; NM-Not Meaningful.

Note: Peers are selected based on Global Industry Classification Standards and market capitalization. The peer group list includes companies with similar characteristics, but may not include all the companies within the same industry and/or that engage in the same line of business.

PepsiCo, Inc.**July 13, 2020**

08:01 AM ET... CFRA Reiterates Strong Buy Opinion on Shares of PepsiCo, Inc. [PEP 134.46****]:

We raise our 12-month price target by \$5 to \$155, based on a '21 P/E of 26.1x. We reduce our adjusted EPS estimates by \$0.30 to \$5.40 for '20 and by \$0.20 to \$5.95 for '21. PEP posts Q2 adjusted EPS of \$1.32 vs. \$1.54 [-14.3%], well above the \$1.25 consensus. Net revenue fell 3.1% to \$15.95B [\$480M above consensus] on an organic revenue decline of 0.3%, supported by growth of 6% for Frito-Lay and 23% for Quaker Foods, both of which have benefited from stay-at-home trends. PEP's snack exposure has helped offset a significant headwind facing beverage companies: a steep drop in "on-premise" sales due to the closure of restaurants, movie theaters, and other venues. We continue to like PEP for its attractive mix of earnings stability and dividend yield [3.0%] and believe the stock's recent underperformance relative to more cyclical names has created a compelling entry point. Longer-term, strong international demand and its shift to higher-growth beverage categories [e.g., Buby, Rockstar] should drive EPS growth. / Garrett Nelson

April 28, 2020

08:19 AM ET... CFRA Reiterates Strong Buy Opinion on Shares of PepsiCo, Inc. [PEP 134.46****]:

We lift our 12-month target price by \$5 to \$150, based on a '21 P/E of 24.4x. We lower our adjusted EPS estimates by \$0.10 to \$5.70 for '20 and by \$0.10 to \$6.15 for '21. PEP posts Q1 adjusted EPS of \$1.07 vs. \$0.97 [+10.3%], ahead of the \$1.03 consensus. Net revenue rose 7.8% to \$13.88B [well above the \$13.2B consensus], driven by organic revenue growth of 7.9%. PEP's organic revenue growth was driven by the Europe [+14%] and Africa, Middle East & South Asia [+14%] segments. PEP withdrew prior 2020 guidance due to Covid-19 uncertainty, but maintained a prior commitment to returning \$7.5B to shareholders [\$5.5B dividends / \$2.0B buybacks]. With its 3.0% dividend yield and strong EPS growth profile, PEP remains a top pick and an S&P Dividend Aristocrat [48 straight years of dividend hikes]. We also particularly like PEP's Frito Lay exposure in this environment [7% organic revenue growth in Q1], and expect its snack portfolio growth to exceed beverages, which are being hurt by restaurant shutdowns. / Garrett Nelson

March 20, 2020

11:47 AM ET... CFRA Raises Opinion on Shares of PepsiCo, Inc. to Strong Buy from Buy [PEP 117.34****]:

We lower our 12-month price target by \$15 to \$145, based on a '21 P/E of 23.2x, justified by its product diversification, defensive nature, and balance sheet strength. We lower our EPS estimates by \$0.20 to \$5.80 for '20 and by \$0.15 to \$6.25 for '21. We consider PEP a low-beta, more defensive blue-chip name with a strong balance sheet and high degree of earnings stability. We also see little risk to PEP's dividend, which the company recently raised by 7.1% to \$4.09/share and currently yields 3.6%, noting that PEP is a member of the S&P Dividend Aristocrats Index. We have confidence in management's ability to navigate the Covid-19 crisis and also like PEP's beverage and food/snack product diversification, particularly its Frito-Lay business, where near-term sales should be supported by consumer stockpiling. While PEP's closest comp [Coca-Cola] not surprisingly announced expectations for a 2020 guidance shortfall this morning, Keurig Dr Pepper reiterated 2020 EPS guidance yesterday. / Garrett Nelson

March 11, 2020

11:19 AM ET... CFRA Maintains Buy Opinion on Shares of PepsiCo, Inc. [PEP 130.16****]:

We maintain our 12-month price target of \$160, based on a '21 P/E of 25.0x, above PEP's five-year mean forward P/E of 21.7x. Our adjusted EPS estimates remain \$6.00 for '20 and \$6.40 for '21. This morning, PEP announced the acquisition of private energy drinkmaker Rockstar Energy for \$3.85B. PEP said the deal is expected to close in the first half of this year pending regulatory approval, but it does not expect the acquisition to have a material impact on 2020 revenue or EPS. We think the deal makes sense for PEP, as it adds another brand to its energy portfolio which includes Mountain Dew products Kickstart, GameFuel, and AMP, and considering the fact PEP has had a North American distribution agreement with Rockstar since 2009. The acquisition will help PEP grow its presence in one of the fastest-growing beverage categories, as energy drink/shot sales surged by nearly 30% between 2013-2018 according to Mintel. As a low-beta, blue-chip consumer staples name, PEP remains one of our top picks. / Garrett Nelson

