



# PepsiCo Inc.

Presented by:

The Berkshire Anne Hathaways

# History

- **1898**-Caleb Bradham created Pepsi Cola
- **1919**- Pepsi Cola bought by Roy C. Mergargel founded Pepsi Cola Corporation
- **1961**- Frito Company and H.W. Lay Company merged
- **1965**- Frito-Lay Co. and Pepsi Cola Co. merge to form PepsiCo
- Incorporated in 1919, reincorporated in 1986



# Recent News

- Rejected Nelson Peltz's appeal to split beverage and snack food
- Bill to require labeling of modified foods
- Announced partnership with Buffalo Wild Wings



# Business Model

- Market cap: \$119.74 billion
- 278,000 employees
- Operates in over 200 countries
- Largest market share in both the beverage and snack industry



# 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



# Divisions

- Frito-Lay North America (FLNA)



- Quaker Foods North America (QFNA)



- Latin America Foods (LAF)



# Divisions (cont.)

- PepsiCo Americas Beverages (PAB)



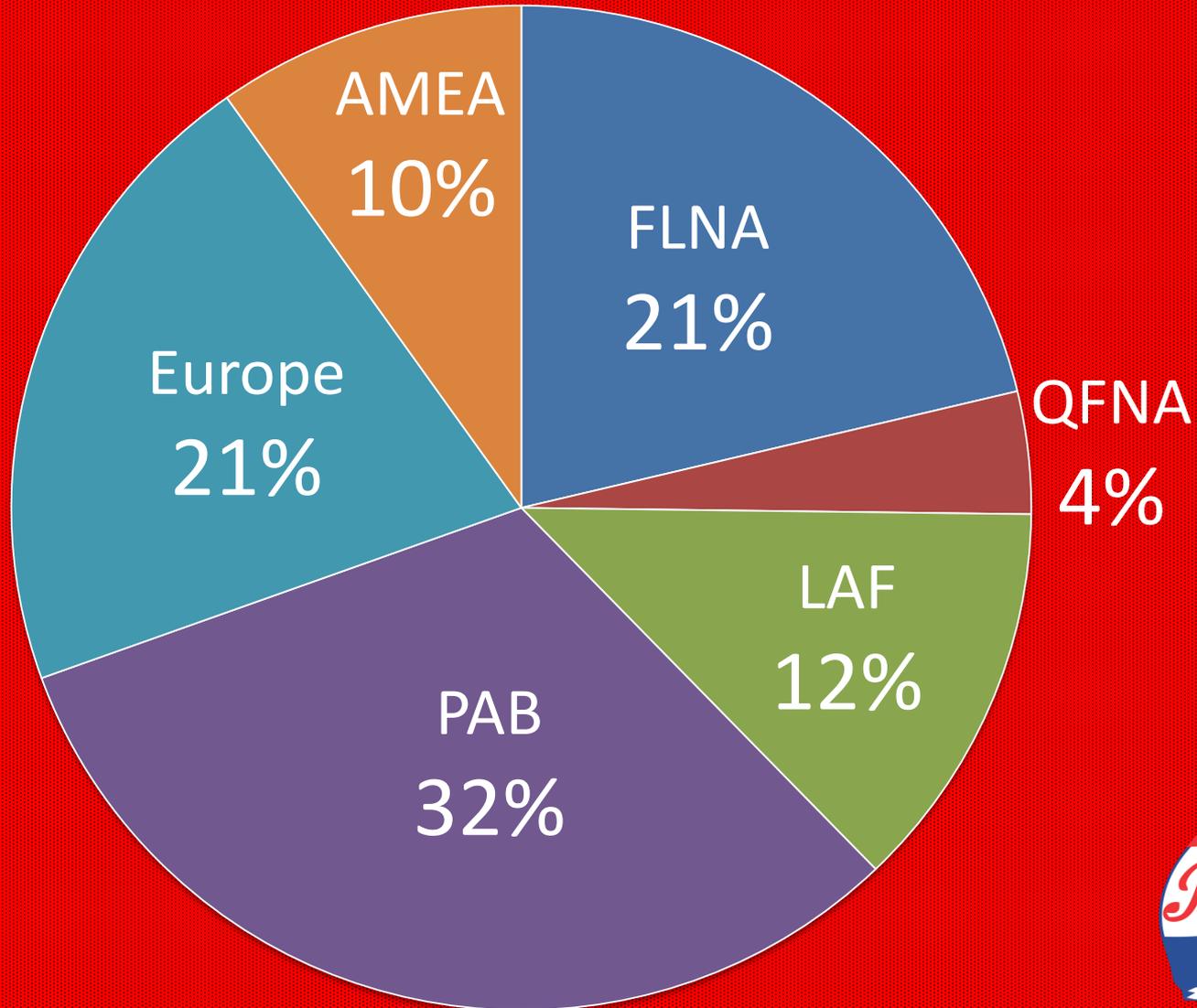
- Europe (Europe)



- Asia, Middle East, and Africa (AMEA)



# Revenue by Division (2013)



# Customers

- Primary customers:
  - Wholesale and other distributors
  - Foodservice customers
  - Grocery, drug, discount, membership, and convenient stores
  - Mass merchandisers
  - Authorized independent bottlers



# Competition

- The Coca-Cola Company
- ConAgra Foods, Inc.
- Dr. Pepper Snapple Group
- Kellogg Company
- Kraft Foods Group Inc.
- Mondelez International
- Monster Beverage Corporation
- Nestle S.A.



# Risk Factors

- Changes in consumer preferences or inability to market our products effectively.
- Changes in the legal and regulatory environment
- Imposition of new taxes or additional tax liabilities
- Inability to grow our business in emerging and developing markets
- Disruption of our supply chain
- Trade consolidation or the loss of any key customer could adversely affect our financial performance



# Risk factors cont.

- Exchange rate fluctuations
- Climate change, or regulatory measures to address climate change
- Failure to successfully negotiate collective bargaining agreements for the part of our workforce that is unionized
- Infringement of our intellectual property rights
- Potential liabilities and costs from litigation or legal proceedings

