



Bloomsburg Investment Group

Equity Analysis
PepsiCo (PEP)

Analyst:
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Bloomsburg Investment Group Opinion:

The Bloomsburg Investment Group recommends PepsiCO as a hold because of steady and stable growth with an acceptable dividend. To arrive at this conclusion, we took into consideration the intrinsic value from the valuation models, the company's dividend, and the overall state of the economy. We think PepsiCo has established itself as one of the top leading beverage and food companies in the industry. It offers a diverse product line with large brand names known worldwide. The Consumer Staples industry will grow in future years along with the growth of emerging economies. PepsiCo generates almost a quarter of its revenue from developing countries, and it has the potential to grow that to a larger percentage through increases in disposable income around the world. PepsiCo offers a 3.01% dividend. Based on our valuations, an estimate of \$111.83 has been calculated for PepsiCo's stock price.

Corporate Summary:

PepsiCo is a worldwide food and beverage company. They are approximately in 200 countries around the world serving consumers since 1898. PepsiCo owns many brands but they have 22 billion dollar brands. Some of these include Frito-lay, Gatorade, Pepsi-Cola, Quaker, and Tropicana. This company is divided into six divisions: Frito-Lay North America (FLNA); Quaker Foods North America (QFNA); North America Beverages (NAB); Latin America, which includes all of PepsiCo's brands in Latin America; Europe Sub- Saharan Africa (ESSA); and Asia, the Middle East and North Africa (AMENA). PepsiCo is headquartered in Purchase, New York but has around 274,000 workers worldwide.

Corporate Details:

Name	PepsiCo Inc
Ticker	PEP
Domicile	United States
Sector	Consumer Defensive
Industry	Beverages - Soft Drinks
Exchange	NEW YORK STOCK EXCHANGE, INC.
Last Close	101.85
Price 52 Wk High	110.94
Price 52 Wk Low	93.25
Latest Dividend	0.75
Dividend Yield % TTM	2.86
Beta 5 Yr (Mo-End)	0.55
Avg Daily Volume (3 Mo)	4,114,407.15
Shares Outstanding (mil)	1,434.18
Number of Analysts	8



PepsiCo Inc

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Financial Summary, Year End 2013 (in millions)

Market Capitalization	146,071.55
Total Revenue	63,056.00
Gross Profit	34,672.00
Operating Income	8,353.00
Net Income Cont Ops	5,501.00
Net Income	5,452.00
Current Assets	23,031.00
Cash	12,009.00
Total Assets	69,667.00
Current Liabilities	17,578.00
Long-term Liabilities	40,166.00
Total Liabilities	57,744.00
Total Equity	11,923.00
Operating Cash Flow	10,580.00
Investing Cash Flow	-3,569.00
Financing Cash Flow	-3,828.00
Change In Cash	2,962.00
EBITDA	10,828.00
Enterprise Value	166,938.55
Capital Expenditure	-2,758.00
P/E Ratio Forward	19.69
PEG Ratio	3.01
Dividend Yield % TTM	2.86

