



The Wolves of Court Street

HOW DID PEPSICO START?



PepsiCo merger between PepsiCola and Frito Lay

PepsiCola founded in 1890 by Caleb Bradham

Frito Lay formed in 1961 after a merger of Frito Co and H.W. Lay company

PEPSI IN THE GREAT DECADES



Nutrition labels placed on foods

Inters Tokyo stock market

Bottled tea is introduced

1st major cola brand to produce and distribute in Vietnam

Lays is introduced to 20 countries worldwide

Kentucky Fried Chicken, Taco Bell, Pizza Hut are spun off as Tricon
Global Restaurants, Inc.

PEPSI TODAY



Began four year plan to invest one billion US dollars in China to “expand in emerging markets and broaden the portfolio of locally relevant products.”

Has 22 – billion dollar companies

RECENT NEWS



The Great Bottle Shape Dispute

New Executive Vice President, Global Categories and
Operations of European Unit

New CEO, PepsiCo Europe

Arby's commercial

Craft Sodas

Competitors



Coca Cola in the beverage industry

Kraft Foods in the snack food industry

Dr. Pepper Snapple Group, Inc.

Nestle

The Kellogg Company

ConAgra Foods

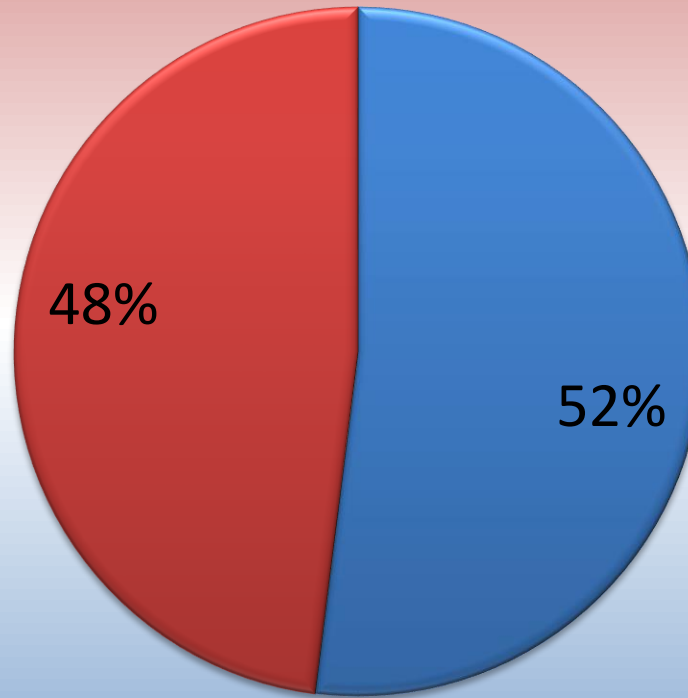
Product Mix



Sales Breakdown



Net Revenue:
\$66.4 Billion



■ Food ■ Beverage

Business Model



Market Cap: \$145 Billion

274,000 Employees

Operates in over 200 countries

Largest seller of American Beverages & Snacks

Business Model



PepsiCo Americas Foods

- Frito-Lay North America (FLNA)
- Quaker Foods North America (QFNA)
- Latin American food and snack business (LAF)

PepsiCo Americas Beverages (PAB)

- North and South American beverage business

PepsiCo Europe (Europe)

- All beverage, food, and snack business and Europe and South Africa

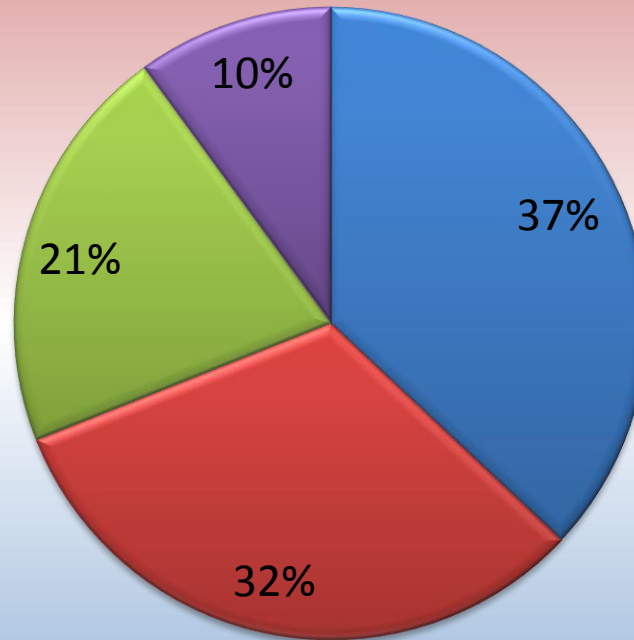
PepsiCo Asia, Middle East, and Africa (AMEA)

- All beverage, food, and snack businesses in AMEA

Revenue By Division



Net Revenue:
\$66.4 Billion



■ Pepsi American Food

■ Pepsi American Beverage

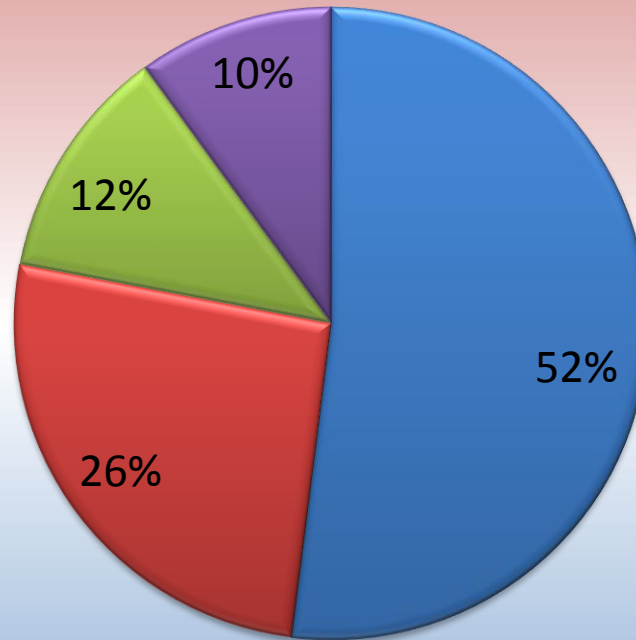
■ Pepsi Europe

■ Pepsi AMEA

Operating Income



Net Core
Operating Income:
\$10.4 Billion



■ Pepsi American Food

■ Pepsi American Beverage

■ Pepsi Europe

■ Pepsi AMEA

Bottling Acquisition



Pepsi Bottling Group, Inc. & PepsiAmericas, Inc.

Two largest Pepsico bottlers acquired in 2010

\$7.8 billion investment

Provides efficiency

Competitive Advantage



Leverage on bottling business

Global leader in snacks

Very diverse in products

Sells complementary products

22 different types of brands earning over 1 billion in sales per year

Consumer Base



World wide

Markets more to families, students, and young adults

Trying to find a niche in the middle-aged population with 'nutritional' products

Regular Customers



Wholesale/Other
distributors

Foodservice Customers

Grocery Stores

Drug Stores

Convenience Stores

Discount/Dollar Stores

Mass Merchandisers

Membership Stores

Authorized Independent

Bottlers



Reliance on Customers

Do not sell directly to consumers

- Rely on and provide financial incentive to assist in distribution and promotion of products
- Includes:
 - Volume-based Rebates
 - Product Placement Fees
 - Promotions
 - Displays
- Annually Negotiated

Market with Other Companies



Taco Bell

Buffalo Wild Wings

NFL

Recently added A&M College Station



Growth Rates

Over the past decade:

- Net revenue compound annual growth rate: 9%
- Earnings per share growth rate: 8%

2013:

- Operating Profit growth rate: 7%
 - Caused by net revenue growth and planned cost reductions across a number of expense categories, as well as lower commodity costs, primarily cooking oil

2014 most recent quarter:

- Net Revenue Growth: 2%



Foreign Expansion

Both the food and beverage categories have an expected 5% global growth rate

Successful Markets:

- Russia, Mexico, Canada, the United Kingdom, and Brazil

Expansion into Emerging Countries:

- China, India, and regions in Latin America, Africa, and the Middle East

Multi-Year Productivity Plan



Implemented in 2012

Includes actions in every aspect of their business that they believe will strengthen their complementary food, snack and beverage businesses by:

- Leveraging new technologies and processes across PepsiCo's operations
- Go-to-market and information systems
- Heightening the focus on best practice sharing across the globe
- Consolidating manufacturing, warehouse and sales facilities
- Implementing simplified organization structures, with wider spans of control and fewer layers of management