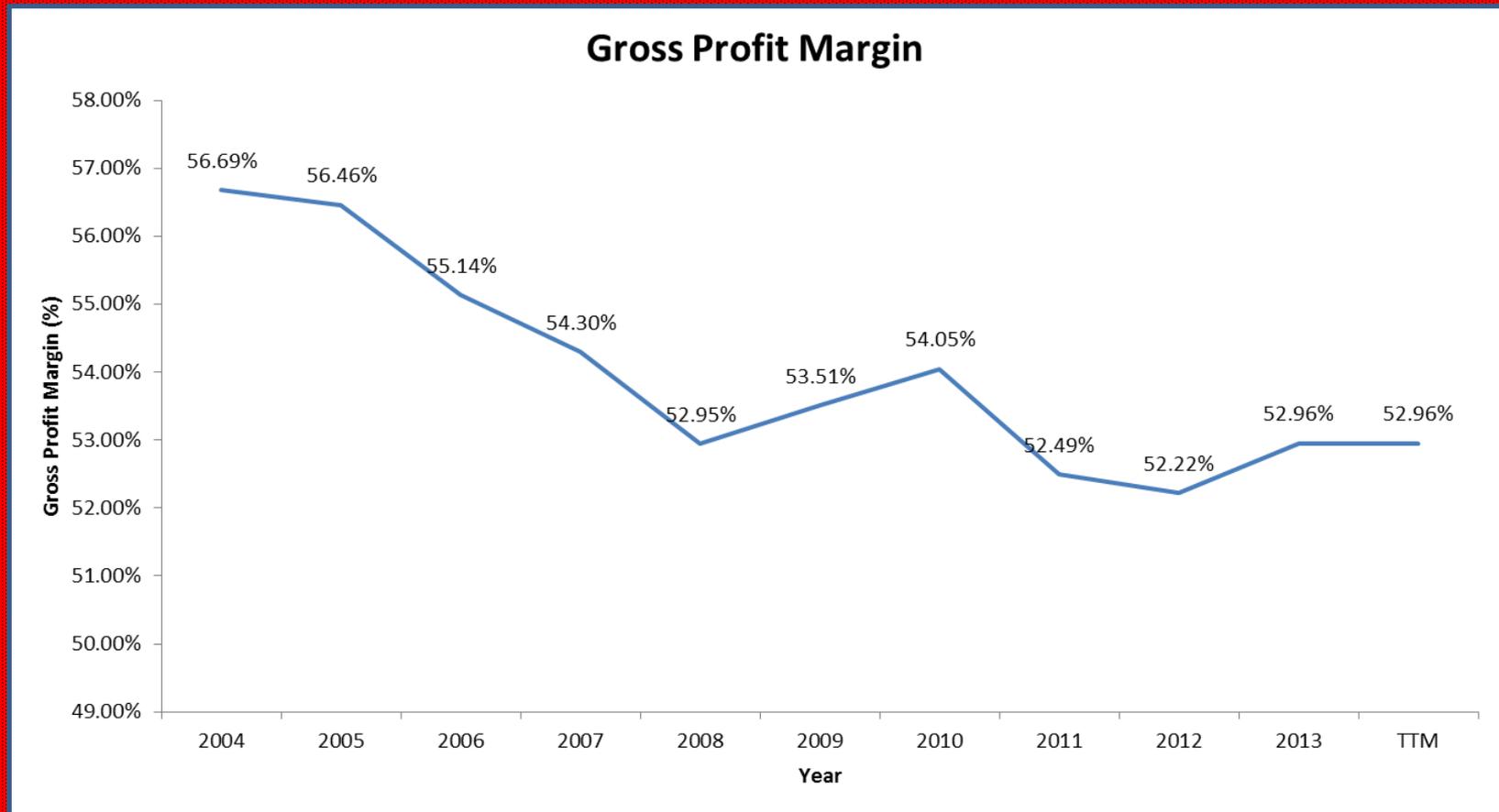


# Interpretation of Financial Statements

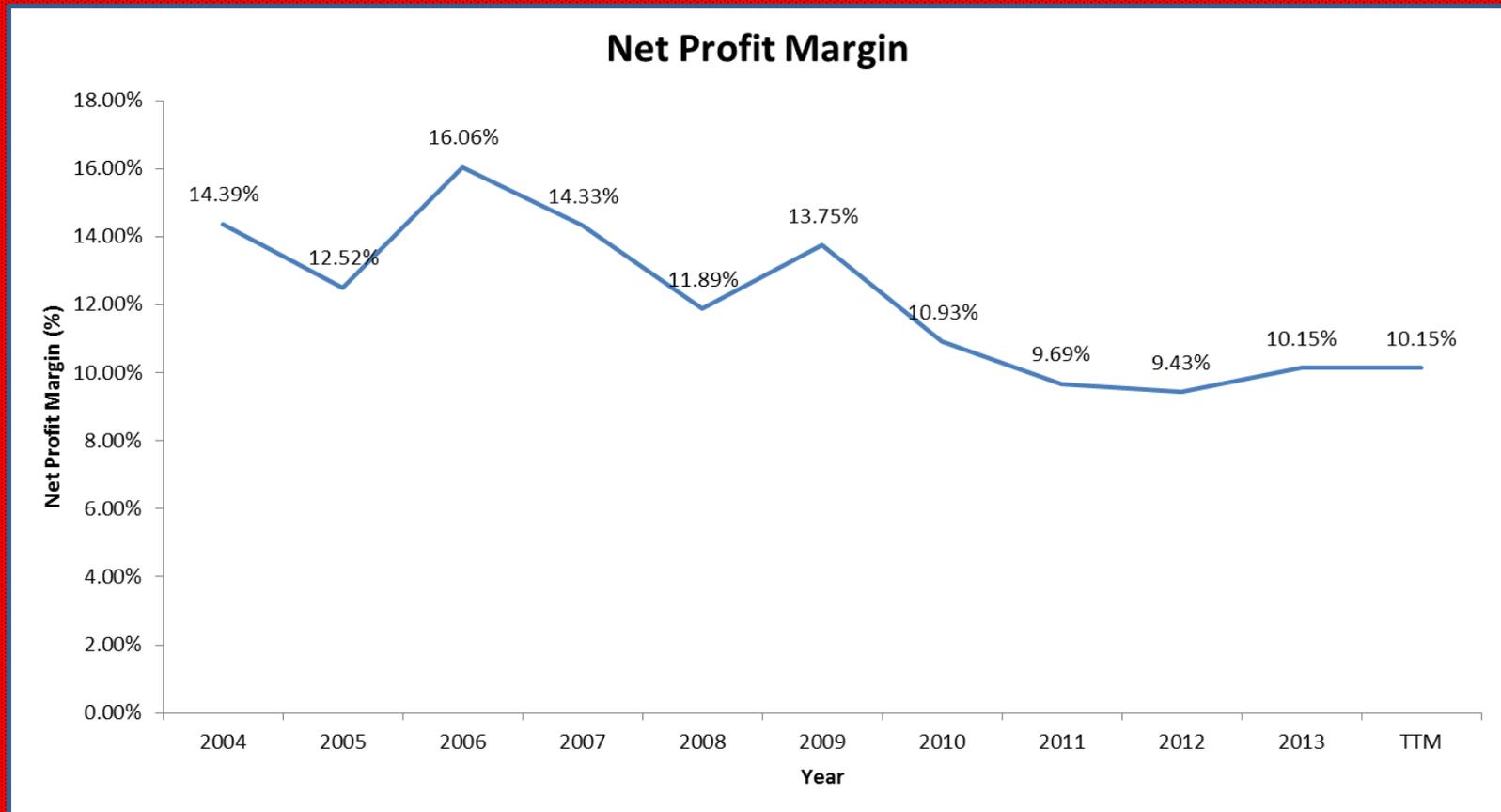
| <u>TTM</u>                      | Value  | Low Threshold | Pass? |
|---------------------------------|--------|---------------|-------|
| Gross Profit Margin             | 52.96% | ≥ 20%         | Yes   |
| % SGA                           | 72.09% | ≤ 80%         | Yes   |
| % R&D                           | 0.00%  | ≤ 10%         | Yes   |
| % Depreciation                  | 7.57%  | ≤ 10%         | Yes   |
| Interest % of OP                | 9.39%  | ≤ 15%         | Yes   |
| Net Profit Margin               | 10.15% | ≥ 10%         | Yes   |
| Current Ratio                   | 1.24   | ≥ 1           | Yes   |
| Obligation Ratio                | 3.61   | < 5 years     | Yes   |
| Adj. Debt to Shareholder Equity | 1.17   | < 0.8         | No    |
| Return on Equity                | 27.61% | ≥ 15%         | Yes   |
| Return on Capital               | 13.83% | ≥ 15%         | No    |
| Dividend Payout Ratio           | 50.95% | ≤ 60%         | Yes   |
| Preferred Stock                 | None   | None          | Yes   |
| Capital Expenditures            | 0.00%  | ≤ 25%         | Yes   |
| Net Earning Trend               | Up     | Up            | Yes   |
| Retained Earnings Trend         | Up     | Up            | Yes   |



