PEPSICO, INC. (NYSE) - PEP

Company Description:

Purchase, NY-based PepsiCo, Inc. operates four major businesses: Frito Lay North America, 22% of sales and 37% of operating profits; PepsiCo Beverages North America, 32% and 26%; Quaker Foods NA, 4% and 6%; and PepsiCo International. (snacks and beverages), 42% and 31%. Int'l 49% of sales. Majority interest in Pepsi Bottling Group sold, 4/99. Quaker Oats acquired, 8/01.Pepsi Bottling Group and PepsiAmericas acq. 2/10. Pepsi- Cola, Gatorade, Tropicana, Diet Pepsi, and Mountain Dew. Specialty snack foods: Frito-Lay (brand names include Doritos, Ruffles, and Lay's), Walker's, Smith's, Sabritas. Has about 271,000 employees, Chairman, Pres. & CEO: Indra Nooyi. www.pepsico.com

Basic Description:

Net profits have consistently grown over time. However, this growth in business profits has been marked by enthusiam for PEP's stock in the form of generally high P/Es, especially during the 1990's. PEP's returns on capital and equity are superior but ROCs dropped significantly in 2010 due to another expansion into bottling. At the same time, debt was increased (bottlers are more cap'l intensive). In addition, profit margins declined by 20% (bottlers - lower margins) and depreciation jumped up. In the meantime, PEP has increased its payout, moving from 35% to 60%. In addition, PEP generally repurchases stock at the level of 20% of profits - a good idea to weight dividends given the high P/E. Finally, PEP is affected by the USD - similar factors in late 90s and current period.

Profitability Description:

PEP has consistently grown revenues steadily but slowly through a combination of volume growth, price increases and acquisitions. It is difficult to break out the segment growth rates as the segments have changed regularly. On the expense side, COGS has increased but SGA has decreased, despite a high employee count in comparison with KO and others. COGS has gone up and that seems a function of the higher cost, lower margined bottling business being reincorporated in 2010. PEP has much higher margins in the US, especially in the Frito-Lay division. This is in contrast to KO, where the margins are highest overseas. Tax management may not be as much of an issue as PEP as it has a "return of basis" strategy. As a result, short term cash is used when dividends and share repurchasing exceed net profits. While PEP has extraordinarily consistent margins, growth has become an issue. "Organic" growth has been difficult to achieve and the metrics are inconclusive, as the "organic growth" of Latin America looks more likely to be driven by inflation.

Core Advantage Description:

PEP was founded in 1919 and has built a powerful collection of brands with over 20 of them generating over \$1 billion in revenues per line. In addition, PEP has built a powerful global distribution network. PEP has its most powerful advantage with US retailers where it can join beverages with foods. Domestically, PEP has turned to a "health and wellness" model, recognizing the U.S. consumers' desire to believe in healthy eating, despite their lack of restraint in volume and a lack of exercise. Internationally, PEP is able to target opportunities where KO has vulnerability and has long leveraged the power of the snacks division. It does appear that overseas markets have proven exceptionally challenging with lower margins. Growth has been challenging in all markets and PEP may face a "sugar tax" headwind with substitution risks higher than faced by tobacco.

Investment Thesis:

It is difficult to separate out the effects of currency, bottling changes and changing mix in segments. However, if we provide the most favorable assumptions, then revenues would have grown 4% for the past three years (taking out currency and "one-off" changes). This would allow an assumption of topline growth of 4% with an increase in margins allowing for an earnings growth of 6% with an additional 1.5% of growth for share repurchasing for a total of 7.5% with the ability to maintain the same tax regime.

Purchase Description:

ACM considers PEP a buy at \$77 per share as a Tier I up to 3%, and at \$70 per share up to 4.5%, (using e.bond, e.g. and capl charge models) because of its "brand" strength, almost amounting to a duopoly globally, and a sell of half at \$113 per share with the remaining at \$134 per share.

