

What's interesting about Pepsi is...that its profit margin is half of Coke (and I have a secret photo)

Case Study



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ACADEMY

Andrew Stotz, PhD, CFA

🌐 My name is Andrew Stotz,  
let's get started!

**...and I will introduce you to this amazing woman!**

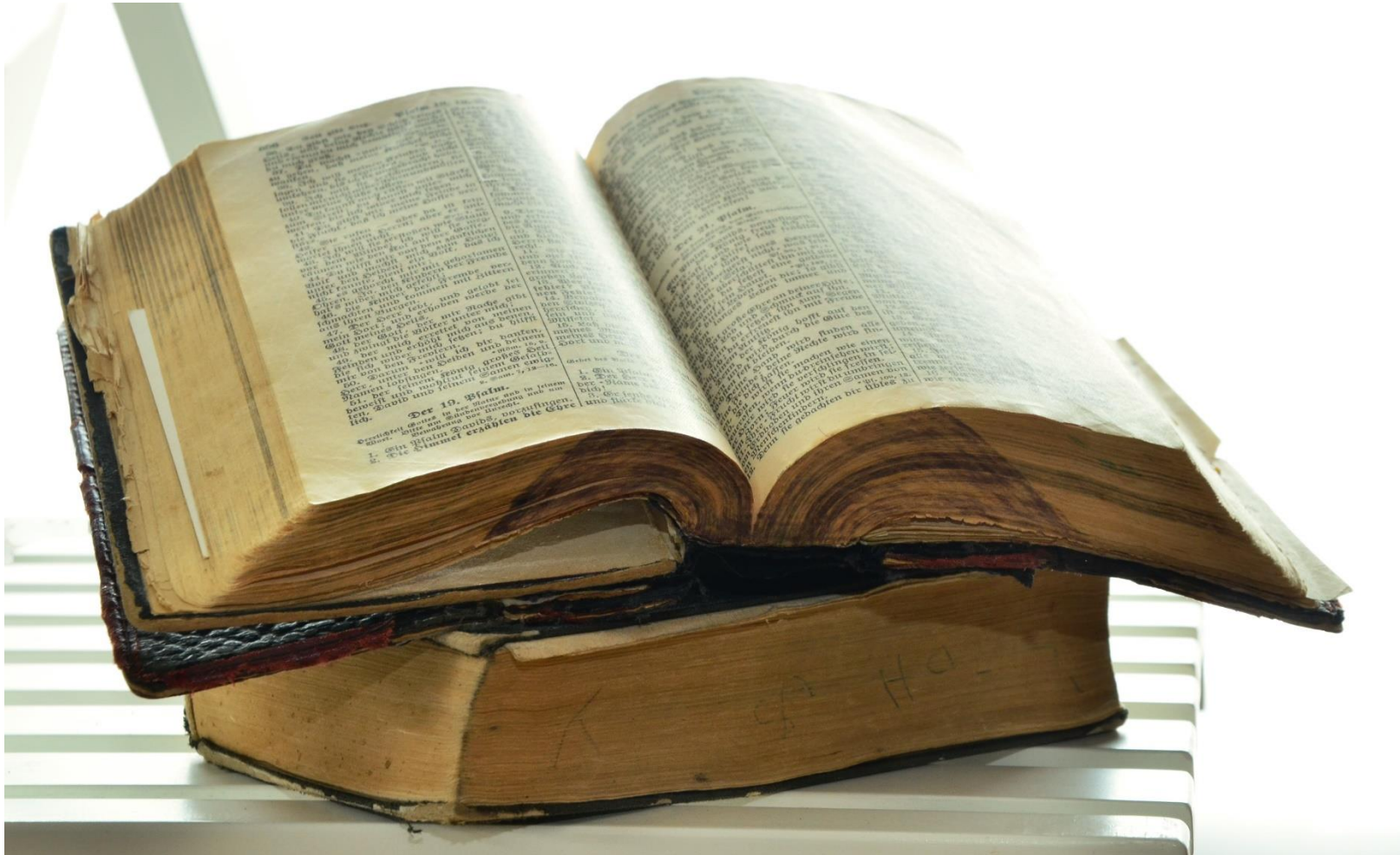
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# COMPANY BACKGROUND



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# PepsiCo own 23 brands

★ Beverage, Food and Snack

★ Available in > 200 countries



# Coca Cola Vs. Pepsi

★ Market share in U.S.