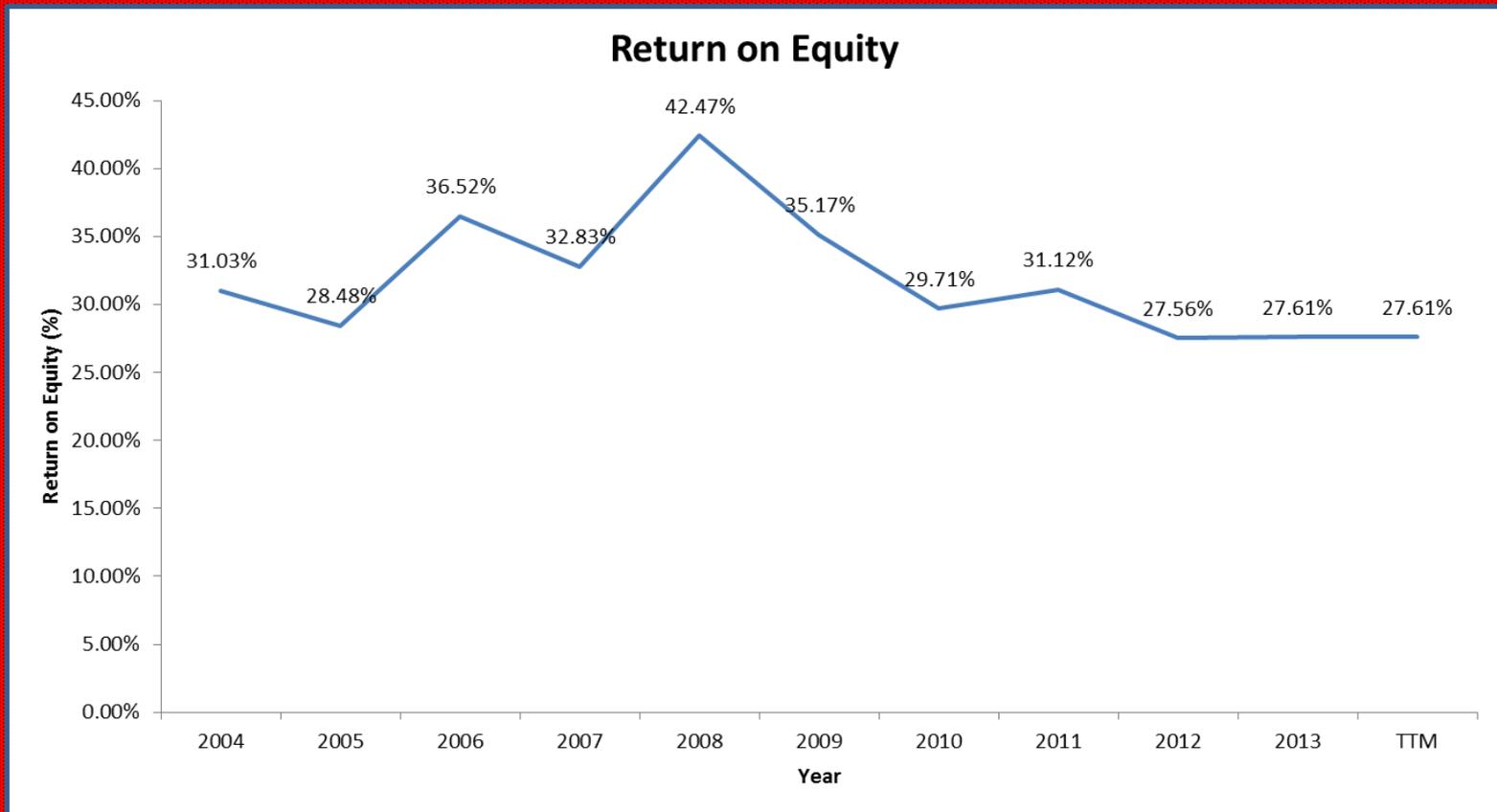
# Gross Profit Margin



# Net Profit Margin

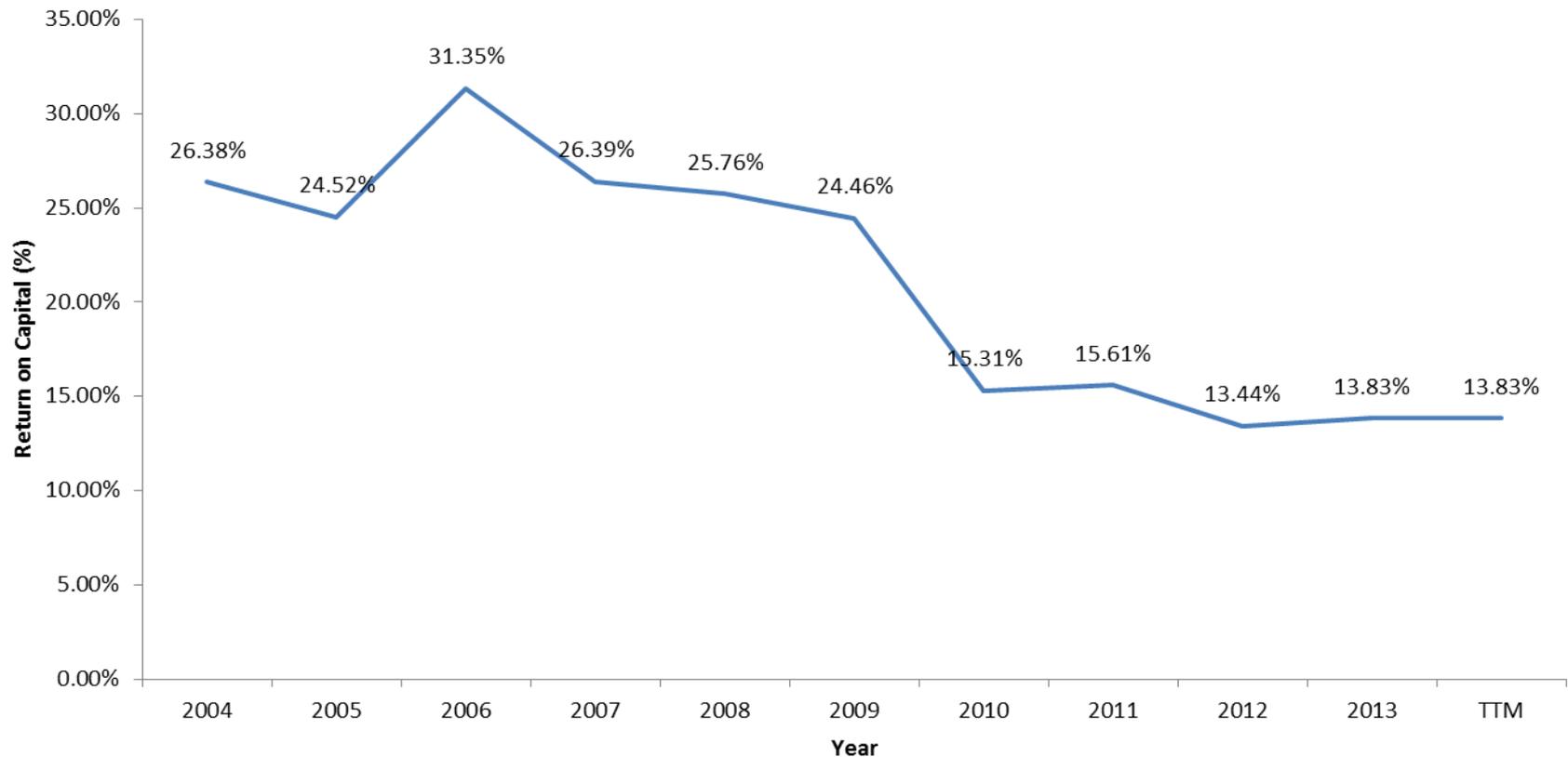


# Return on Equity

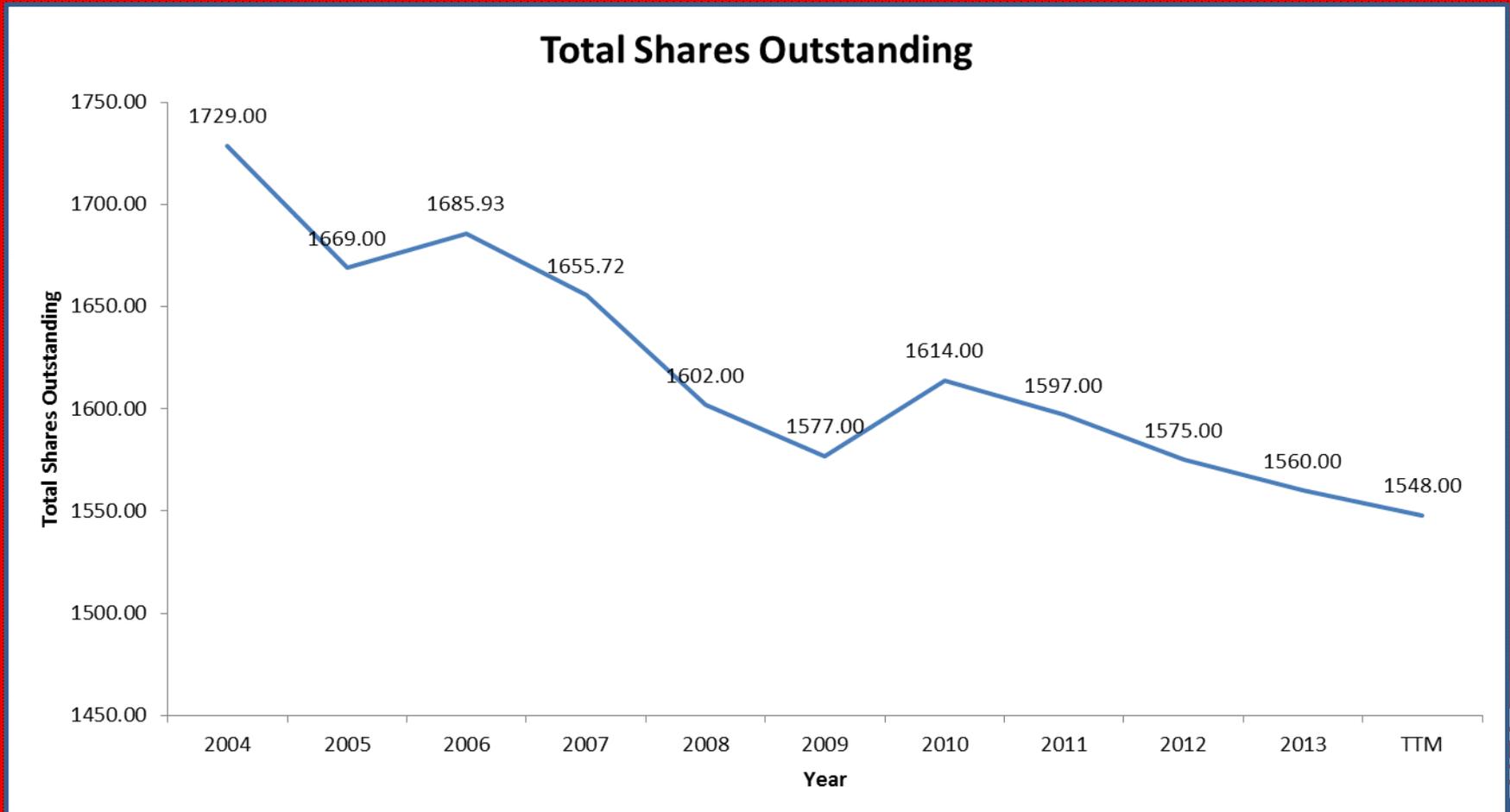


# Return on Capital

Return on Capital



# Shares Outstanding



# Earnings per Share



# Buffettology

## Statistical Array Analysis

|                                       |        |
|---------------------------------------|--------|
| Sales per Share                       | Yes    |
| Cashflows per Share                   | Yes    |
| Earnings per Share                    | Yes    |
| Dividends Declared per Share          | Yes    |
| Capital Spending per Share            | No     |
| Book Value per Share                  | Yes    |
| Revenues (Sales)                      | Yes    |
| Gross Profit Margin                   | Stable |
| Operating Profit Margin               | Yes    |
| Number of Stores                      | N/A    |
| Net Profit                            | Yes    |
| Net Profit Margin                     | Stable |
| Working Capital                       | Yes    |
| Shareholder's Equity                  | Yes    |
| Return on Total Capital               | No     |
| Return on Shareholder's Equity        | Stable |
| Common Shares Outstanding             | No     |
| Long-Term Debt                        | Yes    |
| LT Debt Payable in 5 years            | Yes    |
| All Dividends to Net Profit under 60% | Yes    |