		FY.	End	Stock	Price		Mkt (in	mlns)														
		Dece	mber	\$102	2.00		\$146,8	80.00														
	1995	1996	1997	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Earnings (mln)	1,990	1,865	1,730	1,845	2,120	3,004	3,503	3,568	4,004	4,591	5,061	5,543	5,142	5,946	6,320	6,379	6,178	6,823	6,513	6,860	7,050	7,300
EPS	\$1.00	\$0.82	\$1.10	\$1.37	\$1.48	\$1.52	\$1.85	\$2.05	\$2.20	\$2.42	\$3.34	\$3.41	\$3.31	\$3.80	\$4.00	\$4.08	\$4.00	\$4.46	\$4.38	\$4.74	\$4.90	\$5.14
Operating EPS	\$1.24	\$1.17	\$1.10	\$1.23	\$1.48	\$1.66	\$1.96	\$2.05	\$2.32	\$2.69	\$3.00	\$3.34	\$3.31	\$3.80	\$4.00	\$4.08	\$4.00	\$4.46	\$4.38	\$4.74	\$4.90	\$5.14
		_																				
Ave. P/E Ratios		26.5	32.5	29.8	28.3	27.8	23.7	21.5	22.2	20.6	20.4	19.8	19.0	14.7	15.9	16.4	17.4	18.4	20.8	20.7		
Yrly Price Low	17.0	27.0	28.0	30.0	30.0	40.3	34.0	36.2	45.3	51.3	56.0	62.0	52.0	43.8	58.8	58.5	62.2	68.5	77.0	76.4	93.0	
Yrly Price High	29.0	36.0	41.0	43.0	50.0	50.5	53.5	48.9	55.7	60.3	66.0	79.0	79.8	62.8	68.1	71.8	73.9	85.0	97.0	103.2	110.0	
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Dividends Paid		695	736	786	804	1,018	1,033	1,074	1,427	1,673	1,835	2,295	2,671	2,739	2,988	3,175	3,289	3,379	3,765	4,040	4,334	4,374
	\$0.39	\$0.45	\$0.49	\$0.54	\$0.56	\$0.58	\$0.60	\$0.63	\$0.85	\$1.01	\$1.12	\$1.43	\$1.72	\$1.75	\$1.89	\$2.03	\$2.13	\$2.21	\$2.53	\$2.79	\$3.01	\$3.08
Ave. Div. Yld.	1.70%	1.43%	1.42%	1.48%	1.40%	1.28%	1.37%	1.48%	1.68%	1.81%	1.84%	2.03%	2.61%	3.28%	2.98%	3.12%	3.13%	2.88%	2.91%	3.11%	2.97%	
	1.576	1 5 4 5	1.502	1 455	1 425	1.756	1 700	1 707	1 670	1 656	1.620	1 605	1.552	1.565	1 501	1.564	1 7 4 4	1.700	1 400	1 440	1 440	1.420
Shares Outstdg.		1,545	1,502	1,455	1,435	1,756	1,722	1,705	1,679	1,656	1,638	1,605	1,553	1,565	1,581	1,564	1,544	1,529	1,488	1,448	1,440	1,420
Buyback \$ (mln	501	977	1,484	584	800	(14,573)	1,488	723	1,313	1,283	1,098	2,327	3,427	(640)	(1,015)	1,108	1,361	1,151	3,567	3,592	812	0
Chy Equity (ml	7 212	6 622	6.026	6 001	7 240	0 671	0.201	11 071	12 522	14 251	15 447	17 224	12 202	17 442	21 476	20.800	22 200	24 270	17 /29	12 175	12,250	12 500
Shr. Equity (ml. Book Value PS		6,623 \$4.29	6,936 \$4.62	6,881 \$4.73	7,249 \$4.95	8,674 \$4.92	9,291 \$5.37	11,874 \$6.94	13,523 \$8.03	14,251 \$8.58	15,447 \$9.43			17,442 \$11.12				24,279 \$15.88	17,438 \$11.72	12,175 \$8.41	\$8.51	12,500 \$8.80
Book value I S	\$4.04	Φ4.29	\$4.02	\$4.73	\$4.93	\$4.92	\$3.37	\$0.94	\$6.03	\$0.50	\$9.43	\$10.71	\$7.00	\$11.12	\$15.56	\$15.50	\$14.31	\$13.00	\$11.72	Ф0.41	$\phi 0.JI$	φο.ου
LT Debt (mln)	8,509	8,439	4,946	2,812	2,900	2,651	2,187	1,702	2,397	2,313	2,550	4,203	7,858	7,400	19,999	20,568	23,544	24,333	23,821	29,213	32,000	31,000
Return On Eq.	27.20%	28.20%	######	26.90%	30.00%	34.63%	37.70%	30.05%	29.61%	32.22%	32.76%	32.16%	42.14%	34.09%	29.43%	30.52%	27.58%	28.10%	37.35%	56.34%	57.55%	58.40%
Return On Cap	14.30%	14.20%	######	19.90%	22.00%	26.53%	30.52%	26.28%	25.15%	27.72%	28.12%	25.86%	25.63%	23.94%	15.24%	15.38%	13.45%	14.04%	15.79%	16.57%	15.93%	16.78%

Description:

Instructions:

Analysis: After getting rid of bottlers, and cheering themselves for it, PEP is now repurchasing bottlers and, of course, cheering themselves for it.