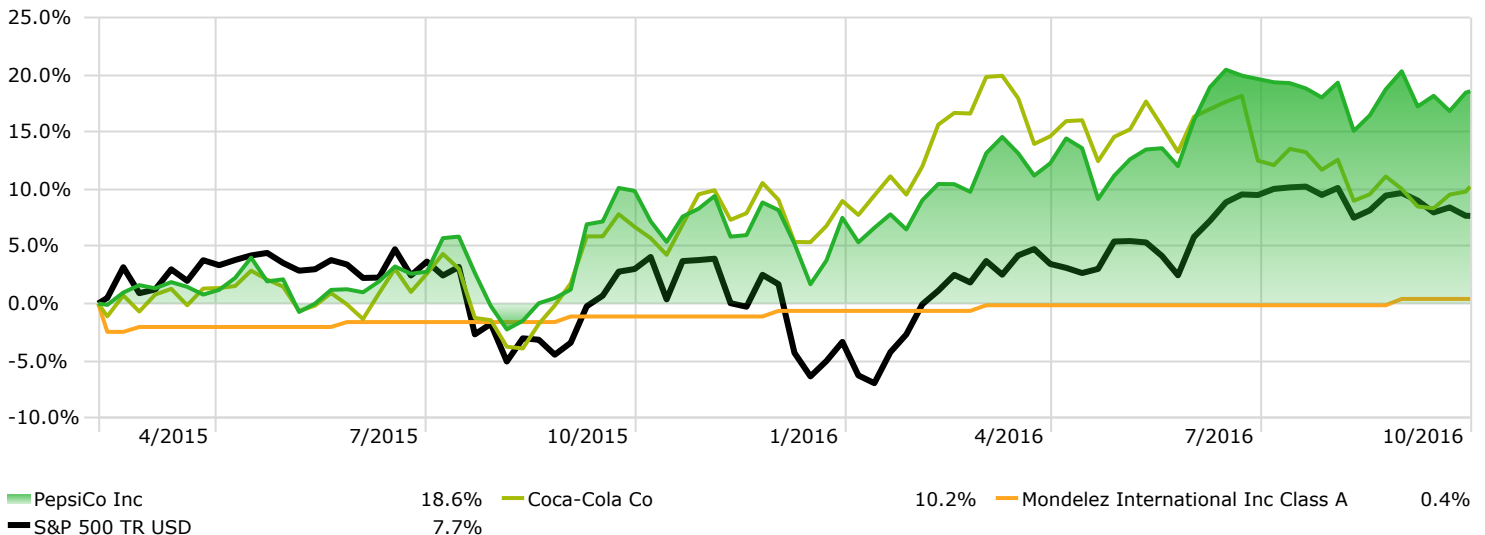
Financial Highlights

Year on year PepsiCo Inc's revenues fell -5.44% from 66.68bn to 63.06bn. This along with an increase in selling, general and administrative costs has contributed to a reduction in net income from 6.51bn to 5.45bn, a -16.29% decrease. In 2015, PepsiCo Inc increased its cash reserves by 48.29%, or 2.96bn. The company earned 10.58bn from its operations for a Cash Flow Margin of 16.78%. In addition the company used 3.57bn on investing activities and also paid 3.83bn in financing cash flows.

PepsiCo Inc has a Debt to Total Capital ratio of 73.68%, a lower figure than the previous year's 195.51%. Year on year, growth in dividends per share increased 9.08% while earnings per share excluding extraordinary items fell by -13.92%. The positive trend in dividend payments is noteworthy since very few companies in the Beverages (Nonalcoholic) industry pay a dividend. Additionally when measured on a five year annualized basis, both dividend per share and earnings per share growth ranked in-line with the industry average relative to its peers.