Risk Factors



Change in Consumer Preference

Change in legal environment

Loss of a key customer

Inability to grow business into emerging markets

Inability to integrate acquired parts into existing operations

Unions



Financial Data

Buffettology



Metric	PEP	Buffet's Standard	Satisfied?
Gross Profit Margin	14.88%	> 20%	No
Net Profit Margin	10.39%	> 10%	Yes
SG&A Expenditures/ Gross Profit	71.9%	\leq 80%	Yes
Depreciation/ Gross Profit	7.39%	\leq 10%	Yes
Interest/ Operating Income	8.98%	\leq 15%	Yes
Current Ratio	1.16	\geq 1	Yes

Buffettology



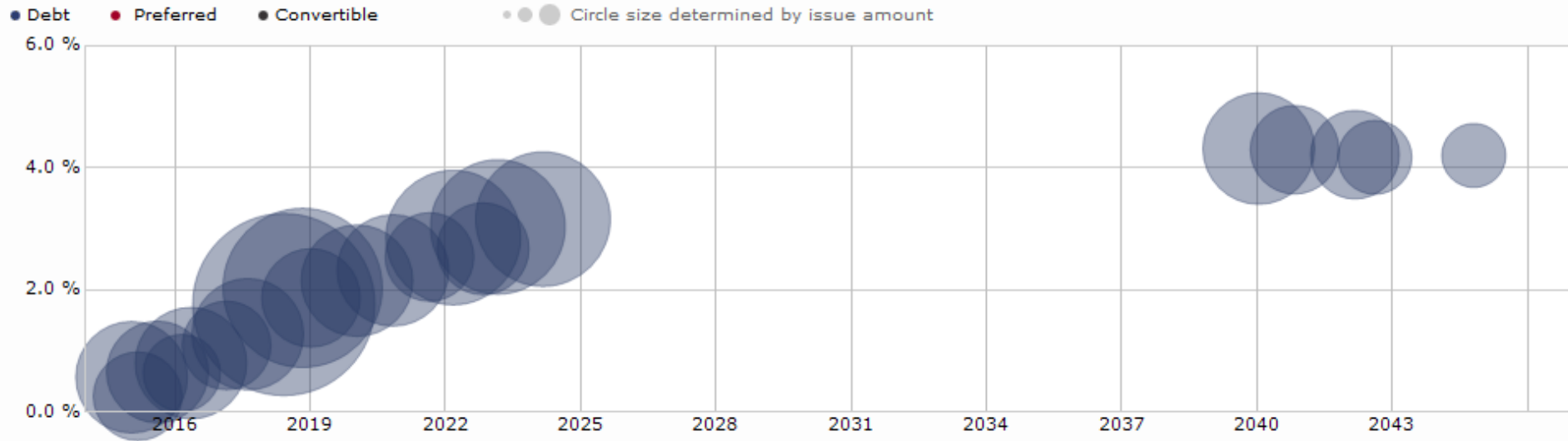
Metric	PEP	Buffet's Standard	Satisfied?
Long Term Debt/ Net Earnings	5.4 years	< 5 years	No
Return on Equity	31%	$\geq 15\%$	Yes
Return on Capital	16%	$\geq 15\%$	Yes
Dividend Payout Ratio	54%	$\leq 60\%$	Yes
Adj. Debt/ Shareholders' Equity	1.17	< 0.80	No