# Qualitative Review

## Qualitative Review

|  |                                 |
|--|---------------------------------|
| What type of business is this: commodity or sustained competitive advantage?   | Sustained Competitive Advantage |
| Can you easily explain what the business does?   | Yes                             |
| Is it heavily unionized?   | No*                             |
| 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?   | Yes*                            |
| Is the company able to raise its prices to offset inflation?   | Yes                             |
| Will the company be able to sell more in the future?   | Yes                             |
| If I gave you \$1 billion could you develop a competitor? If the answer is "no" your business has a sustained competitive advantage. | No                              |



# DuPont Analysis

| Company | Total asset turnover<br>(revenue/total assets) | Net profit margin<br>(net income/revenue) | Financial leverage multiplier<br>(Total assets/total equity) | Return on Equity |
|---------|--|---|--|------------------|
| PEP     | 0.86   | 0.1                                       | 3.17   | 27.30%           |
| KO      | 0.52   | <b>0.18</b>                               | 2.71   | 25.38%           |
| DPS     | 0.73   | 0.1                                       | 3.6  | 26.29%           |
| MNST    | <b>1.44</b>                                    | 0.15                                      | <b>1.58</b>  | 34.02%           |
| NSRGY   | 0.76   | 0.11                                      | 1.98   | 16.59%           |
| KRFT    | 0.79   | 0.15                                      | 4.46   | <b>52.88%</b>    |
| K       | 0.96   | 0.12                                      | 4.37   | 50.29%           |



# Industry Comparison

| Company                     | PepsiCo        | Coca-Cola Co       | Dr. Pepper-Snapple | Monster Beverage Corp. | Nestle SA   | Kraft Foods Group | Kellogg Company |
|-----------------------------|----------------|--------------------|--------------------|------------------------|-------------|-------------------|-----------------|
| Market cap (millions of \$) | 119,742        | 167,231            | 10,177             | 11,905                 | 241,540     | 32,730            | 21,820          |
| Return on Equity            | 27.60%         | 20.80%             | 27.60%             | 38.40%                 | 16%         | 71.60%            | <b>92.40%</b>   |
| Return on Assets            | 8.70%          | 7.60%              | 7.60%              | <b>24.40%</b>          | 8.20%       | 16%               | 21.20%          |
| Gross Profit Margin         | 53%            | <b>60.90%</b>      | 60.20%             | 52.10%                 | 48.20%      | 42%               | 50.90%          |
| Net Profit Margin           | 10.10%         | 15.50%             | 10.70%             | 15.60%                 | 11.30%      | 20.30%            | <b>23.40%</b>   |
| Dividend Yield              | 2.83%          | 2.96%              | 2.95%              | --                     | 2.40%       | <b>3.74%</b>      | 2.98%           |
| Price/Earnings              | 18.3           | 19.6               | <b>16.9</b>        | 37.3                   | 19.9        | 17.5              | 22              |
| Price/Sales                 | 1.9            | 3.6                | 1.8                | 5.7                    | 2.3         | 1.8               | <b>1.5</b>      |
| Price/Free Cash Flow        | 17.8           | 21.1               | 15.4               | 43.4                   | <b>13.8</b> | 21.4              | 19.2            |
| EV/EBITDA                   | 11.2           | 14.7               | <b>9.9</b>         | 20.8                   | 13          | 10.9              | 14              |
| Gurufocus Predictability    | <b>5 stars</b> | 5 stars (on watch) | Not Rated          | 2.5 stars              | 1 star      | Not Rated         | 2.5 stars       |
| Number of Guru Holders      | <b>15</b>      | 12                 | 4                  | 0                      | 1           | 10                | 2               |

# Discounted Cash Flow- Break Even

|                           |                                       |                                      |
|---------------------------|---------------------------------------|--------------------------------------|
| Earnings Per Share : \$   | <input type="text" value="4.32"/>     | ?                                    |
| Growth Rate In the Next:  | <input type="text" value="10"/> Years | <input type="text" value="13.07"/> % |
| 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 <sup>NEW</sup>   |
| Tangible Book Value: | \$ <input type="text" value="-5.37"/> <input type="checkbox"/> Add to Fair Value |
| Growth Value:        | \$ 45.54   |
| Terminal Value:      | \$ 32.33   |
| <b>= Fair Value:</b> | <b>\$ 77.86</b>  |
| Margin Of Safety:    | 0%   |

## Financial Data of PepsiCo Inc

| Annual Rates (per share)  | 10 yrs | 5 yrs | 12 months |
|---------------------------|--------|-------|-----------|
| Revenue Growth (%)        | 11.70  | 10.80 | 2.40      |
| EBITDA Growth (%)         | 8.80   | 6.60  | 5.90      |
| EBIT Growth (%)           | 8.10   | 5.30  | 7.40      |
| Earning Growth (%)        | 6.30   | 2.80  | 10.20     |
| Free Cash Flow Growth (%) | 7.50   | 9.80  | 20.40     |
| Book Value Growth (%)     | 7.90   | 9.00  | 9.60      |



# Conscious Investor 3-year default

PEP PepsiCo Inc Symbol Details Print Save Image Save Load Default Safety

Industry: Beverages - Soft Drinks Market: USA

| Earnings Per Share (EPS) |       |       |       |       |       |       |       |       |       |
|--------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 12/04                    | 12/05 | 12/06 | 12/07 | 12/08 | 12/09 | 12/10 | 12/11 | 12/12 | 12/13 |
| 2.430                    | 2.390 | 3.340 | 3.410 | 3.210 | 3.770 | 3.920 | 4.030 | 3.920 | 4.320 |

| Sales Per Share |        |        |        |        |        |        |        |        |        |
|-----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 12/04           | 12/05  | 12/06  | 12/07  | 12/08  | 12/09  | 12/10  | 12/11  | 12/12  | 12/13  |
| 17.428          | 19.663 | 21.451 | 24.594 | 27.791 | 27.538 | 36.456 | 42.522 | 42.451 | 43.437 |

| Net Profit Margin (NPM) |       |       |       |       |       |       |       |       |       |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 12/04                   | 12/05 | 12/06 | 12/07 | 12/08 | 12/09 | 12/10 | 12/11 | 12/12 | 12/13 |
| 14.39                   | 12.52 | 16.06 | 14.33 | 11.89 | 13.83 | 10.96 | 9.72  | 9.49  | 10.22 |

| Return on Equity (ROE) |       |       |       |       |       |       |       |       |       |
|------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 12/04                  | 12/05 | 12/06 | 12/07 | 12/08 | 12/09 | 12/10 | 12/11 | 12/12 | 12/13 |
| 31.00                  | 28.50 | 36.50 | 32.70 | 42.60 | 35.70 | 29.80 | 31.20 | 27.70 | 27.80 |