44%



Coca Cola

24%



Pepsi

# Coca Cola Vs. PepsiCo

## ★ Global Revenue

**US\$43bn**



**Coca Cola**

**US\$86bn**



**Pepsi**

# Revenue from both food and beverage

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**Food and Snack**  
**60%**

**Beverage**  
**40%**

# Most valuable brand in Beverage

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**Pepsi**



**Mountain Dew**

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# Most valuable brand in Food



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New



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- 🌐 Pepsi was the first soft drink company to use 2L bottles
- 🌐 After 30 years, they redesigned for consumer, making it easier to hold and pour



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- 🌐 Founded in 1893 in North Carolina, USA by pharmacist Caleb Bradham – pharmacist

# Indra Nooyi

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- ★ Joined PepsiCo in 1994
- ★ 1996 until 2000 was senior vice president for corporate strategy and development
- ★ President and chief financial officer from 2001
- ★ CEO from 2006 to 2018
- ★ Chairwoman from 2007 until 2019



Andrew Stotz, PhD, CFA



# Fear as Motivation by Indra Nooyi



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or investment advice.**

Sources: [youtube.com/shorts/Qjzeo\\_1g0Nw](https://www.youtube.com/shorts/Qjzeo_1g0Nw)

# COMPETITIVE STRATEGY



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# PepsiCo - US - Founded 1898

Cons. Staples sector, 423,000 employees, US\$86bn revenue

## Main segments/products

- Pepsi
- Frito-Lay (snack division)
- Quaker Foods (oatmeal, cereals, and snacks)

## Its competitive advantage

*Competitive advantage through a wide product portfolio of popular beverage, snack, and food brands.*

## How it achieved its competitive advantage

*Achieved its competitive advantage through strong brand recognition, diverse product offerings, and effective marketing strategies.*