February 13, 2020

09:47 AM ET... CFRA Reiterates Buy Opinion on Shares of PepsiCo, Inc. [PEP 146.08****]:

We increase our 12-month target price by \$10 to \$160, based on a '21 P/E of 25.0x, above PEP's five-year mean forward P/E of 21.7x. Our adjusted EPS estimates remain \$6.00 for '20 and \$6.40 for '21. PEP posts Q4 adjusted EPS of \$1.45 vs. \$1.49 [-2.7%], in line with consensus. Net revenue increased 5.7%, driven by organic revenue growth of 4.3%. PEP's organic revenue growth was driven by the APAC [+9%] and Africa, Middle East & South Asia [+8%] segments. PEP introduced '20 adjusted EPS guidance of \$5.88, which was slightly below the \$5.96 consensus, but implies 6.3% yr/yr growth; we think this reflects some degree of conservatism. Additionally, PEP announced a 7.1% raise in its annualized dividend to \$4.09 from \$3.82 per share. We remain bullish on the stock and think the investment case is playing out nicely as management executes its pivot toward higher growth. We also like PEP's beverage and food/snack product diversification, particularly its Frito-Lay business. / Garrett Nelson

October 03, 2019

08:32 AM ET... CFRA Reiterates Buy Opinion on Shares of PepsiCo, Inc. [PEP 133.94****]:

We raise our 12-month target price by \$5 to \$150, based on a '21 P/E of 23.4x, above PEP's five-year mean forward P/E of 21.4x. Our adjusted EPS estimates remain \$5.60 for '19 and \$6.00 for '20, while we introduce '21 at \$6.40. PEP posts Q3 adjusted EPS of \$1.56 vs. \$1.59 [-1.9%], well ahead of the \$1.51 consensus. Net revenue increased 4.3%, driven by organic revenue growth of 4.3% and a slight negative fx impact. PEP's organic revenue growth was driven by the Asia, Middle East & North Africa [+9%] and Frito-Lay North America [+5.5%] segments. PEP maintained 2019 adjusted EPS guidance of \$5.50, but we believe this reflects some degree of conservatism and management said it expects to meet or exceed its prior organic revenue growth target of 4%. We remain bullish on the intermediate-term earnings growth outlook for PEP, like its relatively equal revenue mix between beverage and food/snack products, and more defensive/higher-yielding nature in light of the current macro backdrop. / Garrett Nelson

July 09, 2019

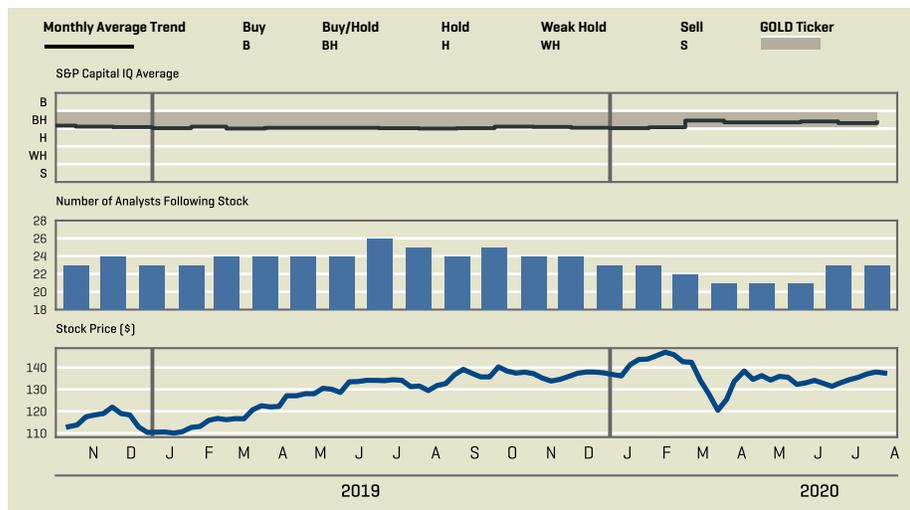
09:01 AM ET... CFRA Reiterates Buy Opinion on Shares of PepsiCo, Inc. [PEP 132.56****]:

We raise our 12-month target price by \$5 to \$145, based on a '20 P/E of 24.2x, above PEP's five-year mean forward P/E of 21.2x. Our EPS estimates remain \$5.60 for '19 and \$6.00 for '20. PEP posts Q2 adjusted EPS of \$1.54 vs. \$1.61 [-4.3%], ahead of the \$1.51 consensus. Net revenue increased 2.2% as a negative fx impact was more than offset by organic revenue growth of 4.5%, driven by Frito-Lay North America [+5%], Latin America [+10%] and other emerging markets. PEP maintained full-year EPS guidance of \$5.50, which we continue to view as conservative. We remain bullish on the future of PEP under the leadership of its new chairman and CEO, who we forecast will deliver more robust EPS growth and more generous cash returns to shareholders. While the stock's valuation appears fair to even full on near-term earnings estimates, looking out a few years, we think PEP is capable of generating north of \$7/share in earnings and, on that basis, consider the stock inexpensive at current levels. / Garrett Nelson

Note: Research notes reflect CFRA's published opinions and analysis on the stock at the time the note was published. The note reflects the views of the equity analyst as of the date and time indicated in the note, and may not reflect CFRA's current view on the company.

PepsiCo, Inc.

Analysts Recommendations



Wall Street Consensus Opinion

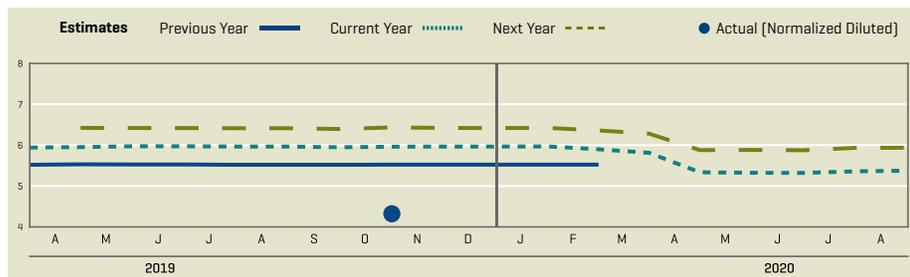
Buy/Hold

Wall Street Consensus vs. Performance

For fiscal year 2020, analysts estimate that PEP will earn USD 5.37. For fiscal year 2021, analysts estimate that PEP's earnings per share will grow by 10.48% to USD 5.94.

	No. of Recommendations	% of Total	1 Mo.Prior	3 Mos.Prior
Buy	6	26	6	6
Buy/Hold	5	22	5	6
Hold	9	39	9	8
Weak hold	0	0	0	0
Sell	0	0	0	0
No Opinion	3	13	3	1
Total	23	100	23	21

Wall Street Consensus Estimates



Fiscal Year	Avg Est.	High Est.	Low Est.	# of Est.	Est. P/E
2021	5.94	6.27	5.71	20	22.87
2020	5.37	5.70	5.19	21	25.27
2021 vs. 2020	▲ 10%	▲ 10%	▲ 10%	▼ -5%	▼ -9%
Q3'21	1.64	1.73	1.56	12	82.57
Q3'20	1.48	1.54	1.46	18	91.45
Q3'21 vs. Q3'20	▲ 11%	▲ 12%	▲ 7%	▼ -33%	▼ -10%

Forecasts are not reliable indicator of future performance.

Note: A company's earnings outlook plays a major part in any investment decision. S&P Global Market Intelligence organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years, as well as how those earnings estimates have changed over time. Note that the information provided in relation to consensus estimates is not intended to predict actual results and should not be taken as a reliable indicator of future performance.

Note: For all tables, graphs and charts in this report that do not cite any reference or source, the source is S&P Global Market Intelligence.

PepsiCo, Inc.

Glossary

STARS

Since January 1, 1987, CFRA Equity and Fund Research Services, and its predecessor S&P Capital IQ Equity Research has ranked a universe of U.S. common stocks, ADRs [American Depositary Receipts], and ADSs [American Depositary Shares] based on a given equity's potential for future performance. Similarly, we have ranked Asian and European equities since June 30, 2002. Under proprietary STARS (Stock Appreciation Ranking System), equity analysts rank equities according to their individual forecast of an equity's future total return potential versus the expected total return of a relevant benchmark [e.g., a regional index [MSCI AC Asia Pacific Index, MSCI AC Europe Index or S&P 500® Index]], based on a 12-month time horizon. STARS was designed to meet the needs of investors looking to put their investment decisions in perspective. Data used to assist in determining the STARS ranking may be the result of the analyst's own models as well as internal proprietary models resulting from dynamic data inputs.

