PepsiCo, Inc.

bordier 1844

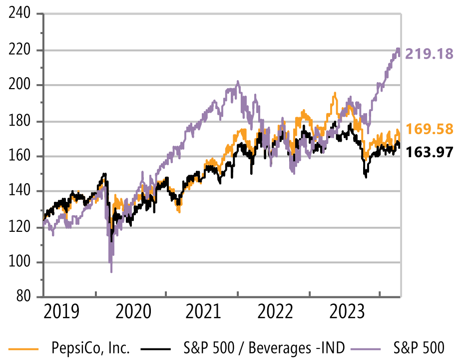
US CORE HOLDING* Recommended since 18.12.15 **09.04.2024**

Country	US	Market capitalization (bn)	USD	233,1	Perf. since reco. (%)	
Sector	Food & Beverage	Free float	99,7%		PepsiCo, Inc.	73,2
Factset	PEP-US	Closing price	USD	169,58	Sector	56,8
ISIN	US7134481081	ESG Risk score*	21,8	Medium risk		

**From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.*

Profile

PepsiCo is a US multinational specialising in beverages (46% of revenues) and snack products (54%). The 2nd largest food company in the world and 1st in the USA in terms of turnover ($86.4bn in 2022), the Group generates 62% of its revenues in North America, 16% in Europe and 22% in developing countries. PepsiCo is based in New York State and employs 267,000 people worldwide.



Source: Factset

Market - competition - positions - barriers to entry

The Group has a portfolio of brands, 23 of which generate sales in excess of $1bn each, the most well-known being: Pepsi, Pepsi Max, Diet Pepsi, 7UP, Diet 7UP, Mountain Dew, Doritos, Frito-Lay, Aunt Jemima, Cheetos, Quaker, Manzanita Sol, Gatorade, Aquafina, Lipton, Natura, Tropicana, Crush. Its eternal rival is the Coca-Cola company alongside Mondelez, Nestlé, Unilever, Dr Pepper Snapples, General Mills.

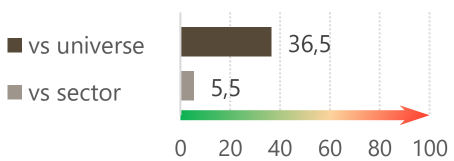
Investment case

- PepsiCo operates in two markets, Beverages and Snacks. Sales of soft drinks grew by +3.5% per year over 2010-17, driven by emerging markets, those of Water/Juice/Energy drinks by +5%/year, while in the US snack market ($125 billion), PepsiCo markets 8 of the 46 most consumed products. Although the Group changed CEO in 2018 (Indra Nooyi->Ramon Laguarta), its performance remains solid. The group can rely on the dynamism of Snacks, international expansion and the relaunch of Beverages in the USA. The record investments made in 2019/2020 behind the brands (innovations, launches, advertising, pricing, cost-cutting) are bearing fruit and are made to last. The 2 largest brands Pepsi and Gatorade are doing better, innovations are helping to regain market share and Moutain Dew will capitalize on the acquisition of Rockstar (synergies).
- PepsiCo continues the year 2023 on a good note. Beyond sustained domestic consumption (off trade) and the reopening of bars/restaurants (on trade), the renewed health of its international activities is striking. Its commercial performance in 2023 was sustained (+10.2% in Q1 and +10.4% in Q4). While inflation in incoming costs (food and transport) had weighed on the gross margin in 2021, the resilience shown in 2023 stems from higher prices and lower Food costs (to come for H2). While much of this is offset by increased spending on digital/marketing: PepsiCo is preparing for the current year and 2024. For 2023, management is optimistic but cautious targeting organic sales and EPS growth of +8%/+12%. It is always conservative early in the year and likes to have flexibility in its numbers. The group has a track record of exceeding its targets: 2022 EPS +8.5% vs. initial forecast at +6%.
- While 2020 highlighted the defensive nature of PepsiCo's portfolio positioned on waters, sodas, juices, chips, snacks and cereals...categories whose consumption suffered little from the pandemic, the quality of portfolio diversification, product innovation and brand strength allow the group to pass on price increases. Sale trends are favorable (solid market in the US/rebound of Latam and Asian markets in 2023) and PepsiCo is intensifying its productivity efforts ($1bn/year restructuring plan extended to 2026) to offset inflationary pressures and reinvesti on its brands. PepsiCo is giving itself the means to succeed and its resilient profile is to be favored in the face of an economic slowdown in the USA.