Investment Growth

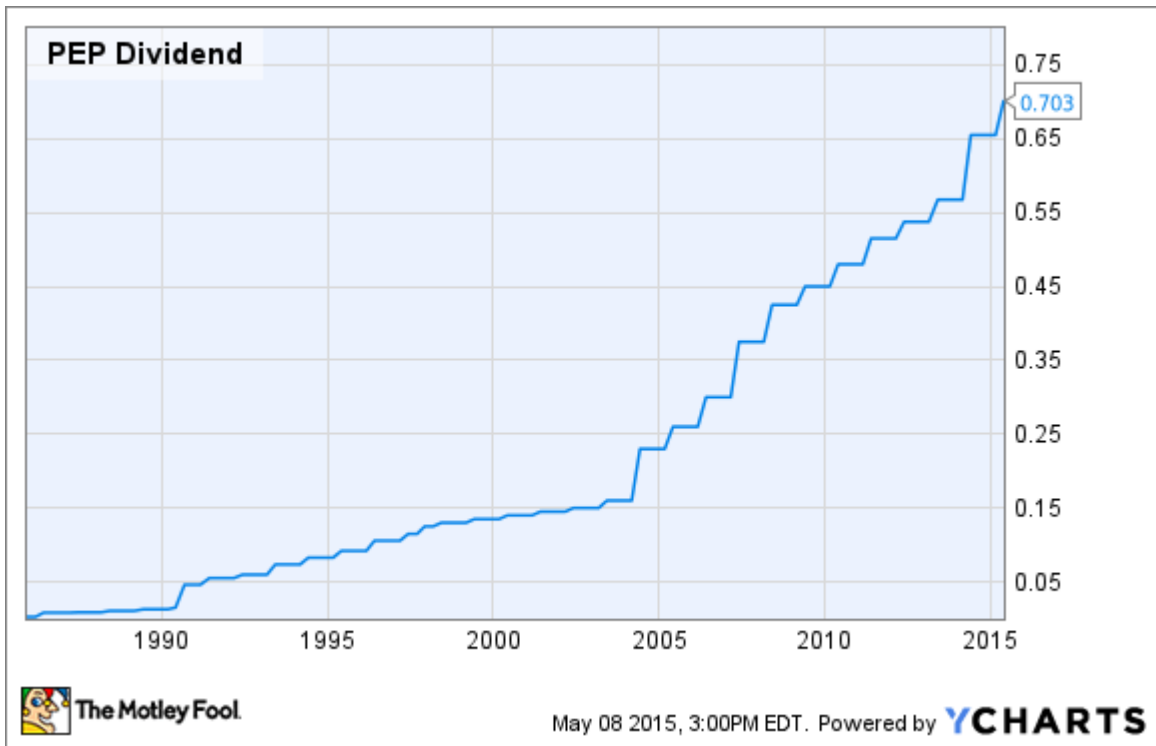
Time Period: 3/11/2015 to 10/31/2016





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Pepsi Buying KeVita

KeVita is a company that sells probiotic drinks. This market is expected to reach \$24 billion by 2017. KeVita is valued at \$500 million.

Sugar Reduction

Pepsi announced by 2025, that two thirds of its drinks will have 100 calories or fewer form added sugar.

Lack of Stock Split in 20 years

Pepsi has not had a stock split in over 20 years.

Soda Tax

There has been a tax emplemented on sugar-sweetended beverages in California. Philadelphia also has a similiar sugar tax.



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Industry Environment:

Corporations in the Consumer Staples industry were a safe choice in the market during the 2008 recession. Generally large, established, blue chip companies that typically make up the industry were held as defensive plays in the midst of the worst economic downturn since the Great Depression. In a 14 month span from December 2007 to February 2009, the S&P 500 declined over 43%. In the same period, the Consumer Staples industry fell only a fraction of the market at 25%. PepsiCo generates almost half of its revenue in foreign countries. Over a quarter of its revenues are derived from developing countries. This shows promise for increases in revenue as the larger developing countries raise their standard of living. The stronger the foreign economies get, the more disposable income people will have to spend on beverages and snacks. Many Consumer Staples companies are seeing declines in operating revenue as an effect of higher costs and lower margins. Large distributors fall prey to purchasing power of wholesalers, such as Wal-Mart, who can buy products at large discounts. Other factors like increases in commodity prices can hurt these company's bottom lines. A trend observed across the board with large producers is that many companies are selling or spinning off product segments that do not perform at a rate that is worth of the company's time. Even well-known products that still make money are being discontinued to let the company focus on perfecting a few segments and brands. An example of this is the, "Going Green," trend that is rising industry wide.