pepsi





# Quarterly results



| (US\$ m)                              | 3Q22          | 4Q22          | 1Q23         | 2Q23          | 3Q23          | YoY (%)         | 9M23          | 23E           | % of 23E        |
|---------------------------------------|---------------|---------------|--------------|---------------|---------------|-----------------|---------------|---------------|-----------------|
| Revenue                               | 21,971        | 27,996        | 17,846       | 22,322        | 23,453        | 6.7             | 63,621        | 93,303        | 68.2            |
| Cost of sales                         | (10,242)      | (13,151)      | (7,975)      | (10,120)      | (10,687)      | 4.3             | (28,782)      | (43,853)      | 65.6            |
| <b>Gross profit</b>                   | <b>11,729</b> | <b>14,845</b> | <b>9,871</b> | <b>12,202</b> | <b>12,766</b> | <b>8.8</b>      | <b>34,839</b> | <b>49,451</b> | <b>70.5</b>     |
| SG&A                                  | (8,134)       | (11,698)      | (7,069)      | (8,428)       | (8,737)       | 7.4             | (24,234)      | (36,388)      | 66.6            |
| Other (exp)/inc                       | 20            | 15            | -            | -             | -             | nm              | -             | 62            | -               |
| <b>EBIT</b>                           | <b>3,615</b>  | <b>3,162</b>  | <b>2,802</b> | <b>3,774</b>  | <b>4,029</b>  | <b>11.5</b>     | <b>10,605</b> | <b>13,124</b> | <b>80.8</b>     |
| Finance cost                          | (190)         | (273)         | (200)        | (201)         | (201)         | 5.8             | (602)         | (942)         | 63.9            |
| Other inc/(exp)                       | 95            | 125           | 62           | 145           | 62            | (34.7)          | 269           | 524           | 51.4            |
| <b>Earnings before taxes</b>          | <b>3,520</b>  | <b>3,014</b>  | <b>2,664</b> | <b>3,718</b>  | <b>3,890</b>  | <b>10.5</b>     | <b>10,272</b> | <b>12,705</b> | <b>80.8</b>     |
| Income tax                            | (389)         | 29            | (546)        | (747)         | (760)         | 95.4            | (2,053)       | (1,764)       | 116.4           |
| <b>Earnings after taxes</b>           | <b>3,131</b>  | <b>3,043</b>  | <b>2,118</b> | <b>2,971</b>  | <b>3,130</b>  | <b>(0.0)</b>    | <b>8,219</b>  | <b>10,941</b> | <b>75.1</b>     |
| Equity income                         | -             | -             | -            | -             | -             | nm              | -             | -             | na              |
| Minority interest                     | (22)          | (17)          | (12)         | (23)          | (24)          | 9.1             | (59)          | (42)          | 141.6           |
| <b>Earnings from cont. operations</b> | <b>3,109</b>  | <b>3,026</b>  | <b>2,106</b> | <b>2,948</b>  | <b>3,106</b>  | <b>(0.1)</b>    | <b>8,160</b>  | <b>10,900</b> | <b>74.9</b>     |
| Forex gain/(loss) & unusual items     | (407)         | (2,508)       | (174)        | (200)         | (14)          | nm              | (388)         | (1,679)       | 23.1            |
| <b>Net profit</b>                     | <b>2,702</b>  | <b>518</b>    | <b>1,932</b> | <b>2,748</b>  | <b>3,092</b>  | <b>14.4</b>     | <b>7,772</b>  | <b>9,220</b>  | <b>84.3</b>     |
| Recurring profit                      | 3,058         | 3,170         | 2,068        | 2,906         | 3,103         | 1.5             | 8,077         | 10,631        | 76.0            |
| EBITDA                                | 4,274         | 4,071         | 3,392        | 4,452         | 4,734         | 10.8            | 12,578        | 16,069        | 78.3            |
| Recurring EPS (US\$)                  | 2.205         | 2.295         | 1.494        | 2.099         | 2.244         | 1.8             | 5.837         | 7.698         | 75.8            |
| Reported EPS (US\$)                   | 1.958         | 0.377         | 1.402        | 1.994         | 2.247         | 14.8            | 5.645         | 6.710         | 84.1            |
| <b>Profits (%)</b>                    | <b>3Q22</b>   | <b>4Q22</b>   | <b>1Q23</b>  | <b>2Q23</b>   | <b>3Q23</b>   | <b>Diff (%)</b> | <b>9M23</b>   | <b>23E</b>    | <b>Diff (%)</b> |
| Gross margin                          | 53.4          | 53.0          | 55.3         | 54.7          | 54.4          | 1.0             | 54.8          | 53.0          | (1.8)           |
| Operating margin                      | 16.5          | 11.3          | 15.7         | 16.9          | 17.2          | 0.7             | 16.7          | 14.1          | (2.6)           |
| Net margin                            | 12.3          | 1.9           | 10.8         | 12.3          | 13.2          | 0.9             | 12.2          | 9.9           | (2.3)           |

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- PEP reported 3Q23 recurring EPS of US\$2.24, which was +1.8% YoY and +6.9% QoQ
- The 9M23 result was 75.8% of our full-year forecast