| Price Earnings Ratio (PE Ratio) |       |       |       |       |       |       |       |       |       |
|---------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 12/04                           | 12/05 | 12/06 | 12/07 | 12/08 | 12/09 | 12/10 | 12/11 | 12/12 | 12/13 |
| 22.90                           | 25.20 | 19.80 | 23.20 | 24.90 | 17.10 | 17.40 | 17.80 | 18.80 | 20.20 |
| 18.60                           | 21.50 | 16.80 | 18.10 | 15.50 | 11.60 | 15.00 | 14.50 | 15.90 | 15.80 |

| Price |       |       |       |       |       |       |       |       |       |
|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 12/04 | 12/05 | 12/06 | 12/07 | 12/08 | 12/09 | 12/10 | 12/11 | 12/12 | 12/13 |
| 55.71 | 60.34 | 65.99 | 79.00 | 79.79 | 64.48 | 68.11 | 71.89 | 73.66 | 87.06 |
| 45.30 | 51.34 | 56.00 | 61.89 | 49.74 | 43.78 | 58.75 | 58.50 | 62.15 | 68.43 |

| Payout Ratio (PR) |       |       |       |       |       |       |       |       |       |
|-------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 12/04             | 12/05 | 12/06 | 12/07 | 12/08 | 12/09 | 12/10 | 12/11 | 12/12 | 12/13 |
| 32                | 42    | 34    | 40    | 51    | 47    | 48    | 50    | 54    | 52    |

| EPSttm | Years | HGROWTH | STAEGRTM |
|--------|-------|---------|----------|
| 4.320  | 3     | 3.54%   | 97.87%   |

| EPSttm | Years | HGROWTH | STAEGRTM |
|--------|-------|---------|----------|
| 10.22  |       |         |          |
| 27.80  |       |         |          |

**STRETD®**

current year 21 Feb 2014

Price 78.22

EPSttm 4.320

PE Ratio 17.48

HGrowth 3.54 %

Payout 51 %

Dividend Reinvestment Strategy

Buy additional shares

Invest at the rate below

Note: PE and PR Ratios are ave of 4 yrs

Investment Period 5 years

Tax - dividends 0 %

Tax - capital gains 0 %

Calculate 5.81% per year Sync with TARG

**TARGD®**

current year

Req Return 10.0 %

EPSttm 4.320

PE Ratio 17.48

HGrowth 3.54 %

Payout 51 %

Dividend Reinvestment Strategy

Buy additional shares

Invest at the rate below

Note: PE and PR Ratios are ave of 4 yrs

Investment Period 5 years

Tax - dividends 0 %

Tax - capital gains 0 %

Calculate \$68.18 Sync with STRET



EPSSttm

Years

HGROWTH

STAEGR™

4.320

3

Calc

3.54%

97.87%

HGROWTH

STAEGR™

Chart

3

Calc

1.07%

99.69%

Current NPM

10.22

Chart

Current ROE

27.80

Chart



# STRETD®

current year

21 Feb 2014

Dividend Reinvestment Strategy

- Buy additional shares
- Invest at the rate below

Note: PE and PR Ratios are ave of 4 yrs

Price

78.22

EPS<sub>ttm</sub>

4.320

PE Ratio

17.48

HGrowth

3.54

%

Payout

51

%

Investment Period

5 years

Tax - dividends

0 %

Tax - capital gains

0 %

Calculate

5.81% per year

Sync with TARG



# Conscious Investor- 6 year Default

PEP PepsiCo Inc Symbol Details Print Save Image Save Load Default Safety

Industry: Beverages - Soft Drinks Market: USA

| Earnings Per Share (EPS) |       |       |       |       |       |       |       |       |       |
|--------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 12/04                    | 12/05 | 12/06 | 12/07 | 12/08 | 12/09 | 12/10 | 12/11 | 12/12 | 12/13 |
| 2.430                    | 2.390 | 3.340 | 3.410 | 3.210 | 3.770 | 3.920 | 4.030 | 3.920 | 4.320 |

| Sales Per Share |        |        |        |        |        |        |        |        |        |
|-----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 12/04           | 12/05  | 12/06  | 12/07  | 12/08  | 12/09  | 12/10  | 12/11  | 12/12  | 12/13  |
| 17.428          | 19.663 | 21.451 | 24.594 | 27.791 | 27.538 | 36.456 | 42.522 | 42.451 | 43.437 |

| Net Profit Margin (NPM) |       |       |       |       |       |       |       |       |       |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 12/04                   | 12/05 | 12/06 | 12/07 | 12/08 | 12/09 | 12/10 | 12/11 | 12/12 | 12/13 |
| 14.39                   | 12.52 | 16.06 | 14.33 | 11.89 | 13.83 | 10.96 | 9.72  | 9.49  | 10.22 |

| Return on Equity (ROE) |       |       |       |       |       |       |       |       |       |
|------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 12/04                  | 12/05 | 12/06 | 12/07 | 12/08 | 12/09 | 12/10 | 12/11 | 12/12 | 12/13 |
| 31.00                  | 28.50 | 36.50 | 32.70 | 42.60 | 35.70 | 29.80 | 31.20 | 27.70 | 27.80 |

| Price Earnings Ratio (PE Ratio) |       |       |       |       |       |       |       |       |       |
|---------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 12/04                           | 12/05 | 12/06 | 12/07 | 12/08 | 12/09 | 12/10 | 12/11 | 12/12 | 12/13 |
| 22.90                           | 25.20 | 19.80 | 23.20 | 24.90 | 17.10 | 17.40 | 17.80 | 18.80 | 20.20 |
| 18.60                           | 21.50 | 16.80 | 18.10 | 15.50 | 11.60 | 15.00 | 14.50 | 15.90 | 15.80 |

| Price |       |       |       |       |       |       |       |       |       |
|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 12/04 | 12/05 | 12/06 | 12/07 | 12/08 | 12/09 | 12/10 | 12/11 | 12/12 | 12/13 |
| 55.71 | 60.34 | 65.99 | 79.00 | 79.79 | 64.48 | 68.11 | 71.89 | 73.66 | 87.06 |
| 45.30 | 51.34 | 56.00 | 61.89 | 49.74 | 43.78 | 58.75 | 58.50 | 62.15 | 68.43 |

| Payout Ratio (PR) |       |       |       |       |       |       |       |       |       |
|-------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 12/04             | 12/05 | 12/06 | 12/07 | 12/08 | 12/09 | 12/10 | 12/11 | 12/12 | 12/13 |
| 32                | 42    | 34    | 40    | 51    | 47    | 48    | 50    | 54    | 52    |

| STRETD®                                 |  | TARGD®                                  |  |
|---|--|---|--|
| current year                            | 21 Feb 2014  | current year                            |  |
| Dividend Reinvestment Strategy          | <input checked="" type="radio"/> Buy additional shares<br><input type="radio"/> Invest at the rate below | Dividend Reinvestment Strategy          | <input checked="" type="radio"/> Buy additional shares<br><input type="radio"/> Invest at the rate below |
| Note: PE and PR Ratios are ave of 4 yrs |  | Note: PE and PR Ratios are ave of 4 yrs |  |
| Price                                   | 78.22  | Req Return                              | 10.0 %   |
| EPSttm                                  | 4.320  | EPSttm                                  | 4.320  |
| PE Ratio                                | 17.48  | PE Ratio                                | 17.48  |
| HGrowth                                 | 4.72 %   | HGrowth                                 | 4.72 %   |
| Payout                                  | 51 %   | Payout                                  | 51 %   |
| Investment Period                       | 5 years  | Tax - dividends                         | 0 %  |
|   |  | Tax - capital gains                     | 0 %  |
| Calculate                               | 7.02% per year   | Calculate                               | \$68.18  |
|   | Sync with TARG   |   | Sync with STRET  |