Observations: PEP has done, at best, a mediocre job of capital allocation; issuing at low and repurchasing at highs. In addition, the dividend payout has been rising, but formulaic and the acquisitions expensive.

Investment Characteristics

Earnings Analysis: Use Of Earnings Analysis:

Growth Rate %: 7.24% Avg Div Payout I 46.98%

Quality %: 99.17% Avg Stk Buyback 27.18% excluding major acquisition in 2001

	1995	1996	1997	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Sales (mln)	30,421	31,645	20,917	20,367	20,438	24,218	25,112	26,971	29,261	32,562	35,137	39,474	43,251	43,232	57,838	66,504	65,492	66,415	66,683	63,056	61,750	64,500
SPS	\$19.30	\$20.48	\$13.93	\$14.00	\$14.00	\$13.79	\$14.58	\$15.82	\$17.43	\$19.66	\$21.45	\$24.59	\$27.85	\$27.62	\$36.58	\$42.52	\$42.42	\$43.44	\$44.81	\$43.55	\$42.88	\$45.42
Adj. Sales (mln)																					

Sales Analysis: Sales Analysis (last 5 yrs.):

Growth Rate %: 4.01% **Growth Rate %:** -1.47%

Growth Rate PS 4.48% Growth Rate PS 0.17%

	1995	1996	1997	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Oper. Margin	17.20%	16.10%	19.40%	19.20%	21.20%	22.70%	24.20%	23.00%	22.60%	22.90%	22.00%	22.80%	19.60%	22.50%	18.40%	18.50%	18.00%	19.30%	18.40%	19.23%	19.00%	21.00%
Tax Rate	32.60%	35.00%	33.40%	32.20%	32.00%	32.00%	31.20%	28.50%	29.50%	29.00%	19.30%	28.00%	28.00%	26.00%	23.00%	27.00%	25.20%	25.70%	25.10%	26.10%	25.00%	25.00%
Deprec. (mln)	1,740	1,719	1,106	1,032	960	1,082	1,112	1,221	1,264	1,458	1,406	1,426	1,543	1,635	2,327	2,737	2,689	2,663	2,625	2,416	2,500	2,550
Depreciation %	87.44%	92.17%	63.93%	55.93%	45.28%	36.02%	31.74%	34.22%	31.57%	31.76%	27.78%	25.73%	30.01%	27.50%	36.82%	42.91%	43.53%	39.03%	40.30%	35.22%	35.46%	34.93%

Description:

Instructions:

Analysis:

Observations: Because of the bottling division, PEP has a fairly high capital intensivity. PEP does not generally manage taxes or expenses aggressively.