ESG - risks and key points

- The company is unlikely to experience significant financial impacts related to ESG factors due to its average exposure and good management of issues.
- Controversies (consumption and regulation of sugary products -> obesity and diabetes / use of palm oil and sugar in production -> human rights violations / use of water -> ingredients and manufacturing) are mitigated by programmes and above-average management of issues.

ESG risk vs. universe & sector (percentile)*



Source: Sustainalytics

Valuation** in USD

Current price	Value Bordier Scenario
170	**196**

Our scenario assumes US 10-year yields of 3.5%, with higher sales in 2020 despite the pandemic, which sharply accelerated in 2021 and 2022, targeting 4% growth in 2026, and an EBIT margin to 16% over this time frame, to normalize at this level over the long term.

***) The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.*

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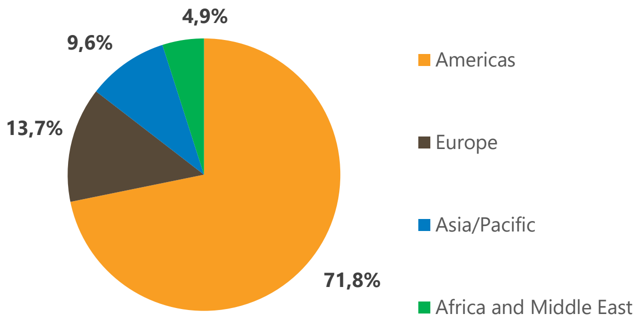
PepsiCo, Inc. - US CORE HOLDING* 09.04.2024

"Bordier Core Holding" indicators

In millions of USD	2022	2023	2024e	2025e	2026e
Sales revenue	86 392	91 471	94 672	98 933	103 088
Sales growth %	8,7%	5,9%	3,5%	4,5%	4,2%
o/w organic	*12,0%*	*6,0%*	*3,5%*	*4,5%*	*4,2%*
EBITDA	15 088	16 823	18 068	19 152	20 301
% of sales	17,5%	18,4%	19,1%	19,4%	19,7%
EBIT	12 325	13 875	14 718	15 702	16 751
% of sales	14,3%	15,2%	15,5%	15,9%	16,2%
Adjusted EPS	6,79	7,93	8,16	8,78	9,39
Adjusted EPS growth	23,8%	16,7%	2,9%	7,7%	0,0%
Capex/Sales	5,7%	5,8%	5,0%	4,9%	4,7%
Free cash-flow	4 967	8 122	9 809	10 729	11 666
FCF/Sales	5,7%	8,9%	10,4%	10,8%	11,3%
Dividend yield	2,7%	3,0%	3,1%	3,3%	3,5%
ROCE - WACC	14,5%	16,1%	16,8%	17,7%	18,6%
ROE (%)	54,9%	59,2%	48,8%	43,6%	39,3%
Net debt/Ebitda	226,1%	204,4%	173,1%	145,7%	118,4%
Gearing	197,5%	184,5%	134,6%	99,6%	72,4%

Source: Factset, Bordier estimates

Sales breakdown - 12/2023



Ratios

	PepsiCo, Inc.	S&P 500 Sector	Market
PE (x)*)**		Beverages	S&P 500
2023	25,9	22,2	23,4
2024e	20,8	20,9	21,5
2025e	19,3	19,3	18,9
P/B (x)*)**			
2022	12,6	6,5	4,7
2023e	10,1	6,0	4,4
2024e	8,4	5,4	3,9
		Beta (2Y, daily) vs market:	0,46

****) The valuation ratios set out are provided for information only. They do not constitute the criteria based upon which Core Holdings are selected, and may present significant premi-ums representing the quality of the company's business model.*

Governance and ownership structure

Since 2018 Ramon Laguarta CEO.

Agenda

23/04/2024: Q1 2024 results.

Key shareholders (if any):

Vanguard 8.4%, Blackrock 5%, State Street 4.6%.

Any special characteristics of ownership (multiple voting rights, controlling holding company, shareholders' agreements, etc.):

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Glossary

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.