# American love sports

## ★ Sponsors

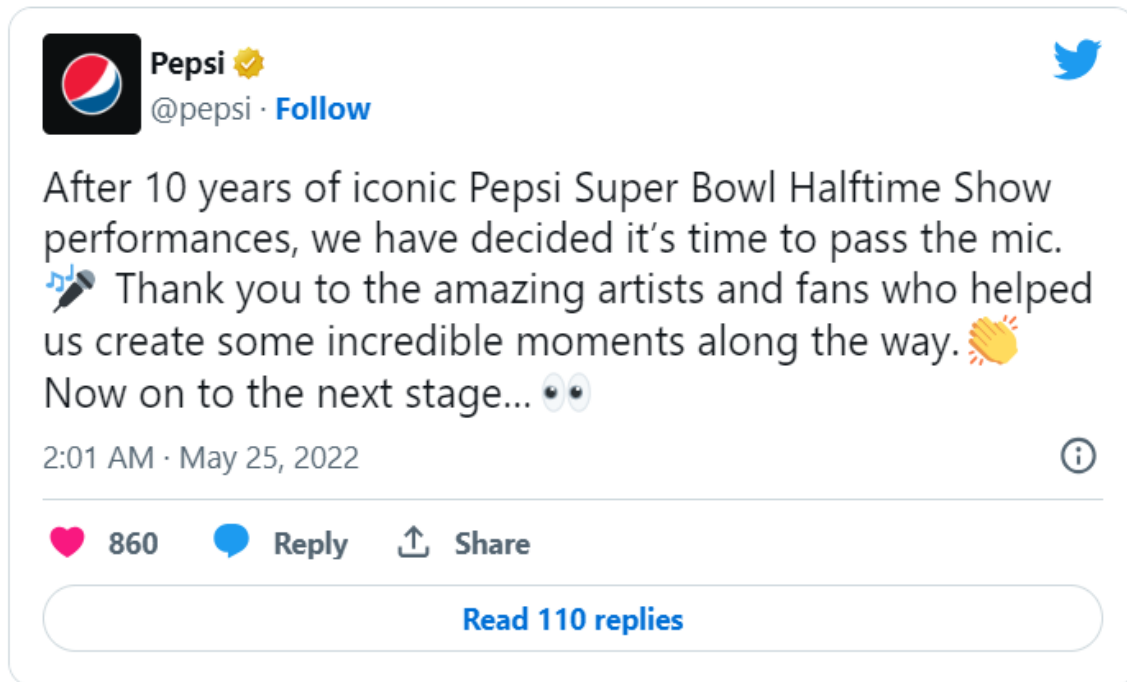


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After a decade of sponsoring the Super Bowl Halftime Show, Pepsi announced on Tuesday that the company will no longer be the namesake for the annual performance.

“After 10 years of iconic Pepsi Super Bowl Halftime Show performances, we have decided it’s time to pass the mic,” Pepsi said, [via the company’s Twitter announcement](#). “Thank you to the amazing artists and fans who helped us create some incredible moments along the way. Now on to the next stage...”



# Pepsi ≠ Super Bowl

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- ★ Sponsored the show for the past **10 years**
- ★ Due to slight **decrease** in broadcast viewers
- ★ **Apple Music** has replaced Pepsi as the half-time show's sponsor



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# Indra Nooyi speaking about the challenges women face has had 1.9m views

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Sources: [youtube.com/shorts/-ilw0G714Jc](https://www.youtube.com/shorts/-ilw0G714Jc)

**What's interesting about Pepsi is...that its profit margin is half of Coke (and I have a secret photo)**



# My first three years of my career was in Torrance and Buena Park plants in Los Angeles



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# COMPETITIVE ADVANTAGE



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**Is the company  
financially world class?**



Here's the method I use as  
an **investor** and **business**  
**owner** to measure whether  
a company has a  
**competitive advantage**

# The **World Class** **Benchmarking** score card we developed 10 years ago



# Here's how I construct the scorecard for any company

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- ★ We gather the yearly and quarterly financial data of 26,000 companies worldwide
- ★ We then calculate each company's **Profitable Growth** score
  - Which is a composite measure of both profitability and growth