Description & Analysis of Profitability (in mlns):
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Ţ	1999		2000	2002	2001	2003	2004	2009	2010	2011	2012		2013		2014		2015	
Net Revenues: 5.9%	25,093		25,479	24,978	24,045	26,969	29,261	43,232	57,838	66,504	65,492		66,415		66,683		63,056	
Frito-Lay North America	8,232	33%	8,971	8,565	8,216	9,091	9,560	13,224	13,397	13,322	13,574	21%	14,126	21%	14,502	22%	14,782	23%
Latin American Foods	ŕ	0%	,	,	,	,	ŕ	ŕ	ŕ	7,156	7,780	12%	8,350	13%	8,442	13%	8,228	13%
NorthAmericanBeverage	6,057	24%	7,130	7,200	6,888	7,733	8,313	10,116	20,401	22,418	21,408	33%	21,068	32%	21,154	32%	20,618	33%
AMENA		0%								7,392	6,653	10%	6,507	10%	6,727	10%	6,375	10%
Europe/SubSaharanAfr	6,681	27%	7,406	7,749	7,504	8,678	9,862	18,008	22,208	13,560	13,441	21%	13,752	21%	13,290	20%	10,510	17%
Quaker Foods North America	1,993	8%	1,972	1,464	1,437	1, 4 67	1,526	1,884	1,832	2,656	2,636	4%	2,612	4%	2,568	4%	2,543	4%
Quaker divested businesses	7	0%	_	_	_	_	_	_	_	_	_	0%	_	0%	_	0%		0%
Bottling Operations/Inv.	2,123	8%	_	_	_	-	_	_	_	_	_	0%	_	0%	_	0%		0%
T	24 640	l I	04 004	20.047	40.070	22.400	24.002	25 400	40 F0C	EC 074	EC 200		EC 740		E7 400		E2 244	Ī
Internal Costs: 5.8% Cost of sales	21,610 10,326	41%	21,661 10,226	20,817 11,497	19,876 <i>10,750</i>	22,190 12,379	24,002 13,406	35,188 20,099	49,506 26,575	56,871 31,593	56,380 31,291	48%	56,710 31,243	47%	57,102 30,884	46%	53,344 28,384	45%
	,		,	,					,						,		26,364 24,885	
Selling, general and adm.	11,018 193	44% 1%	11,104 147	8,958 138	8,574 165	9,460 145	10,299 147	15,026 63	22,814 117	25,145 133	24,970 119	38% 0%	25,357 110	38% 0%	26,126 92	39% 0%	24,000 75	39% 0%
Amortization of intang. assets Merger-related costs	193	0%	147 0	136 224	356	59	0	0	0	0	0	0% 0%	0	0% 0%	92	0% 0%	75 0	0% 0%
Other impairment/restruct.	73	0%	184	0	330	147	150	0	0	0	0	0%	0	0%	0	0%	0	0%
Other impairment/restruct.	75	070	104	Ü	01	171	700	O	O	U	O	0 70	O	0 70	U	0 70	U	0 70
<i>EBITDA:</i> 6.4%	4,515	18%	4,778	5,243	5,281	6,000	6,523	9,679	10,659	12,370	11,801	18%	12,368	19%	12,206	18%	12,128	19%
Depreciation	1,032		960	1,082	1,112	1,221	1,264	1,635	2,327	2,737	2,689		2,663		2,625	ı	2,416	•
"Free" Cash Flow 6.6%	3,397	14%	3,454	3,806	3,936	4,613	4,787	7,551	7,406	9,031	9,087	14%	9,573	14%	9,462	14%	9,456	15%
Capital Expenditures	1,118	•	1,067	1,324	1,437	1,345	1,387	2,128	3,253	3,339	2,714		2,795		2,744		2,672	ļ
EBIT/Margin %: 6.6%	3,483	14%	3,818	4,161	4,169	4,779	5,259	8,044	8,332	9,633	9,112	14%	9,705	15%	9,581	14%	9,712	15%
6% Frito-Lay North America	1,679	20%	1,915	2,216	2,056	2,366	2,389	3,258	3,549	3,621	3,684	27%	3,877	27%	4,054	28%	4,304	29%
Latin American Foods	0		0							1,126	1,109	14%	1,242	15%	1,211	14%	1,189	14%
NorthAmericanBeverage	1,184	20%	1,333	1,577	1,466	1,775	1,911	2,172	2,776	<i>3,45</i> 2	3,039	14%	2,955	14%	2,846	13%	2,785	14%
AMENA	0		0							896	925	14%	1,174	18%	1,043	16%	941	15%
Europe/SubSaharanAfr	563	8%	715	1,042	863	1,186	1,323	2,552	2,766	1,427	1,383	10%	1,293	9%	1,331	10%	1,081	10%
Quaker Foods North America	363	18%	392	473	389	486	475	628	568	803	704	27%	617	24%	621	24%	560	22%
External Costs: 6.9%	978		1,275	1,295	1,236	1,213	1,085	2,065	1,994	3,171	2,898		2,918		3,023		2,852	
Taxes	1,770		1,218	1,433	1,244	1,424	1,372	2,100	1,894	2,372	2,090		2,104		2,199		1,941	!
Interest Exp: (Net)	291		187	142	152	112	93	330	835	799	808		814		824		911	
Bottling equity income	(1,083)		(130)	(280)	(160)	(323)	(380)	(365)	(735)	0	0		0		0		0	
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Earnings: 6.5%	2,505	10%	2,543	2,866	2,933	3,566	4,174	5,979	6,338	6,462	6,214	9%	6,787	10%	6,558	10%	6,860	11%
Dividend Paid/% of FCF: 10.8%	786	23%	804	1,018	1,033	1,074	1,427	2,739	2,988	3,175	3,289	36%	3,379	35%	3,765	40%	4,040	43%
Common Stock/% of FCF:	584	17%	800	(14,573)	1,488	723	1,313	(640)	(1,015)	1,108	1,361	15%	1,151	12%	3,567	38%	3,592	38%
Stmt of CFs	584	,	800	(14,573)	1,488	723	1,313	(640)	(1,015)	1,108	1,361	. 0 / 0	1,151	,	4,143	0070	4,363	00,0
Net Business Acquisitions:			333	(11,010)	.,		1,010	(0.0)	0	2,249	427		(24)		(115)		(115)	
Purchases				,				,		3,029	427		109		88	l	88	ļ
Disposals										(780)			(133)		(203)		(203)	
Description:										(/			()		(/		()	
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Instructions:																		
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Top line growth stale, excepting international. Margins continue to expand with the most room in international. Total earnings growth benefits by the additional lowered taxes.