Competitor Comparison

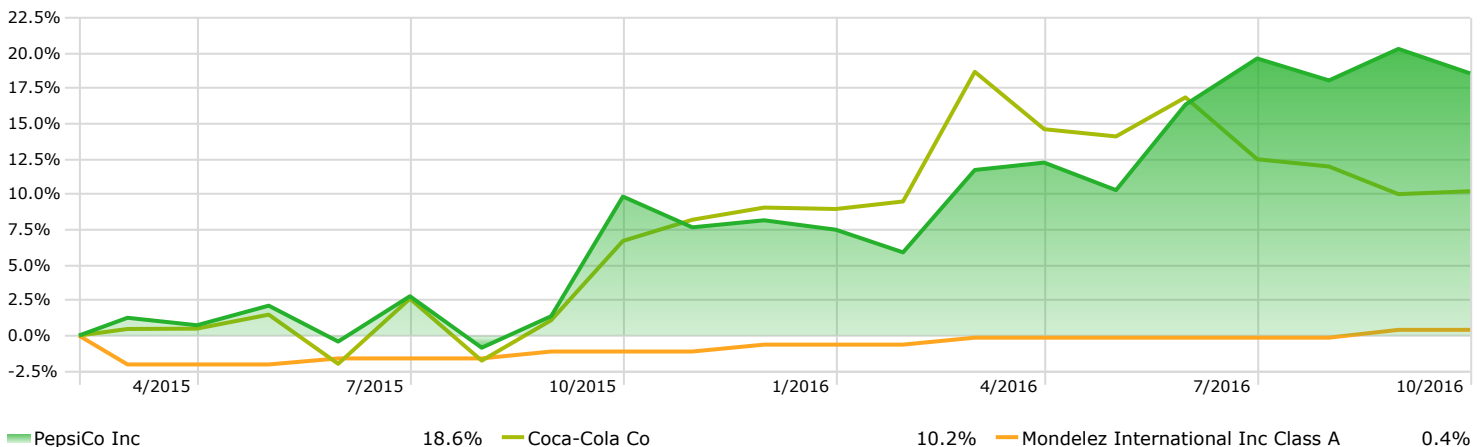
	Revenue (mil)	Revenue % Chg	Gross Profit (mil)	Gross Margin %	Net Income (mil)	Net Income % Chg	Net Margin %	Market Cap (mil) (Daily)	Current Ratio	Receivable Turnover
PepsiCo Inc	63,056.00	-5.44	34,672.00	54.99	5,452.00	-16.29	8.65	146,071.55	1.31	11.15
Coca-Cola Co	44,294.00	-3.70	26,812.00	60.53	7,351.00	3.56	16.60	178,729.04	1.24	10.54
Mondelez International Inc Class A	29,636.00	-13.46	11,512.00	38.84	7,267.00	232.74	24.52		0.82	9.21

Competitor Comparison (Cont.)

	Asset Turnover	ROA %	Total Debt to Total Equity	ROE %	Beta 5 Yr	P/E Ratio Forward	PEG Ratio	P/B Ratio Current	Dividend Yield % TTM	Free Cash Flow / Sales % TTM
PepsiCo Inc	0.90	7.78	2.80	37.24	0.55	19.69	3.01	11.63	2.86	12.19
Coca-Cola Co	0.49	8.08	1.73	26.31	0.68	20.62	4.64	6.85	3.33	15.12
Mondelez International Inc Class A	0.46	11.21	0.55	26.06				2.25	1.31	6.28

Investment Growth

Time Period: 3/11/2015 to 10/31/2016





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Strengths:

Pepsico is the 2nd largest food and beverage company in the world. The company has a very diverse portfolio of products, which includes around 100 different brands. They brought in 63.06 billion in 2015. 22 of their brands brought in more than \$1 billion a piece. 10 of their other brands have brought in between 500 million to 1 billion in revenue in 2015 as well. They have a powerful reputation and one of the largest and well used advertising budgets. PepsiCo also has a very strong distribution network which enables them to do partnerships with other big brands.

Weaknesses:

Although Pepsi is a big company, 12% of its business comes from Walmart. Pepsi is an international brand but 52% of its revenue is dependent on the U.S. markets.

Opportunities:

PepsiCo has big opportunities in the growing alcoholic beverage industry. Another growing industry in the U.S. is ready to drink coffee and tea. Small tea companies can be acquired very easily by a large corporation like PepsiCo.

Threats:

Competition is PepsiCo's biggest threat. Obesity and potentially dangerous substances might affect the demand of some of PepsiCo's products. The quality of water as well as the quantity of water could be changing which would affect the costs of production and increase the price for consumers. Another threat for PepsiCo is the rising U.S. Dollar exchange rate.



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Valuation: Discount Cash Flow Model (DCF)

To calculate the Discount Cash Flow Model for PepsiCo, we first found the weighted average cost of capital to be 6.45%. This percentage was derived from PepsiCo's prior year cost of debt, tax rate, and a market risk premium of 8%. The premium comes from the difference between historical market return and the yield on 10 year treasury notes. Our group believes 2% as the terminal growth rate of PepsiCo is reasonable as it will continue to grow at a modest rate. Using the Training The Street DCF valuation model through CapitalIQ, we arrived at an intrinsic value of \$111.83.

Valuation: Discount Dividend Model (DDM)

Valuation: Multiple Valuation



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Bloomsburg Investment Group Disclaimer

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Sources Cited

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Bloomberg.com
Marketwatch.com
Yahoofinance.com
Googlefinance.com
SeekingAlpha.com