# Here's how we construct the scorecard for any company

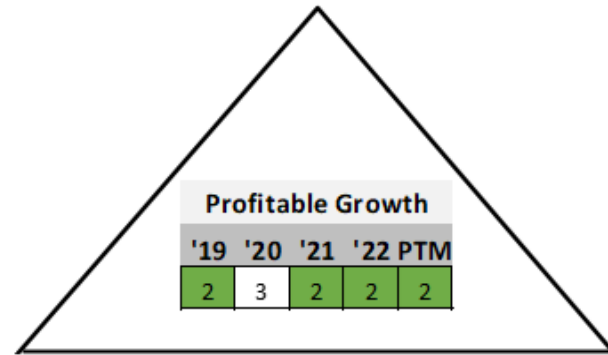
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- ★ After that, we rank the subject company relative to sector peers of similar size
  - Decile ranking is from **1 (best)** to **10 (worst)**
  - A score of **1 or 2** is financially world class
- ★ We assess the company's performance over the prior four years and the past 12 months (PTM)

**Is the company  
financially  
world class?**



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Benchmarked against 560 large Cons. Staples companies worldwide.

Source: A. Stotz Investment Research. Notes: 1 = top ranking and 10 = worst. Most recent year's data is based on the past 12 months (PTM) of published data.

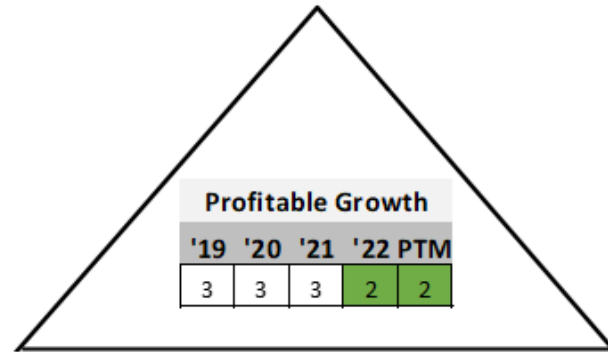
**This is not a recommendation or investment advice.**

# Coke has massive net margins

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| US\$bn                       | Coca Cola |           |
|------------------------------|-----------|-----------|
|                              | 2021      | 2022      |
| Revenue                      | 39        | 43        |
| Profit                       | 10        | 10        |
| <b>Net profit margin (%)</b> | <b>25</b> | <b>22</b> |





Benchmarked against 560 large Cons. Staples companies worldwide.

Source: A. Stotz Investment Research. Notes: 1 = top ranking and 10 = worst. Most recent year's data is based on the past 12 months (PTM) of published data.

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# Pepsi's margins are half of Coke

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| US\$bn                       | Coca Cola |           | Pepsi     |           |
|------------------------------|-----------|-----------|-----------|-----------|
|                              | 2021      | 2022      | 2021      | 2022      |
| Revenue                      | 39        | 43        | 79        | 86        |
| Profit                       | 10        | 10        | 8         | 9         |
| <b>Net profit margin (%)</b> | <b>25</b> | <b>22</b> | <b>10</b> | <b>10</b> |



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**Is your company financially  
world class?**

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**Just message me, and I'll  
score your company**