Morning Star

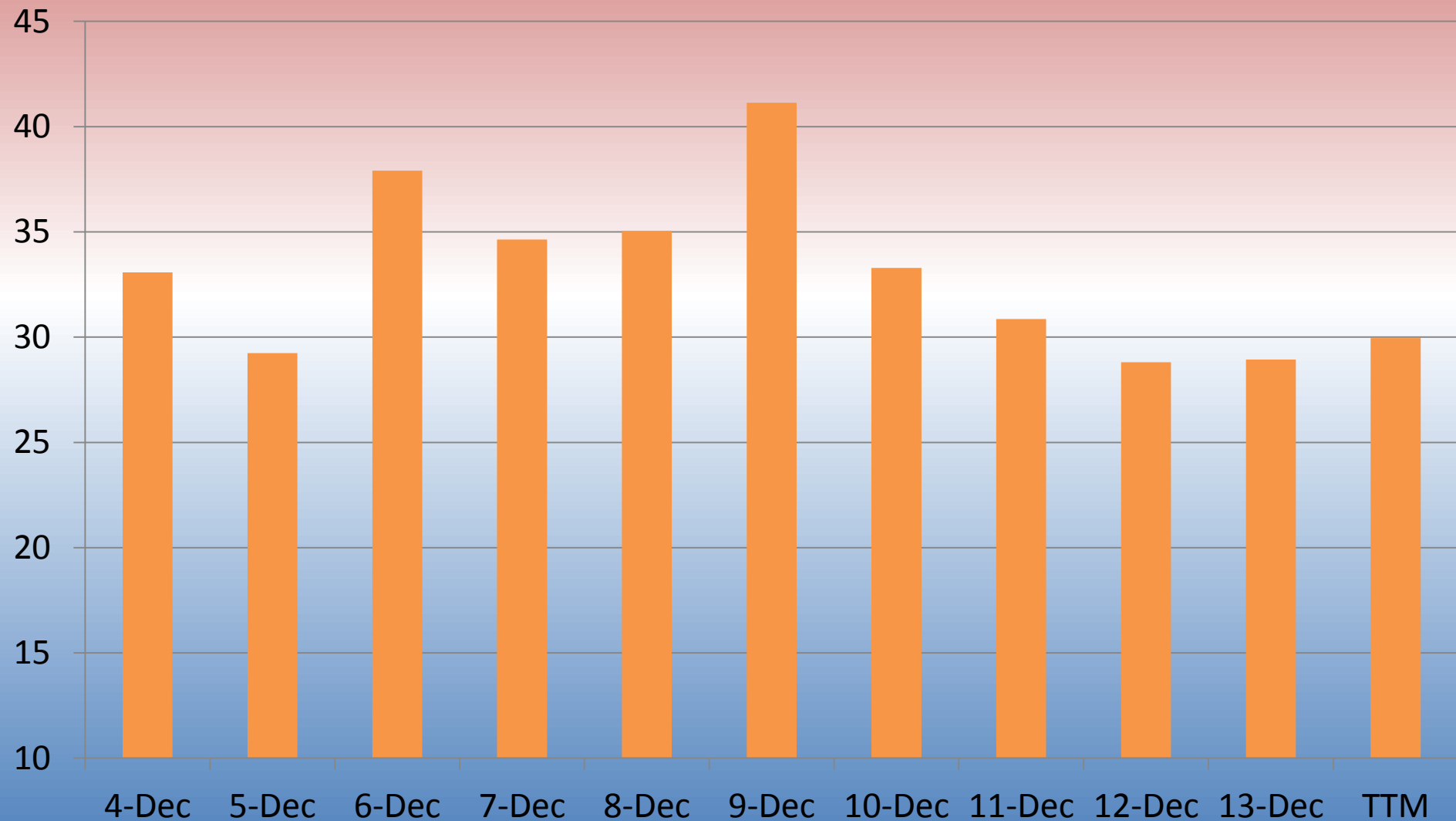


\$13.6 Billion Due within 5 Years

Yield to Maturity

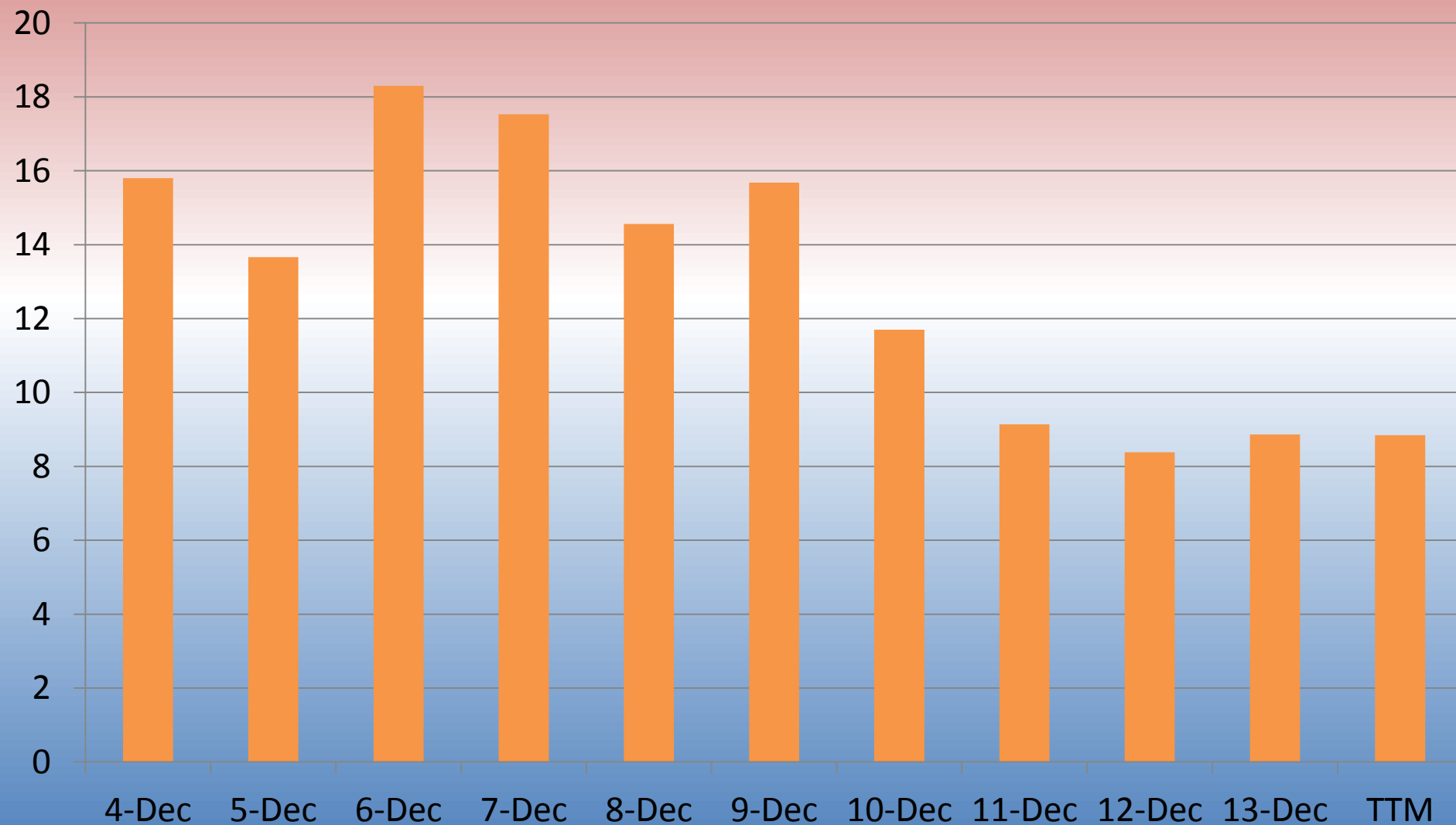


Return on Equity





Return on Assets



Qualitative Analysis



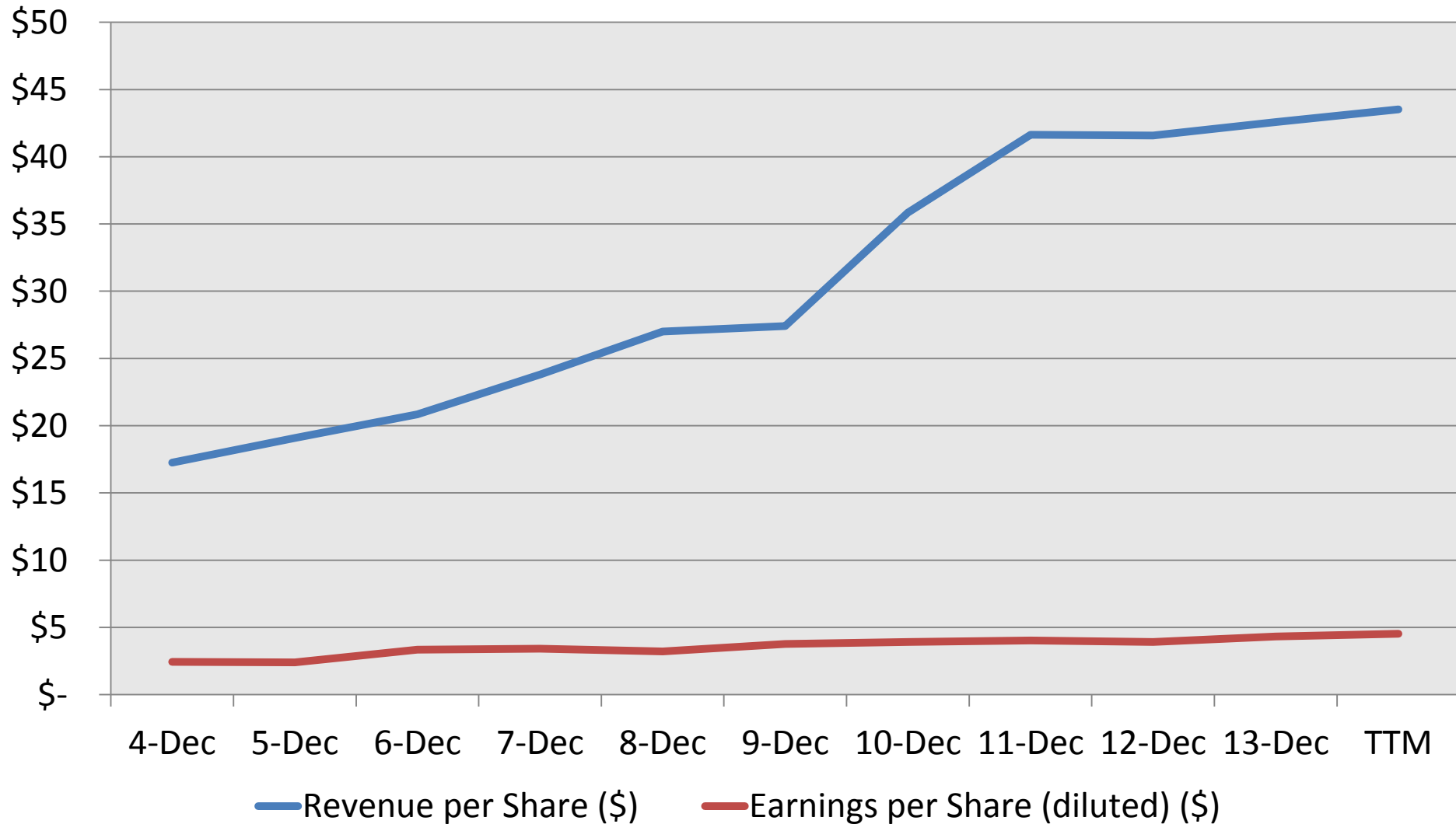
What type of business is this: commodity or sustained competitive advantage?	Competitive Advantage
Can you easily explain what the business does?	Yes
Is it heavily unionized?	Yes
Does it require heavy capital infusion?	No
Does it require lots of research and development?	No
Can inventory become obsolete?	Yes
Are there chronic "one time" write offs?	No
Is the company able to raise its prices to offset inflation?	Maybe
Will the company be able to sell more in the future?	Yes

