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Data & Insights at the speed of market

Research Summary

PepsiCo, Inc.

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PepsiCo Inc. (NASDAQ: PEP) is a major food and beverage company that is headquartered in New York. The company was incorporated in Delaware in 1919 and reincorporated in North Carolina in 1986.

PepsiCo owns a large portfolio of foods, snacks and beverages that it markets to consumers in more than 200 countries. It is the owner of some of the most popular brands in the food industry such as Pepsi, Quaker and Tropicana.

PepsiCo operates through seven business segments:

• Frito-Lay North America (FLNA), which includes the company's branded food and snack businesses in the US and Canada.

• Quaker Foods North America (QFNA), which includes the cereal, rice, pasta and other branded food businesses in the US and Canada.

• PepsiCo Beverages North America (PBNA), which covers the beverage businesses in the US and Canada.

• Latin America (LatAm), which covers all of PepsiCo's operations in Latin America.

• Europe, which includes the company's businesses in Europe.

• Africa, Middle East and South Asia (AMESA), which covers the company's operations in the Africa, the Middle East and South Asia regions.

• Asia Pacific, Australia and New Zealand and China Region (APAC), which covers its businesses in the Asia Pacific, Australia and New Zealand, and China regions.

PepsiCo's products are brought to market mainly through direct-store-delivery, customer warehouse and distributor networks and are sold to consumers through retailers and e-commerce platforms. The company's customers include wholesale and other distributors, foodservice customers, grocery stores, convenience stores, and e-commerce retailers, among others.

PepsiCo's main competitor in the beverages sector is The Coca-Cola Company. Based on data from Information Resources Inc., in 2020, PepsiCo and The Coca-Cola Company represented approx. 22% and 20% respectively of the US liquid refreshment beverage category by estimated retail sales in measured channels.

The food and beverage industry is set to see some trends going into 2022. Experts predict that the preference for plant-based food products and sugar substitutes are likely to continue. The focus on health and convenience will also take precedence with more demand for products that offer both these factors. According to a report by Expert Market Research, the global plant-based snacks market is expected to grow at a CAGR of 8.7% during the period from 2022-2027 to reach a value of $57 billion by 2026.

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Key Financial Highlights 3Q21

Key Metrics	Q3 2021	YoY (+/-)
Net revenue	$20.1 billion	+11.6%
Net income	$2.2 billion	-3%
GAAP EPS	$1.60	-3%
Core EPS	$1.79	+8%
Gross profit	$10.7 billion	+8%

• On an organic basis, revenue grew 9%.

• In North America, organic revenue grew 6% helped by strong category growth.

• Organic revenue growth for the International business was 14%.

• Core gross profit increased 9%.

• Core operating profit rose 6%.

Competitors

- Coca-Cola
- Mondelez
- General Mills
- Kellogg's
- Conagra Brands

Outlook

For fiscal year 2021, the company expects:

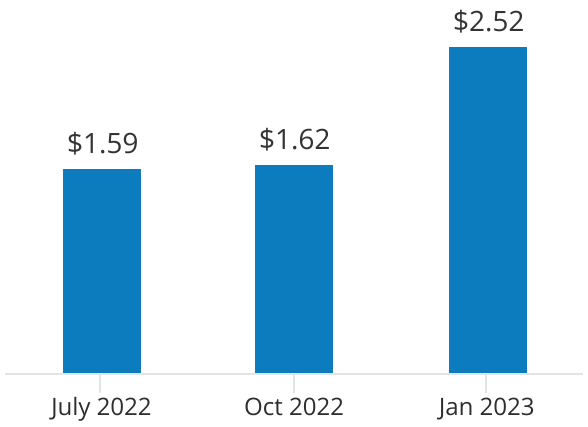
• Organic revenue growth of approx. 8%.

• Core EPS of at least $6.20.

• Core constant currency EPS growth of at least 11%.

• Total cash returns to shareholders of approx. $5.9 billion, comprised of dividends of approx. $5.8 billion and share repurchases of $106 million.

Quarterly Earnings Forecast (Consensus EPS Forecast)



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Business Segment Analysis

Segment	Operating Profit	Reported change YoY (%)	Core constant currency change YoY (%)
Frito-Lay North America (FLNA)	$1.35 billion	Flat	Flat
Quaker Foods North America (QFNA)	$106 million	-27	-27
PepsiCo Beverages North America (PBNA)	$773 million	11	4
Latin America (LatAm)	$393 million	57	47
Europe	$439 million	-8	-7
Africa, Middle East and South Asia (AMESA)	$312 million	63	52
Asia Pacific, Australia and New Zealand and China Region (APAC)	$201 million	23	16

Factors driving segment performance:

• Frito-Lay North America delivered revenue growth helped by the resilience of its portfolio and go-to-market systems.