Observations:

Analysis:

Balance Sheet (in millions):

		2000	2001	2002	2003	2004	2009	2010	2011	2012	2013	2014	2015
Assets	8.4%	20,757	21,695	23,474	25,327	27,987	39,848	68,153	72,882	74,638	75,840	70,509	69,667
16%	Cash and Cash Equivalents	1,038	683	1,638	820	1,280	3,943	5,943	4,067	6,297	9,375	6,134	9,096
13%	Short-term investments, at cost	467	966	207	1,181	2,165	192	426	358	322	303	2,592	2,913
8%	Accounts and notes receivable, net	2,129	2,142	2,531	2,830	2,999	4,624	6,323	6,912	7,041	6,954	6,651	6,437
6%	Inventories	1,192	1,310	1,342	1,412	1,541	2,618	3,372	3,827	3,581	3,409	3,143	2,720
6%	Prepaid expenses and other	791	752	695	687	654	1,194	1,505	2,277	1,479	2,162	2,143	1,865
6%	Property, Plant and Equipment, net	19,136	18,575	17,244	16,317								
12%	Intangible Assets, net	33,496	31,014	29,053	27,258								
-2%	Investments in Unconsolidated Affiliat	1,633	1,841	2,689	2,311								
-1%	Other Assets	889	1,254	1,841	2,266	2,475	965	1,689	1,021	1,653	2,207	860	750
Liabil	ities: 10.3%	52,116	52,959	52,821	57,492								
22%	Short-term borrowings	13,153 202	13,047 354	13,944 562	13,431 591	14,415 1,054	22,302 464	46,568 <i>4,898</i>	51,867 6,205	4,815	5,306	5,076	4,071
8%	Accounts payable	4,529	4,461	4,998	5,213	5,599	8,127	10,923	11,757	11,903	12,533	13,016	13,507
	Income taxes payable	64	183	492	611	99	165	71	192	371	0	0	•
16%	Long-Term Debt	3,009	2,651	2,187	1,702	2,397	7,400	19,999	20,568	23,544	24,333	23,821	29,213
3%	Other Liabilities	3,960	3,876	4,226	4,075	4,099	5,591	6,729	8,266	6,543	4,931	5,744	5,887
9%	Deferred Income Taxes	1,367	1,496	1,486	1,261	1,216	659	4,057	4,995	5,063	5,986	5,304	4,959
	Preferred Stock, no par value	49	26	-7	-22	-49	-104	-109	-116	-123	-130	-140	-145
	Deferred Compensation – preferred	-27	_	_	_	_	_	_	_	_	_	_	
Share	holder's Equity: 3.2%	22,522	24,519	17,688	12,175								
-2%	Common Stock	26	25	25	24								
17%	Capital in excess of par value	4,178	4,095	4,115	4,076								
	Noncontrolling Interest	105	110	110	107								
8%	Retained Earnings	16,510	11,519	13,489	15,961	18,730	33,805	37,090	40,316	43,158	46,420	49,092	50,472
16%	Accumulated Other Comprehensive L	-1,374	-1,646	-1,672	-1,267	-886	-3,794	-3,630	-6,229	-5,487	-5,127	-10,669	-13,319
9%	Less: repurchased common stock, at	-7,920	-1,268	-2,524	-3,376	-4,920	-13,383	-16,745	-17,870	-19,458	-21,004	-24,985	-29,185
Descr	iption:												
Instru	ections:	On debt s	de borrowi	nge are un	eignificant	tly: some o	f short-term	ie long-tori	<u> </u>				
11tStf ti	cuons.	Off debt 5	de, borrowi	rigs are up	Significan	ily, some o	i Short-term	i is long-ten					
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Description & Analysis of Debt Levels (in mlns):

Debt is a four-letter word. Debt causes the years of repayment of capital to equity shareholders to stretch out into the more distant future. Even worse, debt can cause the best business model to become the property of bondholders in a rough economic environment.