| EPSttm |   | HGROWTH     |        | STAEGR™ |               |
|--------|---|-------------|--------|---------|---------------|
| 4.320  | 6 | Calc        | 4.72%  | 96.15%  |               |
| Chart  | 6 | Calc        | 10.94% | 92.42%  |               |
|        |   | Current NPM | 10.22  | Chart   |               |
|        |   | Current ROE | 27.80  | Chart   |               |
|        |   | Current     | 20.15  | High    | Current PE    |
|        |   |             | 17.25  | Low     | 18.11         |
|        |   | Current     | 87.06  | High    | Current Price |
|        |   |             | 74.53  | Low     | 78.22         |
|        |   | Current PR  | 52%    | Chart   |               |



EPSttm

4.320

Years

6

Calc

HGROWTH

4.72%

STAEGR™

96.15%

Chart

6

Calc

HGROWTH

10.94%

STAEGR™

92.42%

Current NPM

10.22

Chart

Current ROE

27.80

Chart



# STRETD®

current year

21 Feb 2014

Dividend Reinvestment Strategy

- Buy additional shares
- Invest at the rate below

Note: PE and PR Ratios are ave of 4 yrs

|          |        |
|----------|--------|
| Price    | 78.22  |
| EPSttm   | 4.320  |
| PE Ratio | 17.48  |
| HGrowth  | 4.72 % |
| Payout   | 51 %   |

Investment Period

5 years

Tax - dividends

0 %

Tax - capital gains

0 %

Calculate

7.02% per year

Sync with TARG



# Conscious Investor- 10 year Default

PEP PepsiCo Inc  Symbol Details Print Save Image Save Load Default Safety

Industry: Beverages - Soft Drinks Market: USA

| Earnings Per Share (EPS) |       |       |       |       |       |       |       |       |       |
|--------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 12/04                    | 12/05 | 12/06 | 12/07 | 12/08 | 12/09 | 12/10 | 12/11 | 12/12 | 12/13 |
| 2.430                    | 2.390 | 3.340 | 3.410 | 3.210 | 3.770 | 3.920 | 4.030 | 3.920 | 4.320 |

| Sales Per Share |        |        |        |        |        |        |        |        |        |
|-----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 12/04           | 12/05  | 12/06  | 12/07  | 12/08  | 12/09  | 12/10  | 12/11  | 12/12  | 12/13  |
| 17.428          | 19.663 | 21.451 | 24.594 | 27.791 | 27.538 | 36.456 | 42.522 | 42.451 | 43.437 |

| Net Profit Margin (NPM) |       |       |       |       |       |       |       |       |       |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 12/04                   | 12/05 | 12/06 | 12/07 | 12/08 | 12/09 | 12/10 | 12/11 | 12/12 | 12/13 |
| 14.39                   | 12.52 | 16.06 | 14.33 | 11.89 | 13.83 | 10.96 | 9.72  | 9.49  | 10.22 |

| Return on Equity (ROE) |       |       |       |       |       |       |       |       |       |
|------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 12/04                  | 12/05 | 12/06 | 12/07 | 12/08 | 12/09 | 12/10 | 12/11 | 12/12 | 12/13 |
| 31.00                  | 28.50 | 36.50 | 32.70 | 42.60 | 35.70 | 29.80 | 31.20 | 27.70 | 27.80 |

| Price Earnings Ratio (PE Ratio) |       |       |       |       |       |       |       |       |       |
|---------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 12/04                           | 12/05 | 12/06 | 12/07 | 12/08 | 12/09 | 12/10 | 12/11 | 12/12 | 12/13 |
| 22.90                           | 25.20 | 19.80 | 23.20 | 24.90 | 17.10 | 17.40 | 17.80 | 18.80 | 20.20 |
| 18.60                           | 21.50 | 16.80 | 18.10 | 15.50 | 11.60 | 15.00 | 14.50 | 15.90 | 15.80 |

| Price |       |       |       |       |       |       |       |       |       |
|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 12/04 | 12/05 | 12/06 | 12/07 | 12/08 | 12/09 | 12/10 | 12/11 | 12/12 | 12/13 |
| 55.71 | 60.34 | 65.99 | 79.00 | 79.79 | 64.48 | 68.11 | 71.89 | 73.66 | 87.06 |
| 45.30 | 51.34 | 56.00 | 61.89 | 49.74 | 43.78 | 58.75 | 58.50 | 62.15 | 68.43 |

| Payout Ratio (PR) |       |       |       |       |       |       |       |       |       |
|-------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 12/04             | 12/05 | 12/06 | 12/07 | 12/08 | 12/09 | 12/10 | 12/11 | 12/12 | 12/13 |
| 32                | 42    | 34    | 40    | 51    | 47    | 48    | 50    | 54    | 52    |

| EPS Ttm     | Years | HGROWTH | STAEGR™ |
|-------------|-------|---------|---------|
| 4.320       | 10    | 6.3%    | 91.61%  |
| Chart       |       | 10      | 11.62%  |
| Current NPM |       | 10.22   |         |
| Current ROE |       | 27.80   |         |

**STRETD®**

current year 21 Feb 2014

Price 78.22

Dividend Reinvestment Strategy

Buy additional shares

Invest at the rate below

Note: PE and PR Ratios are ave of 4 yrs

EPS Ttm 4.320

PE Ratio 17.48

HGrowth 6.3%

Payout 51%

Investment Period 5 years

Tax - dividends 0%

Tax - capital gains 0%

Calculate 8.63% per year

Sync with TARG

**TARGD®**

current year

Dividend Reinvestment Strategy

Buy additional shares

Invest at the rate below

Note: PE and PR Ratios are ave of 4 yrs

Req Return 10.0%

EPS Ttm 4.320

PE Ratio 17.48

HGrowth 6.3%

Payout 51%

Investment Period 5 years

Tax - dividends 0%

Tax - capital gains 0%

Calculate \$68.18

Sync with STRET



EPSStm

4.320

Years

10

Calc

HGROWTH

6.3%

STAEGR™

91.61%

Chart

10

Calc

HGROWTH

11.62%

STAEGR™

94.69%

Current NPM

10.22

Chart

Current ROE

27.80

Chart



# STRETD®

current year

21 Feb 2014

Price

78.22

EPSStm

4.320

PE Ratio

17.48

HGrowth

6.3

%

Payout

51

%

Dividend Reinvestment Strategy

Buy additional shares

Invest at the rate below

Note: PE and PR Ratios are ave of 4 yrs

Investment Period

5 years

Tax - dividends

0 %

Tax - capital gains

0 %

Calculate

8.63% per year

Sync with TARG



# Conscious Investor - Safety

current year **STRETD®** 21 Feb 2014

Dividend Reinvestment Strategy  
 Buy additional shares  
 Invest at the rate below