• The Frito-Lay segment benefited from market share gains in salty and savory categories as well as the introduction of nutritious snacking options in its portfolio.

• Strength in the foodservice, convenience and gas channels also benefited Frito-Lay's business.

• Quaker Foods North America benefited from market share gains in meals and instant oatmeal as well as the success of new products.

• Both Frito-Lay's and Quaker's core operating profits were impacted by supply chain pressures and increased costs.

• PepsiCo Beverages North America benefited from market share gains, investments in the business, and the rollout of new healthy product options.

• The international business benefited from market share gains and investments in increased manufacturing and selling capacity.

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SWOT Analysis

Strength

- Established brand name.
- Broad and diversified portfolio of products.
- Leading position in the market.
- Strong global presence.

Weakness

- Too much dependence on carbonated soft drinks and packaged foods.
- Products are unattractive to health-conscious customers.
- Faces stiff competition from an equally strong rival Coca-Cola and must constantly work hard to stay a step ahead.

Opportunities

- Has room to expand in the health foods market by rolling out new products.
- Has opportunity to diversify into new businesses other than food and beverage thereby opening up new revenue streams.
- Can introduce new flavors into its drinks and snacks to provide more options for customers.
- Has opportunity to develop its ecommerce capabilities.

Threat

- Rising customer preferences for healthier options could reduce demand for PepsiCo's products.
- Must maintain a positive reputation consistently. One wrong move could result in customers shifting loyalty to the nearest and strongest competitor.
- Product quality or safety issues could reduce customer confidence and demand for products.

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Strategy and Operational Targets

During its most recent quarter, PepsiCo witnessed broad-based revenue growth across its key categories and geographies. It gained market share in key categories and saw momentum in international markets. The company continues to invest in its brands, supply chain, manufacturing capacity and digital capabilities as part of its strategy to become a Faster, Stronger and Better organization.

As part of these efforts, the company has been reviewing its portfolio and focusing more on high growth areas in terms of investment. It is trimming the areas where prospects of growth and value creation are low. This rationale led to its recent decision to sell portions of its juice business in North America and Europe.

PepsiCo is working on expanding its portfolio to include healthier and more varied choices that will help meet changing customer preferences as well as give it a competitive edge. These include plant-based proteins, nuts and seeds, and whole grains. The company is offering product options such as oven-baked, multi-grain and whole-grain snacks, veggie crisps, snacks made from whole fruits, zero sugar beverages, and beverages with proteins and dairy alternatives. Looking ahead, PepsiCo is optimistic on the resilience of its business in North America and it expects its international markets to perform well.

Major Stockholders

- The Vanguard Group, Inc.
- BlackRock Fund Advisors
- SSgA Funds Management, Inc.
- Geode Capital Management LLC
- Wellington Management Co. LLP
- Northern Trust Investments, Inc.
- Capital Research & Management Co.
- Magellan Asset Management Ltd.
- Norges Bank Investment Management
- Charles Schwab Investment Management Inc.

We remain optimistic about the long-term potential of our international business and have a very clear playbook on how to develop and build strong market positions within our snacks business by replicating the models we already have in many key markets such as the U.S., Mexico, and Russia. We will also continue to invest in our international beverage business, but tailor our approach by market, depending on our competitive position and scale.

Hugh F. Johnston, *CFO*

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Excerpts from the conference call Q&A

In response to a question on **top line growth**, CEO Ramon Laguarta said both the food and beverage categories were healthy and that the snacks categories were growing faster than food and beverage overall in the US. He added that the brand innovation and investments helped the company become more competitive across its categories and markets and this momentum is expected to continue into 2022.

In reply to a question on **pricing elasticity**, CEO Ramon Laguarta said that customers appear to be viewing pricing differently than before and one of the factors could be that its brands are stronger. He also said that as customers are shopping faster in store, they could be giving less importance to pricing and more importance to brands that are closer to them which could be the reason for less elasticity.

Replying to a question on **hard seltzers**, CEO Ramon Laguarta said the category has a retail value of almost $9 billion along with high margins and it is a space the company should be playing in. He added that there are customer trends that favor growth in this category and the company believes it can carve its own space in this relatively crowded market.

Responding to a question on its decision to **sell the juice business**, CEO Ramon Laguarta said the company has been evaluating its portfolio and adding assets to long-term high-growth areas. These include assets in Africa, China and the US that allow it to grow into new spaces such as value-added dairy, energy or healthier snacks. The company has also been evaluating areas where there are less chances of long-term growth and margin creation and the juice business is one such area thereby leading to the decision of its sale.

In answer to a question on the **packaged beverage category**, CEO Ramon Laguarta said the category is very healthy across the world. The company is seeing high levels of at-home consumption as people continue to entertain and do more things at home and at the same its convenience store business is doing well and the foodservice business is picking up. These trends are expected to continue thereby putting the beverage category in a positive situation for the future.

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