IOFS

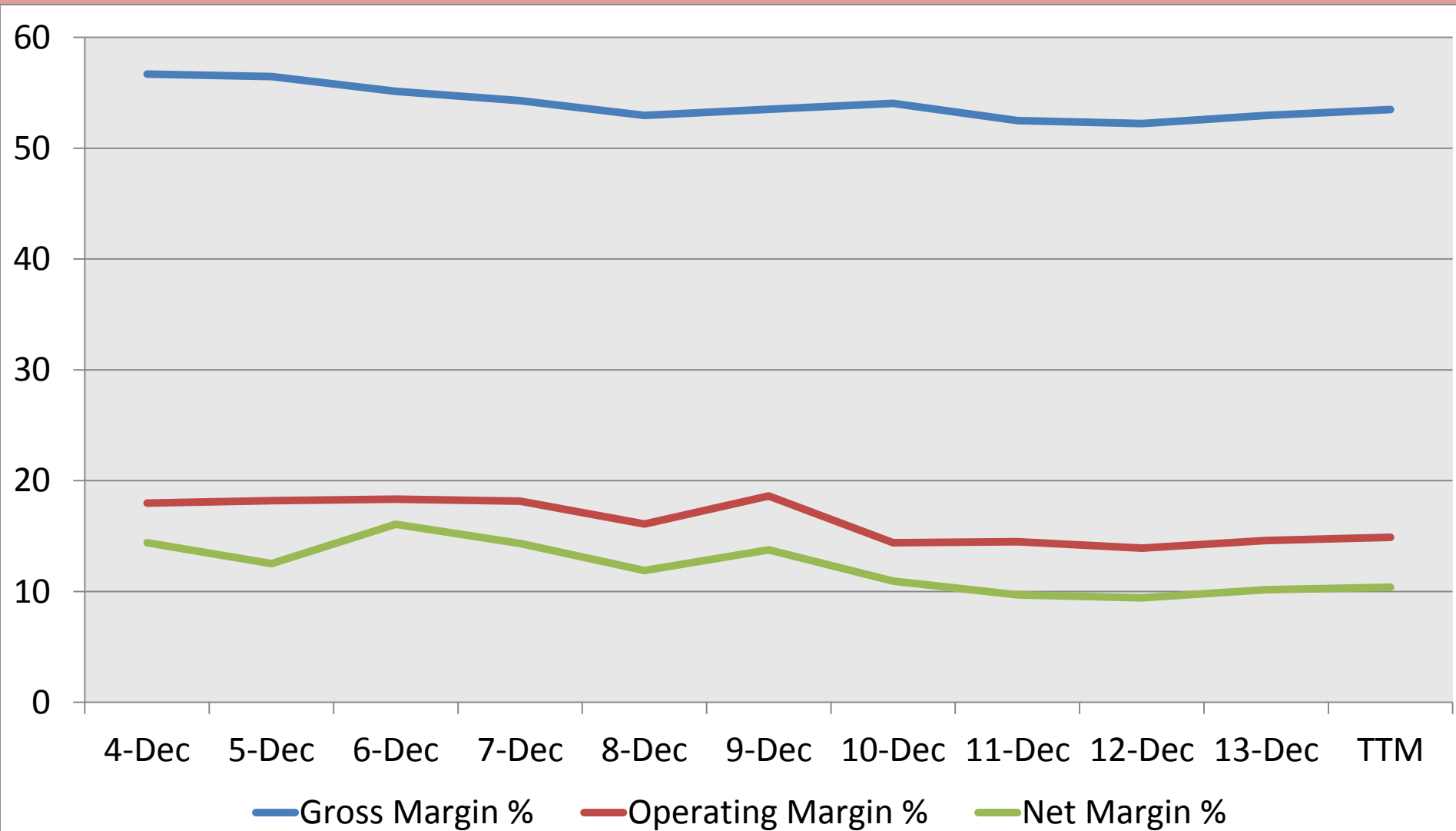


Trend	Increasing?
Sales per Share	Yes
Cashflows per share	Yes
Earnings per Share	Yes
Dividends Declared per share	Yes
Book Value per Share	Yes
Revenues (Sales)	Yes
Gross Profit Margin	Decreasing

Sales & Earnings per Share



Profit Margins



IOFS



Trend	Increasing
Operating Profit Margin	Stable last 4 years
Number of Stores	N/A
Net Profit	Yes
Net Profit Margin	Stable
Working Capital	Varies
Shareholder's Equity	Yes

IOFS



Trend	Increasing?
Return on Total Capital	Decreasing
Return on Shareholder's Equity	Varies (always above 15)
Long-Term Debt	Stable (after 1 time expense)
All Dividends to Net Profit Under 60%	Yes
Common Shares Outstanding	No



Discounted Cash Flow

No Tangible Book:

Earnings Per Share : \$	<input type="text" value="4.53"/>	?
Growth Rate In the Next:	<input type="text" value="10"/> Years	?
Business Predictability	★★★★★	?
Terminal Growth Rate:	<input type="text" value="4"/> %	?
Years of Terminal Growth:	<input type="text" value="10"/>	?
Discount Rate:	<input type="text" value="12"/> %	?

➔

DCF	Reverse DCF ^{NEW}
= Growth Rate: 15.68% ?	
Revenue Growth Rate:	11.70%(10y) 10.80%(5y) 2.60%(1y) ?
EBITDA Growth Rate:	7.70%(10y) 5.20%(5y) 5.00%(1y) ?
Earnings Growth Rate:	6.40%(10y) 2.80%(5y) 6.30%(1y) ?
Free Cash Flow Growth Rate:	7.50%(10y) 9.80%(5y) -2.80%(1y) ?
Book Value Growth Rate:	7.80%(10y) 9.00%(5y) 5.90%(1y) ?

Tangible Book:

DCF	Reverse DCF ^{NEW}
= Growth Rate: 16.55% ?	
Revenue Growth Rate:	11.70%(10y) 10.80%(5y) 2.60%(1y) ?
EBITDA Growth Rate:	7.70%(10y) 5.20%(5y) 5.00%(1y) ?
Earnings Growth Rate:	6.40%(10y) 2.80%(5y) 6.30%(1y) ?
Free Cash Flow Growth Rate:	7.50%(10y) 9.80%(5y) -2.80%(1y) ?
Book Value Growth Rate:	7.80%(10y) 9.00%(5y) 5.90%(1y) ?

Conscious Investor



PEP:US PepsiCo Inc

Beverages - Soft Drinks

Last trade 2014-12-02

Return Analysis

	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11	12/12	12/13	EPSttm	Years	HGROWTH	STAEGR®
EPS (\$)	2.430	2.390	3.340	3.410	3.210	3.770	3.920	4.030	3.920	4.320	\$4.520	10	6.30%	91.61%
SPS (\$)	17.428	19.663	21.451	24.594	27.791	27.538	36.583	42.522	42.417	43.437		10	11.62%	94.61%

	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11	12/12	12/13		Current
NPM (%)	14.4	12.5	16.1	14.3	11.9	13.8	11.0	9.7	9.5	10.2		10.2%
ROE (%)	31.0	28.5	36.5	32.7	42.6	35.7	30.0	31.4	27.9	28.0		28.0%
Payout (%)	32.0	42.0	34.0	40.0	51.0	47.0	48.0	50.0	54.0	52.0		52.0%
Debt/Eq. (%)	18.0	16.0	17.0	24.0	65.0	44.0	95.0	100.0	106.0	100.0		100.0%

	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11	12/12	12/13	High/Low	Current
P/E High	22.90	25.20	19.80	23.20	24.90	17.10	17.40	17.80	18.80	20.20	22.28	22.21
P/E Low	18.60	21.50	16.80	18.10	15.50	11.60	15.00	14.50	15.90	15.80	17.04	
Price High	55.71	60.34	65.99	79.00	79.79	64.48	68.11	71.89	73.66	87.06	\$100.70	\$100.39
Price Low	45.30	51.34	56.00	61.89	49.74	43.78	58.75	58.50	62.15	68.43	\$77.01	

	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRETD®	Req Return	TARGD®	
Default	\$100.39	\$4.520	18.42	6.30%	51.2%	3.23%	10.00%	\$65.49	<input type="button" value="Copy"/>
Safety	\$100.39	\$4.520	16.45	5.16%	41.7%	0.76%	10.00%	\$54.86	<input type="button" value="Copy"/>

Conscious Investor Report



	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11	12/12	12/13	EPSttm	Years
EPS (\$)	2.430	2.390	3.340	3.410	3.210	3.770	3.920	4.030	3.920	4.320	\$4.520	10
SPS (\$)	17.428	19.663	21.451	24.594	27.791	27.538	36.583	42.522	42.417	43.437		10

Return Analysis

HGROWTH	STAAGR®
6.30%	91.61%
11.62%	94.61%

	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRETD®
Default	\$100.39	\$4.520	18.42	6.30%	51.2%	3.23%
Safety	\$100.39	\$4.520	16.45	5.16%	41.7%	0.76%

Safety

Cut P/E by: 10.7%

Cut Growth by: 1.14%

Conscious Investor Report



	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11	12/12	12/13	EPSttm	Years
EPS (\$)	2.430	2.390	3.340	3.410	3.210	3.770	3.920	4.030	3.920	4.320	\$4.520	10
SPS (\$)	17.428	19.663	21.451	24.594	27.791	27.538	36.583	42.522	42.417	43.437		10

Return Analysis

HGROWTH	STAEGR®
4.72%	96.15%
10.93%	92.33%

	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRETD®
Default	\$100.39	\$4.520	18.42	4.72%	51.2%	2.16%
Safety	\$100.39	\$4.520	16.45	3.83%	41.7%	-0.07%

Safety

Cut P/E by: 10.7%

Cut Growth by: 0.89%



Conscious Investor Report

	12/04	12/05	12/06	12/07	12/08	12/09	12/10	12/11	12/12	12/13	EPSttm	Years
EPS (\$)	2.430	2.390	3.340	3.410	3.210	3.770	3.920	4.030	3.920	4.320	\$4.520	10
SPS (\$)	17.428	19.663	21.451	24.594	27.791	27.538	36.583	42.522	42.417	43.437		10

Return Analysis

HGROWTH	STAEGR®
3.54%	97.87%
1.07%	99.67%

	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRETD®
Default	\$100.39	\$4.520	18.42	3.54%	51.2%	1.38%
Safety	\$100.39	\$4.520	16.45	0.57%	41.7%	-2.06%