Total Debt-Capital:

The measure of total debt to total capital is useful when book value is a good measure of a firm's worth. This is particularly true of traditional businesses where property, plant and equipment are important. Further, it helps to have this ratio in capital intensive businesses with cyclical earnings. Not applicable here, however.

52,533 Total Debt: Here, deferred income taxes have been excluded. Total Capital: 64,708 Here, deferred income taxes have been excluded. Ratio: 81.18%

Long Term Debt-Cap.:

The measure of long term debt to total capital is useful when total debt is distorted by the high presence of current assets being financed by current liabilities. Again, the measure works best within a traditional industry setting. The ratio helps position the equity shareholders.

L. T. Debt: 29,213 Here, the current liabilities have been excluded. L. T. Capital: 41,388 Here, the current liabilities have been excluded. 70.58% Ratio:

Net Income Payback:

The measure of how quickly debt is repaid by net income is a conservative measure, as it includes some debt, such as current liabilities that are financed by current assets and excludes some sources of cash, such as noncash amortization numbers.

Total Debt: 52,533 Net Income: 6,860 7.7 Years Paybacl L.T. Debt: 29,213 Net Income: 6,860

Years Paybacl

Addback Net Inc. Paybad The measure of how quickly debt is repaid by addback net income is a good measure, as it starts with GAAP net income and adds back expenses on an after-tax basis that are clearly discretionary, such as business acquisitions to better analyze the strength of the repayment stream.

> L.T. Debt: 33,284 6,860 Net Income: 12,009 Addback: **Years Paybacl** 3.1

4.3

Merger charges, writedowns above the line, dep. Amort below the line less capex

The debt situation at PEP is adequate, especially given stability of revenues and income.

Description & Analysis of Pension Issues(in mlns):

ummary:

Corporate defined benefit or "pension" plans are a major obligation of companies. Because of the actuarial changes involved, obligations can move significantly. As a result, corporations have steadily moved toward defined contribution plans as they froze or terminated pension plans. These obligations are measured in two ways: accumulated and projected. As the name implies, projected is what is likely and a greater number than accumulated. This obligation is typicac in three categories: US, non-US and post-retirement. There are assets which are set up to fund these plans. The difference is the funded status. This number provides an indication of the additional potential obligation of the company and is included in the balance sheet - typicac in "other assets" and "other liabilities." That may not be the accurate value of the obligation in the event that assumptions are unreasonable. Because pensions are funded over time, it is less likely to have an immediate funding need that cripples the company or its earnings. Rather than focus on these assumptions, we estimate the size of plan's underfunding relative to the market value of the company. The greatest financial risk involves companies which are small relative to these funding requirements. For our purposes, we set this limit at 25% for the total underfunded as a percentage of market capitalization.

Year		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	Pension Plan	Yes	Yes								
	Frozen:	No	No								
	Taft-Hartley	No	No								
	Underfunded	Yes	Yes								
	Amount:	2,454	2,631								
	Market Cap:	146,880	146,880								
	Ratio:	1.67%	1.79%								

Description & Analysis of Stock Options (in mlns):

ummary:

Stock options are a difficult form of compensation to assess. Heavy use of stock options creates stock issuance and a demand for stock repurchasing in some industries. This can be dilutive to shareholders if no repurchasing occurs or can absorb cash flows in the event that repurchasing occurs to offset issuance. Uses "share-based incentive" language

FASB ASC 718	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
After tax Exp	297.0	295.0								
Net profits:	6,513.0	6,860.0								
%	4.6%	4.3%								
Cash net of to	4,143.0	4,363.0								
Net share rep	3,567.0	3,592.0								
Difference	576.0	771.0								
% of Net proj	8.8%	11.2%								
										

Industry Overview

PEP is in the branded foods business. This business is outstanding for its ability to cause consumers to view products as not commodity products. By virtue of a selectiveness about what is put in their mouths, consumers are particular about flavors. "It doesn't taste right," is the biggest asset for a company like PEP or KO that has spent years cultivating the "right taste."