# VALUATION



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# Free cash flow



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| (YE Dec, US\$ m)              | 2020A         | 2021A         | 2022A         | 2023E         | 2024E         | 2025E         | 2026E         | 2027E         |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| EBIT                          | 11,305        | 11,562        | 12,637        | 13,124        | 14,082        | 14,911        | 15,795        | 16,578        |
| Est tax rate (%)              | 21            | 20            | 15            | 16            | 16            | 16            | 16            | 16            |
| <b>NOPAT</b>                  | <b>8,944</b>  | <b>9,219</b>  | <b>10,684</b> | <b>11,024</b> | <b>11,829</b> | <b>12,525</b> | <b>13,268</b> | <b>13,925</b> |
| Add: Depre & amort            | 2,548         | 2,710         | 2,763         | 2,945         | 3,122         | 3,302         | 3,484         | 3,676         |
| <b>Cash NOPAT</b>             | <b>11,492</b> | <b>11,929</b> | <b>13,447</b> | <b>13,969</b> | <b>14,951</b> | <b>15,827</b> | <b>16,751</b> | <b>17,601</b> |
| Chg in A/R                    | (582)         | (276)         | (1,483)       | (722)         | (816)         | (702)         | (744)         | (657)         |
| Chg in inventory              | (834)         | (175)         | (875)         | (381)         | (420)         | (361)         | (383)         | (338)         |
| Chg in oth curr asst          | (127)         | (1,894)       | 1,962         | (127)         | (70)          | (60)          | (64)          | (56)          |
| Chg in A/P                    | 1,234         | 1,398         | 1,643         | 1,384         | 1,370         | 1,179         | 1,249         | 1,104         |
| Chg in oth curr liabs         | 817           | 922           | (184)         | 515           | 525           | 451           | 478           | 423           |
| <b>Less: Chg in work cap</b>  | <b>508</b>    | <b>(25)</b>   | <b>1,063</b>  | <b>668</b>    | <b>589</b>    | <b>506</b>    | <b>537</b>    | <b>474</b>    |
| Less: CAPEX                   | (4,185)       | (4,459)       | (4,956)       | (4,834)       | (5,697)       | (4,832)       | (5,737)       | (6,167)       |
| Less: Chg in invest cap       |               |               |               |               |               |               |               |               |
| <b>Free cash flow to firm</b> | <b>7,815</b>  | <b>7,445</b>  | <b>9,554</b>  | <b>9,803</b>  | <b>9,843</b>  | <b>11,501</b> | <b>11,551</b> | <b>11,908</b> |
| FCF per share (US\$)          | 5.6           | 5.4           | 6.9           | 7.1           | 7.2           | 8.4           | 8.5           | 8.8           |
| NOPAT growth (%)              | 6.9           | 3.1           | 15.9          | 3.2           | 7.3           | 5.9           | 5.9           | 5.0           |
| FCF growth (%)                | 9.2           | (4.7)         | 28.3          | 2.6           | 0.4           | 16.8          | 0.4           | 3.1           |