Safety

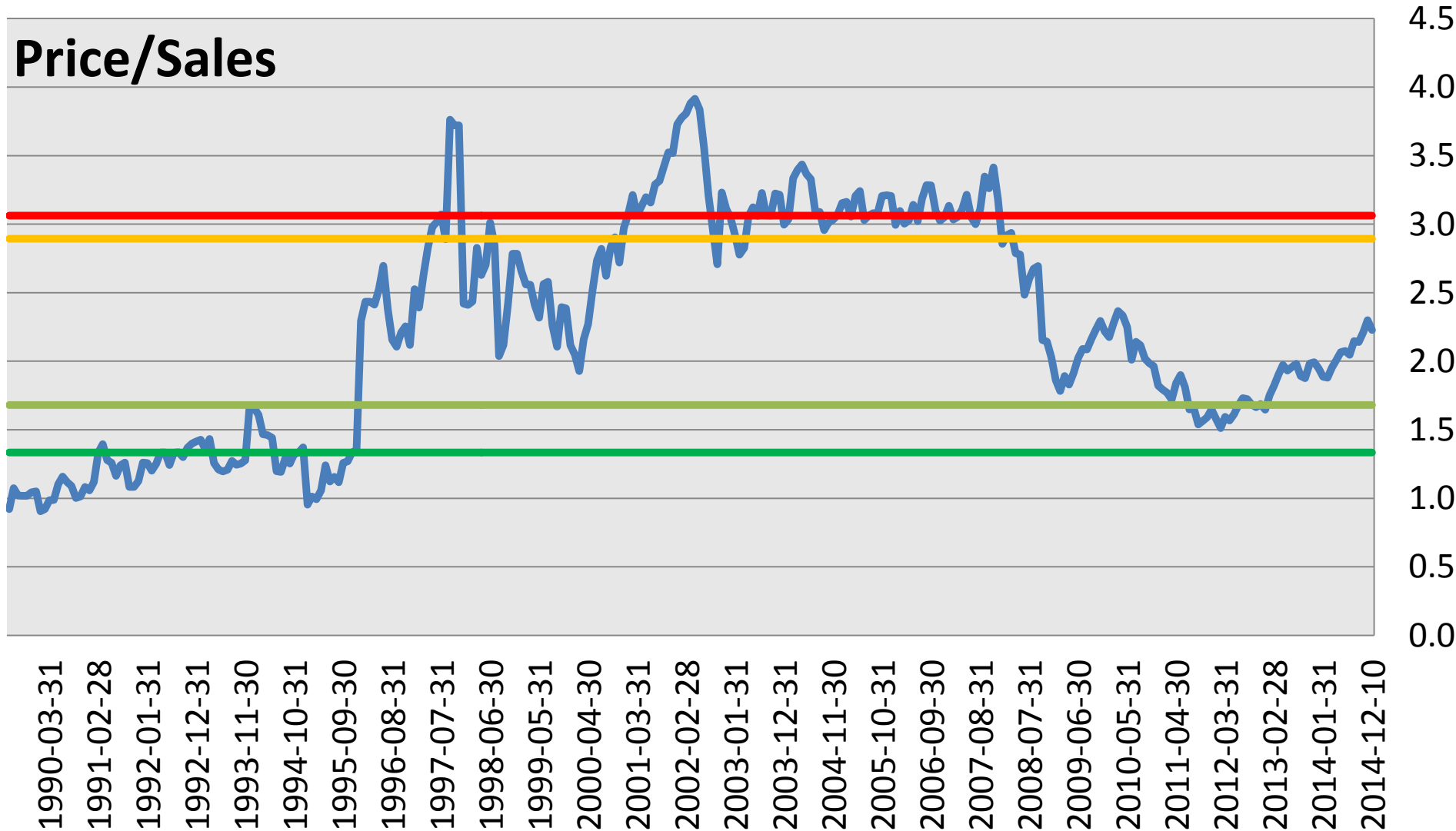
Cut P/E by: 10.7%

Cut Growth by: 2.97%

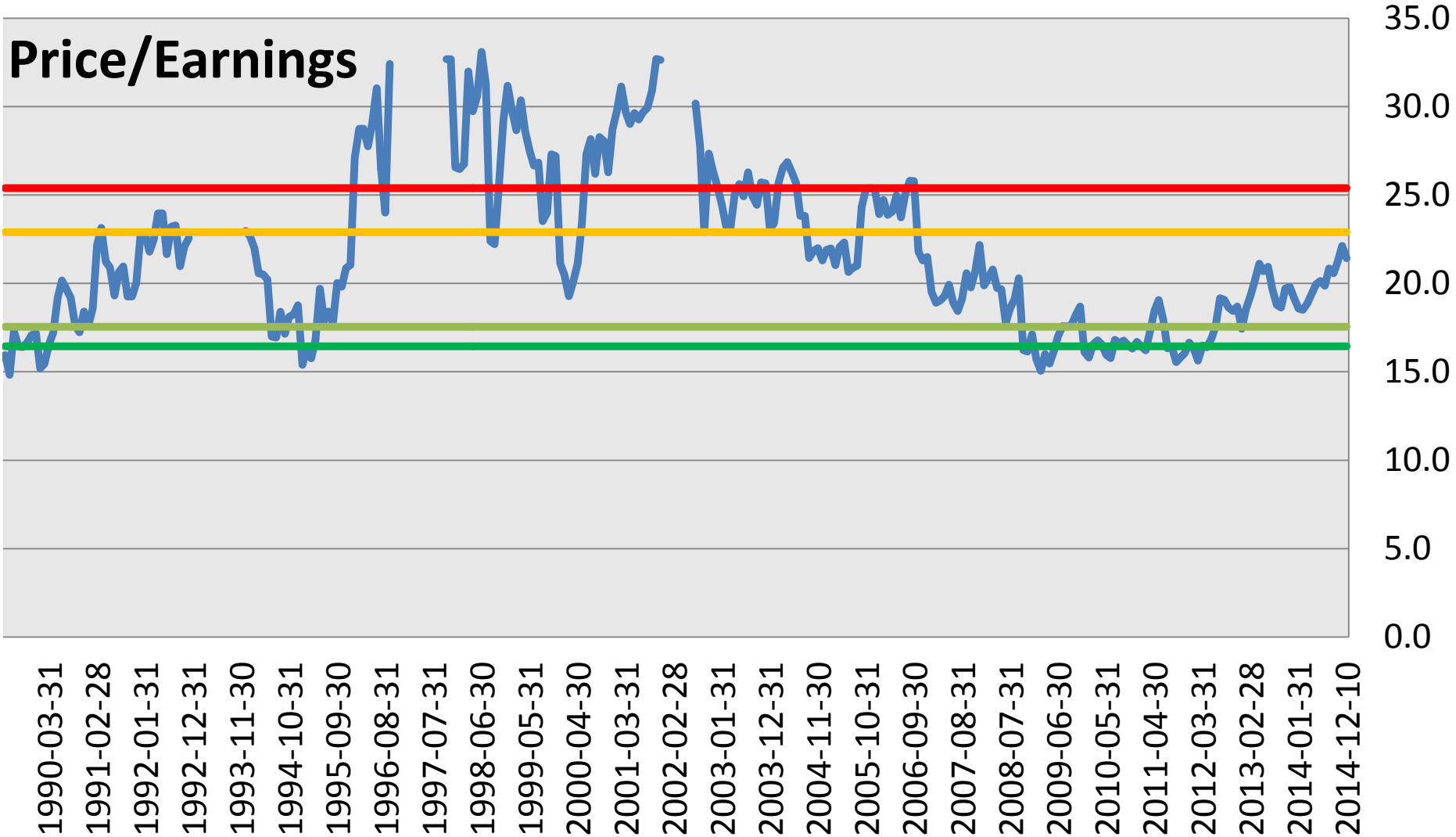
Van Den Berg's



Price/Sales



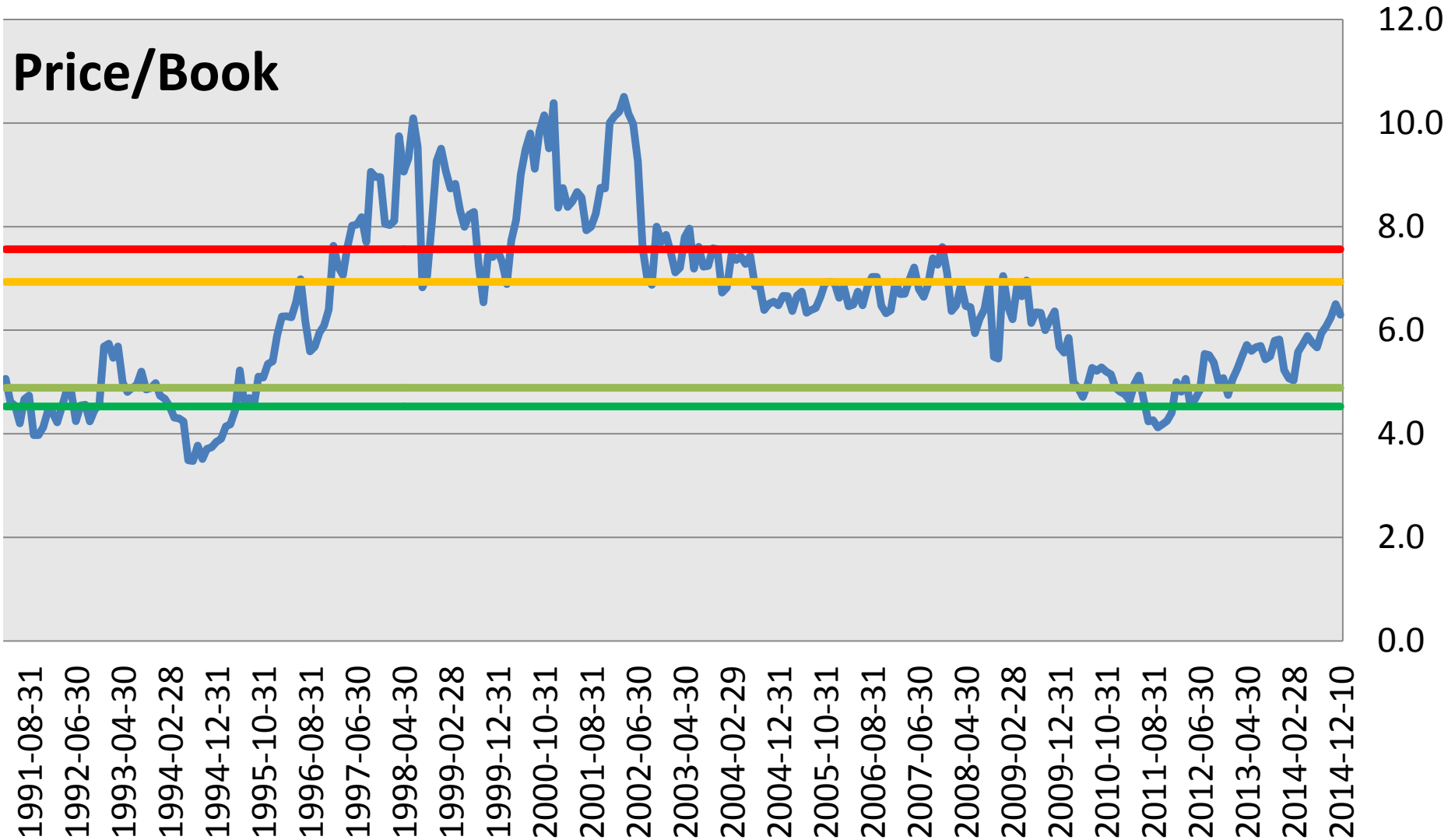
Van Den Berg's



Van Den Berg's



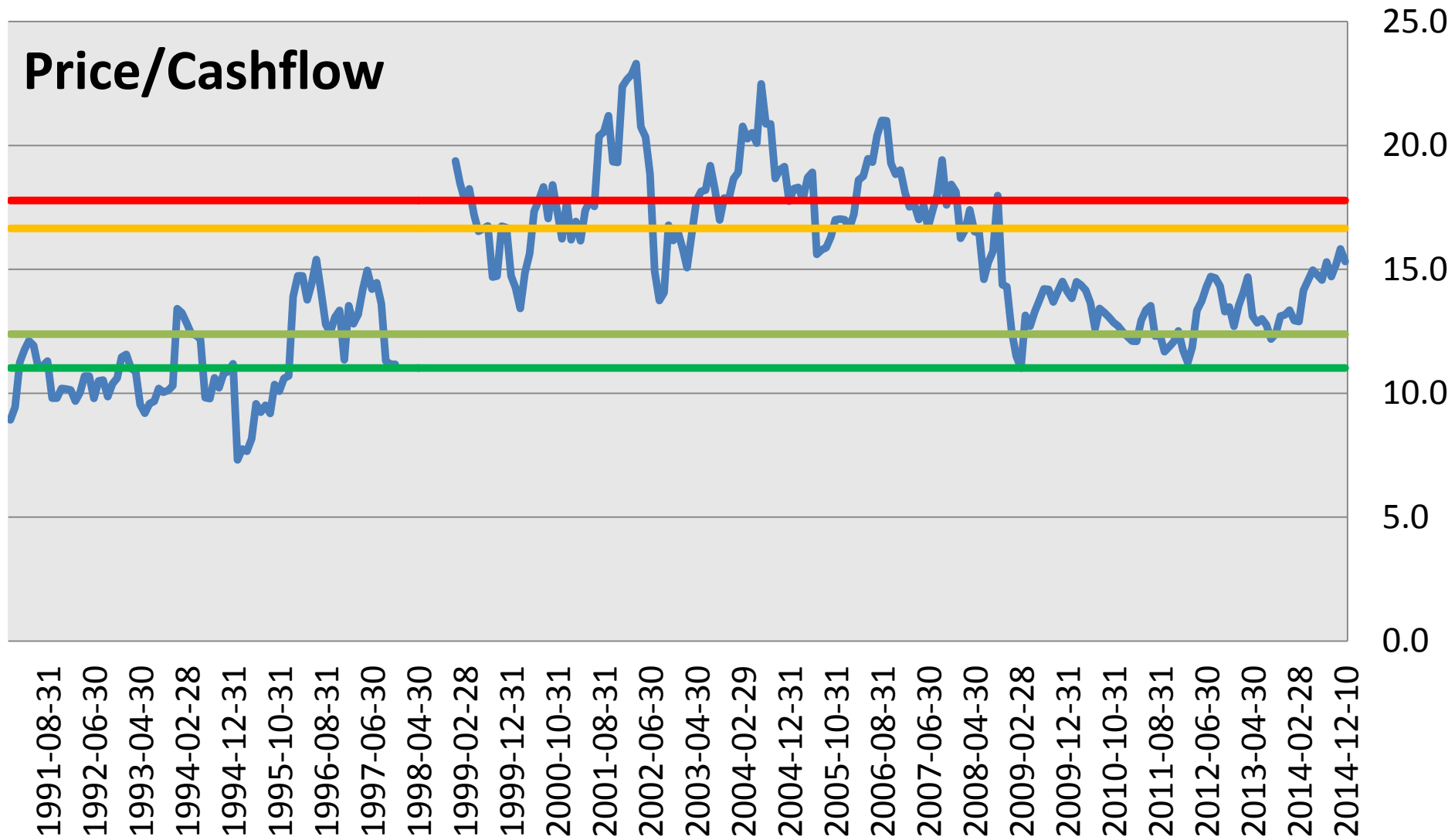
Price/Book



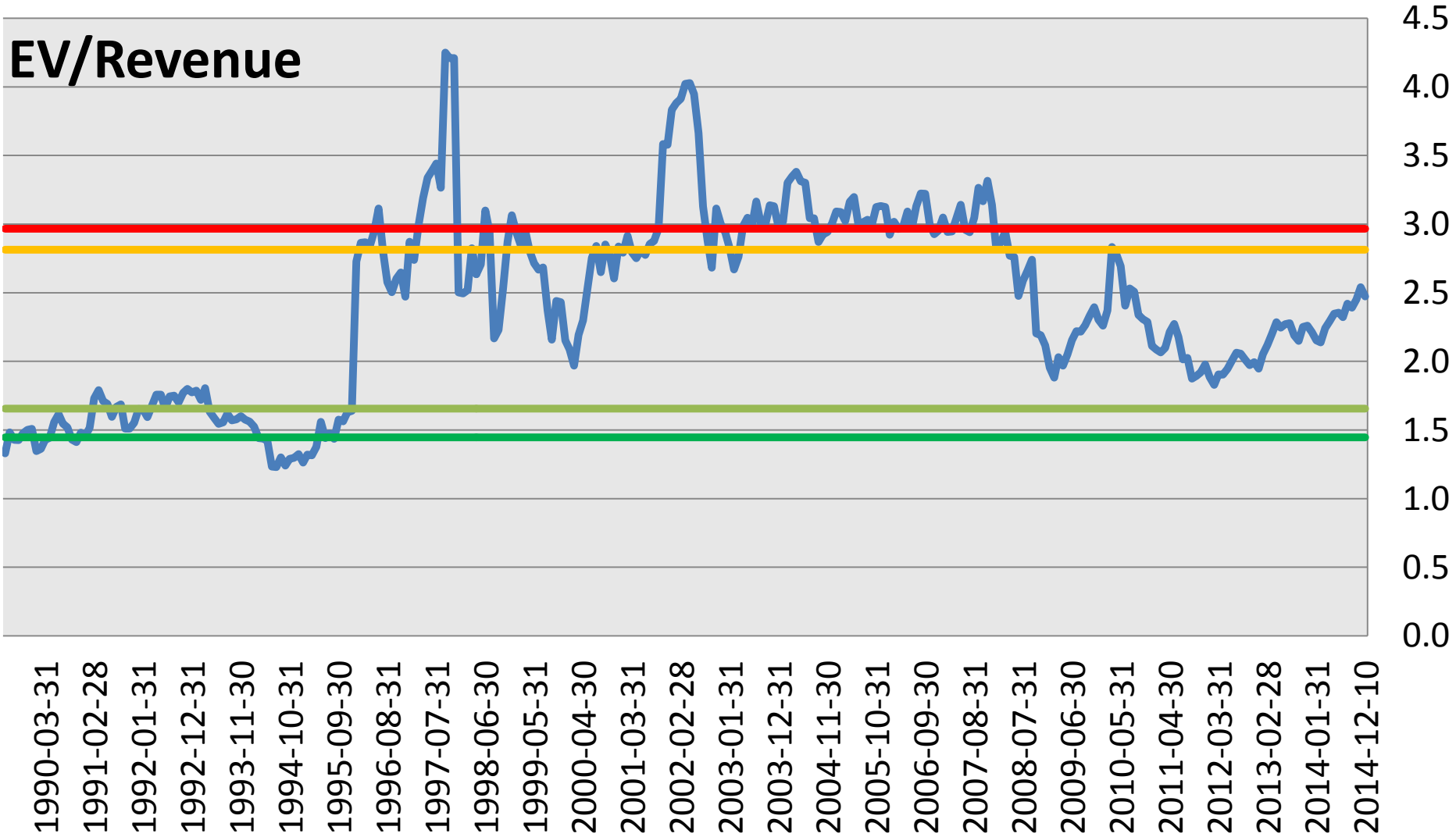
Van Den Berg's



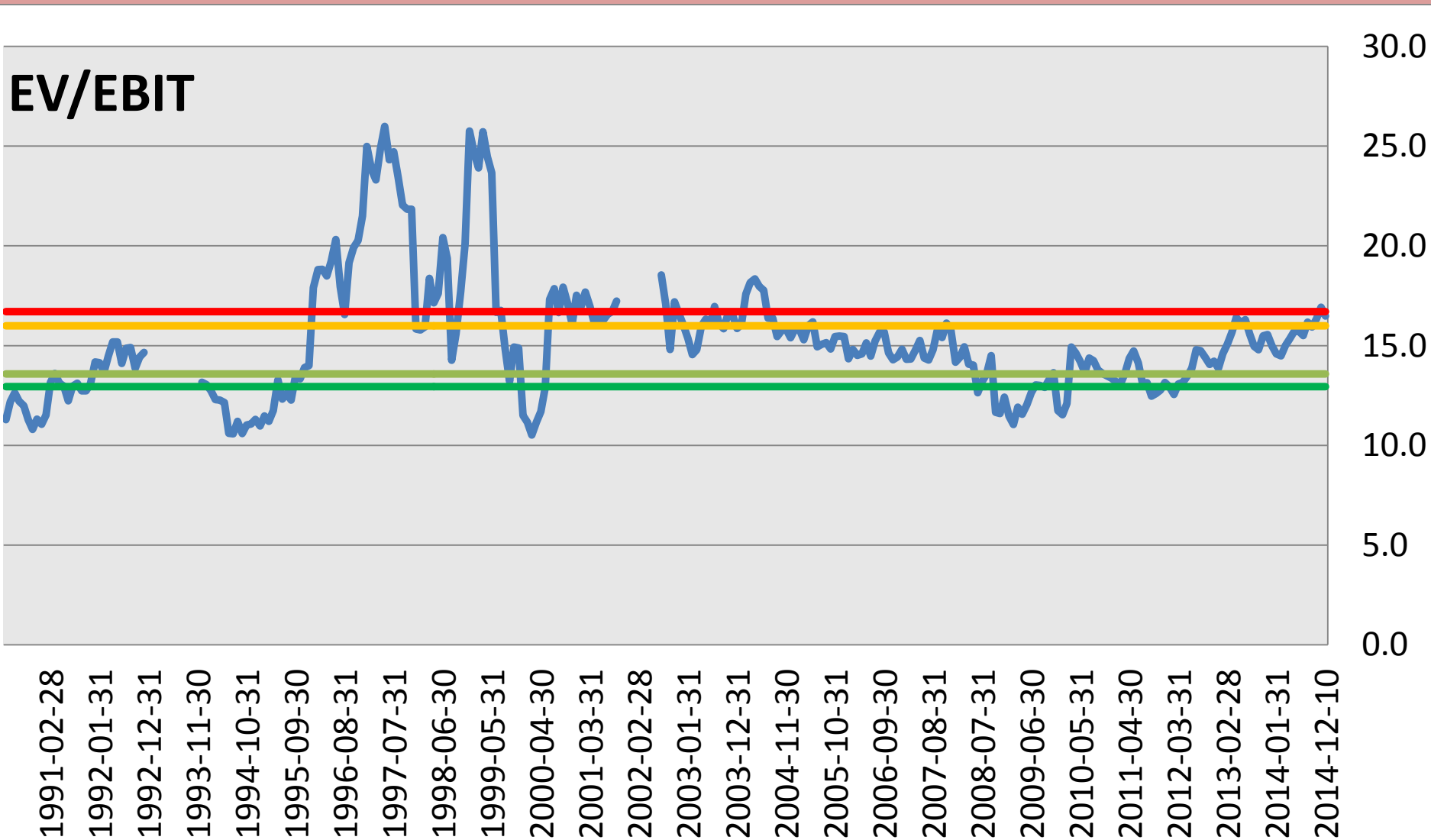
Price/Cashflow



Van Den Berg's



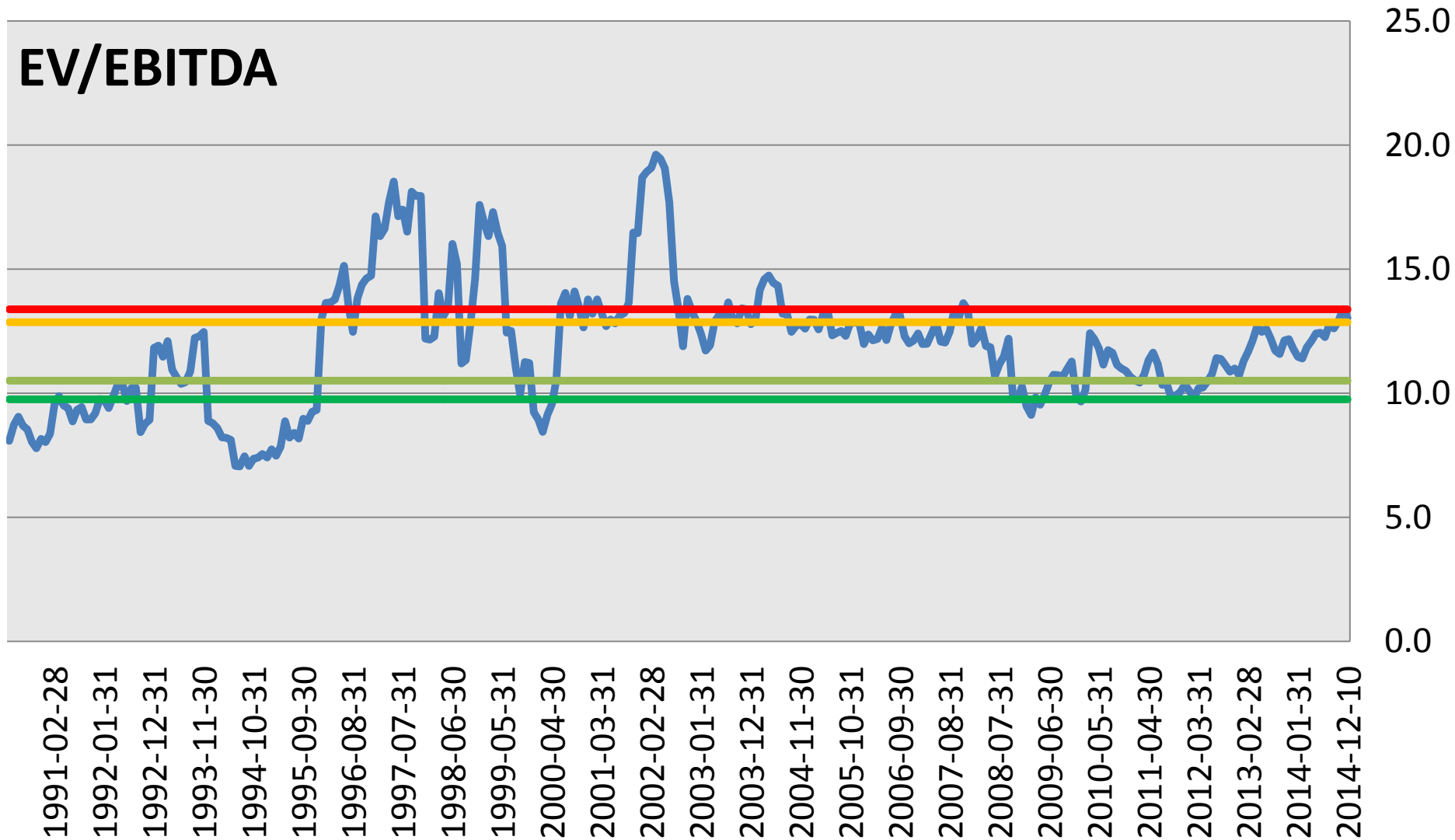
Van Den Berg's



Van Den Berg's



EV/EBITDA

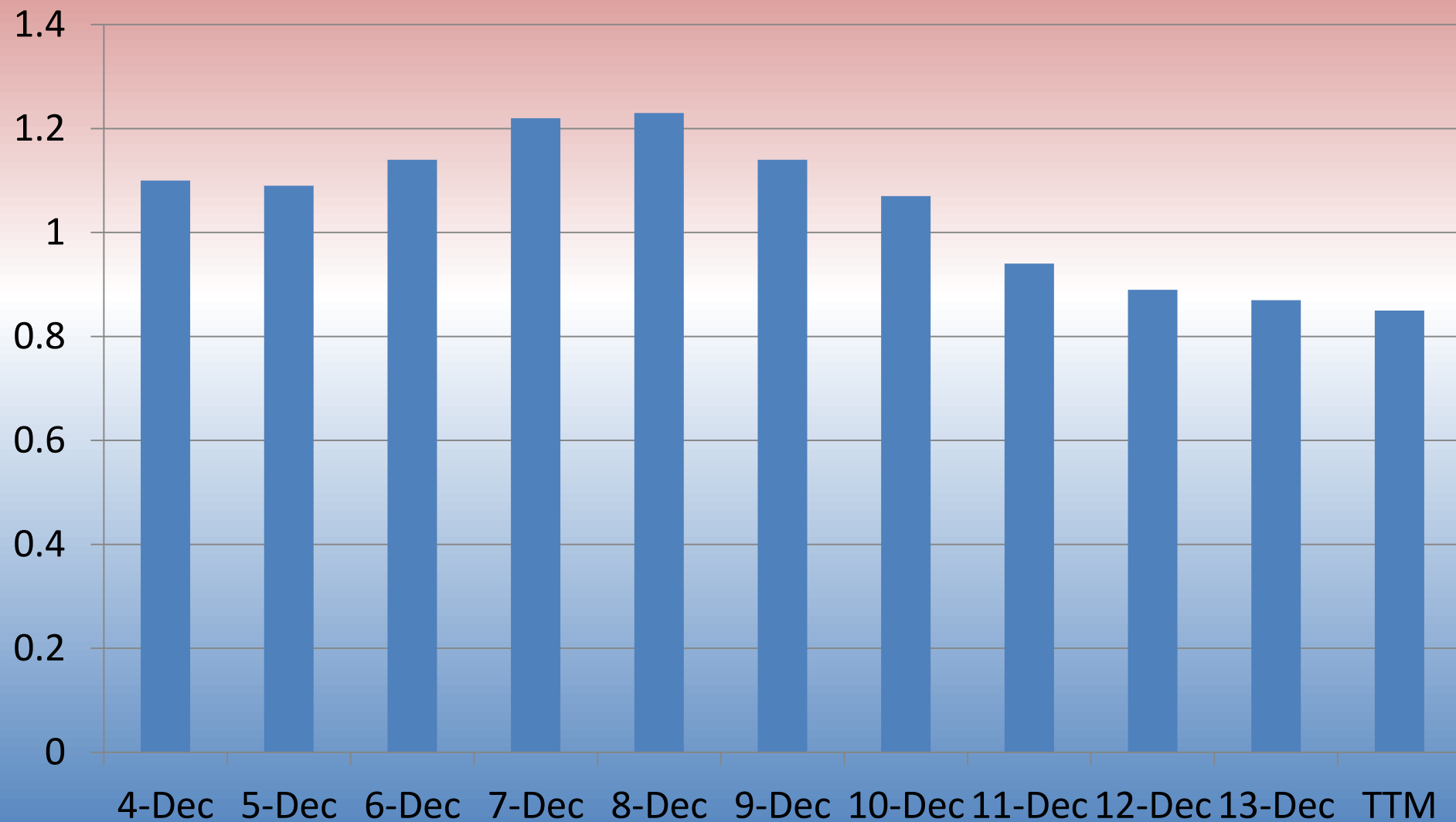




DuPont Analysis

	Net Profit Margin	Total Asset Turnover	Financial Leverage Multiplier	Return on Equity
Pepsi	10%	0.83	3.49	30.10%
Coke	17%	0.48	2.88	24.07%
Kraft	13%	0.79	4.08	41.90%
Kellogg	12%	0.92	4.66	51.45%