Industry Comparisons

Operating Statistics:

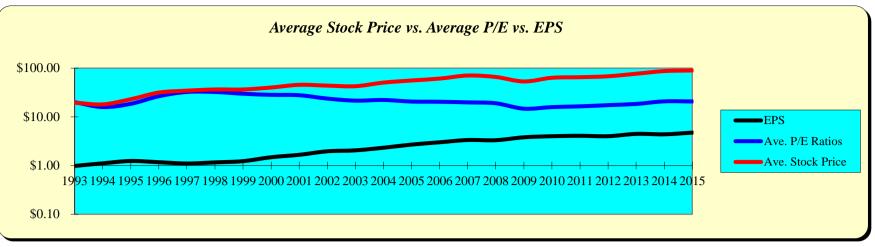
Company	Yrs.Paybk	Sales	ROC	Operating Margin
KO	2.53	44,294	16.30%	27.50%
PEP	3.10	61,750	15.93%	19.00%
DPS	3.80	6,225	14.50%	21.00%
NSRGY	1.00	90,500	14.50%	16.50%

Market Statistics:

Company	P/B	P/E	Divd. Yld.	EV/Sales
KO	7.74	22.5	3.18%	5.10
PEP	11.99	20.8	2.97%	2.90
DPS	4.88	20.0	2.47%	2.89
NSRGY	3.45	27.3	3.00%	2.83

Qualitative Characteristics

	Positives:	Negatives:
Product/Service:		
Pricing Power:	Good, careful investment	The "good for you" is not as profitable as "fun for you"
Durability:	Food brands must be continuously restocked.	
<u> </u>	Americans are focused on "freshness."	
Brand Appeal:	14 brands are selling over \$500 million per year	
	with 11 selling more than \$1 billion.	
Unique Importance:	"Momma's home cooking" is the underlying	In increasingly sophisticated world, consumers are
	strength.	demanding more diversity, more options.
Role Of Media:	Advertising is critical, as food moves to health	
	issues for adults and entertainment for others	
Toll Bridge:	Supermarkets have to have some brands and	
	convenience stores need the DSD model.	
Global Opportunity:	Yes	Much lower margins, perhaps for long term.
Competition:	Limited	
Economic Risk:	Beverages help snacks in emerging mkts,	
	But snacks help beverages in developed mkts.	
Government Role:	None	Dominance in chips could bring anti-trust.
Role Of Technology:	Not a threat	
Supply/Demand:	Commodities are not a major factor.	
Financial:		
Business Model:	Volume opportunity	
High Capital Reinv.:	Low capital requirments	
Effective As Public:	Yes	
Ownership:		
Growth:		Slow growth.
Concentration:	Diversified	
Management:		



	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
EPS	\$0.98	\$1.11	\$1.24	\$1.17	\$1.10	\$1.16	\$1.23	\$1.48	\$1.66	\$1.96	\$2.05	\$2.32	\$2.69	\$3.00	\$3.34	\$3.31	\$3.80	\$4.00	\$4.08	\$4.00	\$4.46	\$4.38	\$4.74
Ave. P/E Ratios	20.0	15.9	18.5	26.5	32.5	32.4	29.8	28.3	27.8	23.7	21.5	22.2	20.6	20.4	19.8	19.0	14.7	15.9	16.4	17.4	18.4	20.8	20.7
Ave. Stock Price	19.6	18.0	23.0	31.5	34.5	36.5	36.5	40.0	45.4	43.8	42.6	50.5	55.8	61.0	70.5	65.9	53.3	63.5	65.2	68.1	76.8	87.0	89.8

Price/Earnings Ratio: used -\$4.90 Twenty year average low I 19.1 Twenty year average high 25.8

If we set the purchase at the ave. Twenty year low I

the price implied is: \$93.54

If we set the sell at the ave. Twenty year high P/E,

the price implied is: \$126.46

Price/Book Ratio: used -

\$8.51 Twenty year average low I 5.89

Twenty year average high 7.98

If we set the purchase at the ave. Twenty year low I

the price implied is:

If we set the sell at the ave. Twenty year high P/B, \$67.89

the price implied is:

\$50.11

the price implied is: Price/Cash Flow Ratio: used -

Price/Sales Ratio: used -

the price implied is:

Twenty year average low P/

Twenty year average high P

Twenty year average low P/ 12.9 17.4

Twenty year average high P

If we set the purchase at the ave. Twenty year low P/CF,

If we set the purchase at the ave. Twenty year low P/S,

If we set the sell at the ave. Twenty year high P/S,

the price implied is:

\$85.37

\$42.88

2.01

2.71

\$86.39

\$116.22

\$6.63

If we set the sell at the ave. Twenty year high P/CF,

the price implied is:

\$115.19

Initial Rate of Investment							
	Current Price	\$102.00					
	Current EPS	\$4.90					
	Initial ROI	4.80%					