S&P Global Market Intelligence's Quality Ranking

[also known as **S&P Capital IQ Earnings & Dividend Rankings**] - Growth and S&P Capital IQ Earnings & Dividend Rankings stability of earnings and dividends are deemed key elements in establishing S&P Global Market Intelligence's earnings and dividend rankings for common stocks, which are designed to capsize the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

A+	Highest	B	Below Average
A	High	B-	Lower
A	Above	C	Lowest
B+	Average	D	In Reorganization
NC	Not Ranked		

EPS Estimates

CFRA's earnings per share (EPS) estimates reflect analyst projections of future EPS from continuing operations, and generally exclude various items that are viewed as special, non-recurring, or extraordinary. Also, EPS estimates reflect either forecasts of equity analysts; or, the consensus [average] EPS estimate, which are independently compiled by S&P Global Market Intelligence, a data provider to CFRA. Among the items typically excluded from EPS estimates are asset sale gains; impairment, restructuring or merger-related charges; legal and insurance settlements; in process research and development expenses; gains or losses on the extinguishment of debt; the cumulative effect of accounting changes; and earnings related to operations that have been classified by the company as discontinued. The inclusion of some items, such as stock option expense and recurring types of other charges, may vary, and depend on such factors as industry practice, analyst judgment, and the extent to which some types of data is disclosed by companies.

12-Month Target Price

The equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics, including Fair Value.

CFRA Equity Research

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Abbreviations Used in Equity Research Reports

CAGR	- Compound Annual Growth Rate
CAPEX	- Capital Expenditures
CY	- Calendar Year
DCF	- Discounted Cash Flow
DDM	- Dividend Discount Model
EBIT	- Earnings Before Interest and Taxes
EBITDA	- Earnings Before Interest, Taxes, Depreciation & Amortization
EPS	- Earnings Per Share
EV	- Enterprise Value
FCF	- Free Cash Flow
FFO	- Funds From Operations
FY	- Fiscal Year
P/E	- Price/Earnings
P/NAV	- Price to Net Asset Value
PEG Ratio	- P/E-to-Growth Ratio
PV	- Present Value
R&D	- Research & Development
ROCE	- Return on Capital Employed
ROE	- Return on Equity
ROI	- Return on Investment
ROIC	- Return on Invested Capital
ROA	- Return on Assets
SG&A	- Selling, General & Administrative Expenses
SOTP	- Sum-of-The-Parts
WACC	- Weighted Average Cost of Capital

Dividends on American Depositary Receipts (ADRs) and American Depositary Shares (ADSs) are net of taxes [paid in the country of origin].

Qualitative Risk Assessment

Reflects an equity analyst's view of a given company's operational risk, or the risk of a firm's ability to continue as an ongoing concern. The Qualitative Risk Assessment is a relative ranking to the U.S. STARS universe, and should be reflective of risk factors related to a company's operations, as opposed to risk and volatility measures associated with share prices. For an ETF this reflects on a capitalization-weighted basis, the average qualitative risk assessment assigned to holdings of the fund.

STARS Ranking system and definition:

★★★★★ 5-STARS (Strong Buy):

Total return is expected to outperform the total return of a relevant benchmark, by a notable margin over the coming 12 months, with shares rising in price on an absolute basis.

★★★★★ 4-STARS (Buy):

Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

★★★★★ 3-STARS (Hold):

Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

★★★★★ 2-STARS (Sell):

Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price is not anticipated to show a gain.

★★★★★ 1-STAR (Strong Sell):

Total return is expected to underperform the total return of a relevant benchmark by a notable margin over the coming 12 months, with shares falling in price on an absolute basis.

Relevant benchmarks:

In North America, the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are the MSCI AC Europe Index and the MSCI AC Asia Pacific Index, respectively.

PepsiCo, Inc.

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Quantitative Stock Reports:

Quantitative recommendations are determined by ranking a universe of common stocks based on 5 measures or model categories: Valuation, Quality, Growth, Street Sentiment, and Price Momentum. In the U.S., a sixth sub-category for Financial Health will also be displayed. Percentile scores are used to compare each company to all other companies in the same universe for each model category. The five (six) model category scores are then weighted and rolled up into a single percentile ranking for that company. For reports containing quantitative recommendations refer to the Glossary section of the report for detailed methodology and the definition of Quantitative rankings.

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STARS Stock Reports:

Global STARS Distribution as of June 28, 2019

Ranking	North America	Europe	Asia	Global
Buy	34.4%	29.0%	41.1%	33.5%
Hold	56.1%	54.8%	46.4%	54.6%
Sell	10.5%	16.2%	12.5%	11.9%
Total	100.0%	100.0%	100.0%	100.0%

Analyst Certification:

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