Nestle	11%	0.76	1.96	16.15%

Asset Turnover



Industry



Company	PepsiCo Inc	Coca-Cola Co	Kellogg Co	Nestle SA	Kraft Foods Group Inc	Dr Pepper Snapple Group Inc
Number of Guru Holders	15	12	2	1	10	4
Combined Weightings (%)	35.42	39.45	0.64	2.40	0.67	0.92
Number of Guru Buys:Sells (12 months)	15 : 23	16 : 13	10 : 12	2 : 2	9 : 10	10 : 11
Market Value (\$mil)	\$145,365	\$184,140	\$23,368	\$235,632	\$35,506	\$13,852
Revenue (mil)	\$66,415	\$46,854	\$14,792	\$97,235	\$18,218	\$5,997
P/E(ttm)	21.50	23.30	13.70	22.90	15.30	20
P/S	2.23	4.06	1.60	2.56	2	2.30
P/B	6.34	5.50	6.90	3.56	6.40	5.90
EV/EBIT	16.61	19.48	11.32	18.89	11.07	13.57
EV/Sales	2.47	4.37	2.10	2.67	2.46	2.65
ROA (%)	8.84	8.69	11.17	7.83	10.24	8.64
ROE (%)	29.96	24.29	51.19	15.19	44.93	30.98