Valuation as an Equity Bond.	:
Current BV	\$8.51
Current RO	57.55%
Retained %	15.84%
Net BV Grov	vth 9.11%
BV in Year I	\$20.35
EPS in Year	r 10 \$11.71
Valueat20.P	/E \$234.24
Total Divide	nds \$54.09
Total F.Valu	e \$288.32

Purchaseat14%

\$77.77

Relative Value to Investment In T-Bonds							
	Current EPS	\$4.90					
	T-Bond Rate	4.00%					
	Relative Value	\$122.40					

Valuation on Earnings Growth:						
Current EPS	\$4.90					
EPS in Year 10	\$9.85					
Ave. P/E Ratio	21.88					
Valueat20.P/E	\$251.14					
Price Return	6.81%					
Dividend Return	2.97%					
Total Return	9.77%					
Purchaseat14%	\$67.74					
Sellat6%	\$140.24					

Capital "charge" approach

135.4021 sell at 120%

12,128 ebitda
0.12 required return
0.06 growth rate (not on EPS basis)
0.9 % not required (inc. increase in debt)
0.066 denominator
183757.6 ev
21,275 debt
162,483 equity value
1440 shares
112.8351 share value
67.70107 buy at 60%

History of Buys/Sells

by	Pepsico In	3/21/2011	250	16,071.40	64.29	3.00%
by	Pepsico In	7/14/2011	10	689.58	68.96	3.00%
by	Pepsico In	7/26/2011	150	9,633.39	64.22	4.50%

Discussion of Buys/Sells

What: The return of the first purchase of PEP (bought 3/21/2011 to present) was 59% and SP 54% for an outperformance of 5% (nearly 5 years).

The return of the second purchase of PEP (bought 7/26/2011 to present) was 54% and SP 54% for an underperformance of 0% (nearly 4.5 years).

Since 1995, PEP has had almost identical returns with the SP with a period of underperformance during the tech bubble and outperformance during Great Recession.

So what: It appears that we purchased an equity "bond" as a "brand" and were able to buy at 16X earnings as a Tier I.

It appears that we made the second price, based on raising to following years earnings and estimating strong growth.

It appears that growth slowed, but P/E expansion and dividend desirability moved price up.

Now what: Our discipline has benefitted by P/E expansion where dividends have made a company more attractive despite slowed growth.

The continuing slowdown is making it more difficult to purchase these companies and more likely to sell

PEP has performed as a good substitute for bonds and yet yielded SP results.

Takeaway: PEP is not as pricey as KO.

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Sales (mln)	\$20,438.00	\$20,137.07	\$19,840.57	\$19,548.43	\$19,260.60	\$18,977.00	\$18,697.58	\$18,422.28	\$18,151.02	\$17,883.76	\$17,620.44	\$17,361.00	\$17,105.37	\$16,853.51	\$16,605.35
SPS	\$14.24	\$14.23	\$14.21	\$14.19	\$14.18	\$14.16	\$14.14	\$14.13	\$14.11	\$14.10	\$14.08	\$14.06	\$14.05	\$14.03	\$14.02
Earnings (mln)	\$2,120.00	\$2,088.78	\$2,058.03	\$2,027.73	\$1,997.87	\$1,968.45	\$1,939.47	\$1,910.91	\$1,882.78	\$1,855.05	\$1,827.74	\$1,800.83	\$1,774.31	\$1,748.19	\$1,722.45
EPS	\$1.48	\$1.48	\$1.47	\$1.47	\$1.47	\$1.47	\$1.47	\$1.47	\$1.46	\$1.46	\$1.46	\$1.46	\$1.46	\$1.46	\$1.45
Operating EPS	\$1.48	\$1.48	\$1.47	\$1.47	\$1.47	\$1.47	\$1.47	\$1.47	\$1.46	\$1.46	\$1.46	\$1.46	\$1.46	\$1.46	\$1.45
Shares Outstdg.	1435.00	1415.50	1396.26	1377.28	1358.56	1340.10	1321.89	1303.92	1286.20	1268.72	1251.47	1234.46	1217.69	1201.14	1184.81
Buyback \$ (mln)	\$576.26	\$567.78	\$559.42	\$551.18	\$543.07	\$535.07	\$527.19	\$519.43	\$511.78	\$504.25	\$496.82	\$489.51	\$482.30	\$475.20	\$468.20
#ShresBuyback	19,503,291	19,238,219	18,976,750	18,718,834	18,464,424	18,213,471	17,965,929	17,721,752	17,480,893	17,243,307	17,008,951	16,777,780	16,549,751	16,324,821	16,102,948
Ave. P/E Ratio	20.00														