# Discounted cash flow analysis

## Calculation of cost of equity (COE, %) Estimate

### Market: United States of America

Market risk-free rate 3.5

Market equity risk premium 10.0

**Market return 13.5**

Company beta (x) 0.7

**COE 10.0**

## Calculation of WACC Average

Cost of debt 3.1

Average tax rate 18.7

**After tax cost of debt 2.5**

**Cost of preferred stock -**

Debt as a % of total capital 22.9

Preferred stock as a % of total capital -

Equity market value as a % of total capital 77.1

**Weighted average cost of capital 8.3**

## PEP: Valuation (US\$ m) DDM %

PV of cash flow in years 2023-27 27,500 20

PV of fade period 43,640 32

PV of terminal value 63,771 47

**Present value of future cash flows 134,911 100**

Add: Cash & ST investments na\* -

Add: Long-term investments na -

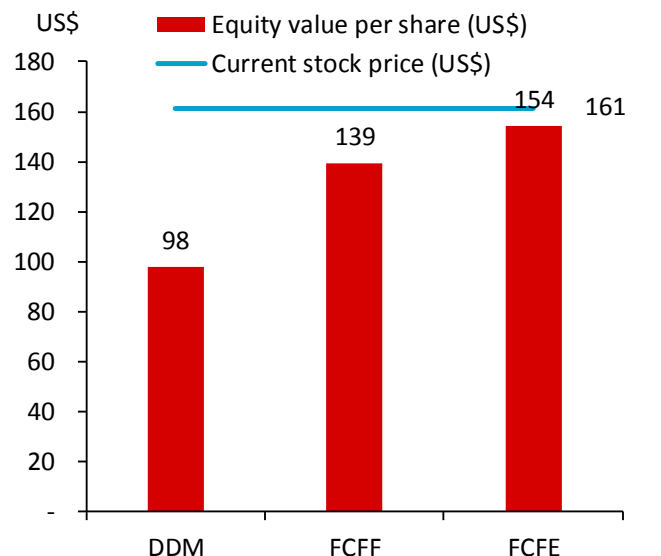
**Corporate value 134,911 100**

Less: Total debt, preferred stock & minorities na -

**Shareholder value 134,911 100**

Number of shares (m) 1,381

**Equity value per share (US\$) 98**



|  | DDM            | %          | FCFF           | %          | FCFE           | %          |
|--|----------------|------------|----------------|------------|----------------|------------|
| PV of cash flow in years 2023-27               | 27,500         | 20         | 42,640         | 22         | 46,785         | 22         |
| PV of fade period                              | 43,640         | 32         | 62,898         | 33         | 60,092         | 28         |
| PV of terminal value                           | 63,771         | 47         | 117,668        | 61         | 97,800         | 46         |
| <b>Present value of future cash flows</b>      | <b>134,911</b> | <b>100</b> | <b>223,206</b> | <b>116</b> | <b>204,678</b> | <b>96</b>  |
| Add: Cash & ST investments                     | na*            | -          | 5,348          | 3          | 5,348          | 3          |
| Add: Long-term investments                     | na             | -          | 3,073          | 2          | 3,073          | 1          |
| <b>Corporate value</b>                         | <b>134,911</b> | <b>100</b> | <b>231,627</b> | <b>120</b> | <b>213,099</b> | <b>100</b> |
| Less: Total debt, preferred stock & minorities | na             | -          | (39,195)       | (20)       | na             | -          |
| <b>Shareholder value</b>                       | <b>134,911</b> | <b>100</b> | <b>192,432</b> | <b>100</b> | <b>213,099</b> | <b>100</b> |
| Number of shares (m)                           | 1,381          |            | 1,381          |            | 1,381          |            |
| <b>Equity value per share (US\$)</b>           | <b>98</b>      |            | <b>139</b>     |            | <b>154</b>     |            |

# Multiple valuation



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| PE ratio (x)  | 2021A | 2022A | 2023E | 2024E |
|---------------|-------|-------|-------|-------|
| PEP           | 28.6  | 23.2  | 21.0  | 19.4  |
| USA           | 22.3  | 19.2  | 18.9  | 17.7  |
| Asia ex Japan | 25.6  | 25.0  | 24.8  | 20.4  |
| World         | 21.9  | 19.2  | 18.8  | 17.4  |

## EPS growth (%)

|               |       |       |     |      |
|---------------|-------|-------|-----|------|
| PEP           | (1.7) | 26.3  | 4.4 | 7.9  |
| USA           | 11.8  | 6.4   | 1.7 | 6.9  |
| Asia ex Japan | 0.0   | (8.1) | 0.6 | 21.5 |
| World         | 10.2  | 7.2   | 2.1 | 8.3  |

| PB ratio (x)  | 2021A | 2022A | 2023E | 2024E |
|---------------|-------|-------|-------|-------|
| PEP           | 14.4  | 13.8  | 11.7  | 10.6  |
| USA           | 6.4   | 5.6   | 5.2   | 4.8   |
| Asia ex Japan | 3.7   | 3.3   | 3.2   | 2.9   |
| World         | 4.2   | 3.9   | 3.8   | 3.5   |

## ROE (%)

|               |      |      |      |      |
|---------------|------|------|------|------|
| PEP           | 51.7 | 53.7 | 51.2 | 50.0 |
| USA           | 28.9 | 29.0 | 27.6 | 27.0 |
| Asia ex Japan | 14.4 | 13.4 | 12.8 | 14.4 |
| World         | 19.3 | 20.6 | 20.1 | 20.3 |

# What is your company worth?

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**Message me, and let's discuss  
the value of your company**