Operating Margin (%)	14.88	22.45	18.58	13.89	22.19	19.56
Net Margin (%)	10.39	17.41	11.97	10.57	13.10	11.67
10-Year Rvn. Growth (%)	11.70	10.80	6.30	2.70	0	0
10-Year Earning Growth (%)	6.40	9.70	5.50	5.60	0	0
5-Year Rvn. Growth (%)	10.80	13	6.30	0	0	8.30
5-Year Earning Growth (%)	2.80	2.70	6.80	3.60	0	10.40

Intra portfolio



Ticker	PEG Forward
NSRGY	5.0
WMT	3.0
WRLD	2.8
BDX	2.8
PEP	2.8
MDT	2.7
MSFT	2.7
LO	2.0
CHRW	2.0
IBM	1.7
BBBY	1.7
ORCL	1.5
WAG	1.3
AIG	1.2
AAP	1.1
BBY	0.9

Ticker	Price / Book
IBM	11.3
CHRW	10.5
PETM	6.3
PEP	6.3
AAP	6.0
KO	5.5
BBBY	4.5
MSFT	4.4
ORCL	3.9
MDT	3.8
WMT	3.4
NSRGY	3.3
WAG	3.2
BBY	2.8
WRLD	2.5
BRK.B	1.5
AIG	0.7
LO	-



Intra Portfolio

Ticker	Price / Earnings
WAG	34.2
MDT	25.9
CHRW	25.4
AAP	25.3
KO	23.3
PEP	21.5
NSRGY	21.0
LO	20.3
MSFT	18.7
PETM	18.7
WMT	17.6
ORCL	17.5
BRK.B	17.1
BBBY	14.9
BBY	12.7
IBM	10.5
AIG	9.2
WRLD	8.0

Ticker	5-Year Price / Earnings Range
AAP	11.5 - 24.6
WAG	10.0 - 34.2
MDT	9.9 - 26.0
KO	11.9 - 24.9
WMT	11.0 - 18.4
PEP	15.1 - 22.2
MSFT	8.8 - 20.4
LO	10.9 - 22.1
CHRW	14.9 - 36.1
PETM	13.6 - 25.0
BRK.B	11.8 - 28.7
ORCL	13.3 - 25.3
BBBY	11.8 - 21.1
WRLD	6.7 - 13.0
BBY	7.4 - -
IBM	10.3 - 16.0
AIG	2.1 - -
NSRGY	



Goal of these presentations?

Determine the single best action for our portfolio at this time

Recommendation



Write one call with the following conditions:

Strike Price – \$100

Premium – \$2.50

Strike Date – 1/23/2015



Bonus Recommendation!

Limit order on the other 100 shares we own
with a strike price of \$105

Van Den Berg



Price/Free Cashflow