Note: PE and PR Ratios are ave of 4 yrs

|          |        |
|----------|--------|
| Price    | 78.22  |
| EPSttm   | 4.320  |
| PE Ratio | 14.97  |
| HGrowth  | 3.81 % |
| Payout   | 42 %   |

Investment Period  years

Tax - dividends  %

Tax - capital gains  %

per year

Cut Price/Earnings by 14.4%  
Cut Earnings Growth by 19.3%



# Conscious Investor- Kill It

**STRETD®**

current year 21 Feb 2014

Dividend Reinvestment Strategy

- Buy additional shares
- Invest at the rate below

Note: PE and PR Ratios are ave of 4 yrs

|          |        |
|----------|--------|
| Price    | 78.22  |
| EPSttm   | 4.320  |
| PE Ratio | 14     |
| HGrowth  | 3.81 % |
| Payout   | 42 %   |

Investment Period 5 years

Tax - dividends 0 %

Tax - capital gains 0 %

Calculate 1.56% per year Sync with TARG

Cut Price/Earnings by another 6.5%



# Conscious Investor- Kill It Again

**STRETD®**

current year 21 Feb 2014

Dividend Reinvestment Strategy

Buy additional shares  
 Invest at the rate below

Note: PE and PR Ratios are ave of 4 yrs

|          |        |
|----------|--------|
| Price    | 78.22  |
| EPSttm   | 4.320  |
| PE Ratio | 12.78  |
| HGrowth  | 3.81 % |
| Payout   | 42 %   |

Investment Period 5 years

Tax - dividends 0 %  
Tax - capital gains 0 %

Calculate 0% per year Sync with TARG

Cut Price/Earnings another 8.7%

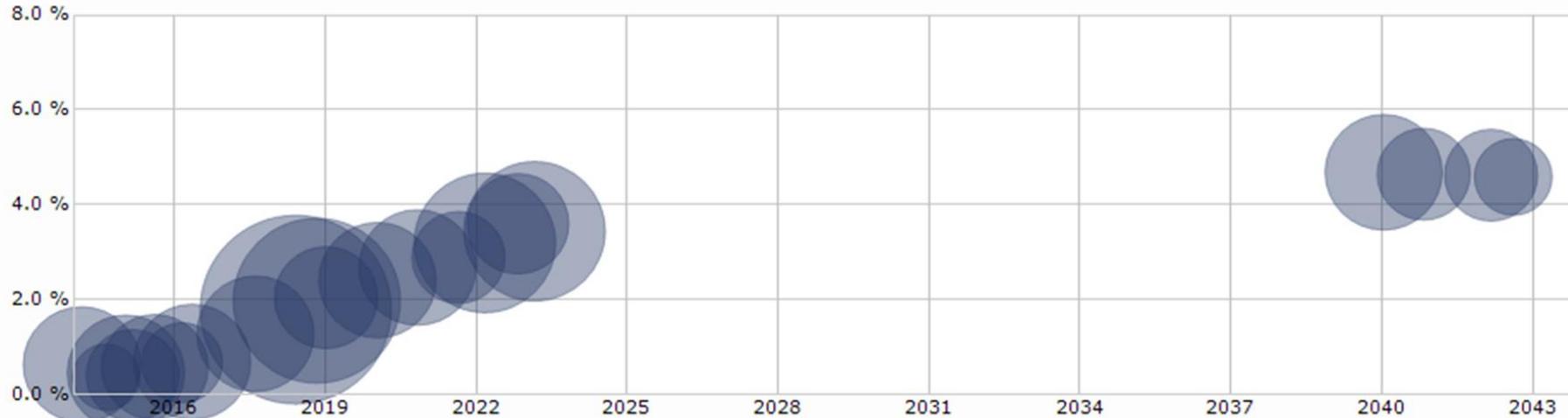


# Morningstar Debt Analysis

## Yield to Maturity

● Debt ● Preferred ● Convertible

● ● ● Circle size determined by issue amount



# Morningstar Debt Analysis cont.

- \$20.5 billion in outstanding debt
- Amount due by 2018- \$11.5 billion
- Amount due by 2023- \$18.44 billion



# Intra-Portfolio Valuations



# Price/Earnings

| Ticker     | ▲ Pri...<br>Earnings |
|------------|----------------------|
| BBY        | -                    |
| AIG-WT     | -                    |
| CTB        | 6.6                  |
| AIG        | 8.0                  |
| WRLD       | 11.3                 |
| IBM        | 12.3                 |
| BRK.B      | 13.7                 |
| MSFT       | 13.9                 |
| BBBY       | 13.9                 |
| WMT        | 14.4                 |
| CHRW       | 14.5                 |
| LO         | 15.1                 |
| MDT        | 15.5                 |
| ORCL       | 16.4                 |
| <b>PEP</b> | <b>18.2</b>          |
| KO         | 19.6                 |
| NSRGY      | 20.6                 |
| WAG        | 23.3                 |
| AAP        | 23.6                 |
| BDX        | 24.0                 |

| Ticker     | ▲ 5-Year Price / Earnings Rang |
|------------|--------------------------------|
| AIG-WT     |                                |
| NSRGY      |                                |
| AIG        | 2.1 -                          |
| CHRW       | 14.4 - 36.1                    |
| CTB        | 3.3 -                          |
| BRK.B      | 11.4 - 45.3                    |
| BBBY       | 11.9 - 22.8                    |
| ORCL       | 12.5 - 25.3                    |
| IBM        | 9.3 - 16.0                     |
| BBY        | 7.4 -                          |
| <b>PEP</b> | <b>14.3 - 21.6</b>             |
| MDT        | 9.6 - 23.2                     |
| MSFT       | 8.1 - 20.4                     |
| WMT        | 11.0 - 16.2                    |
| LO         | 10.8 - 17.2                    |
| KO         | 11.9 - 22.6                    |
| WRLD       | 3.3 - 13.0                     |
| AAP        | 11.5 - 24.0                    |
| WAG        | 10.0 - 23.6                    |
| BDX        | 12.6 - 24.2                    |



# Price/Sales

| Ticker | ▲ ...<br>Sales |
|--------|----------------|
| AIG-WT | -              |
| BBY    | 0.2            |
| CTB    | 0.4            |
| WMT    | 0.5            |
| CHRW   | 0.7            |
| WAG    | 0.9            |
| AIG    | 1.1            |
| BBBY   | 1.3            |
| AAP    | 1.4            |
| BRK.B  | 1.5            |
| PEP    | 1.5            |
| WRLD   | 2.0            |
| IBM    | 2.0            |
| NSRGY  | 2.4            |
| LO     | 2.6            |
| BDX    | 2.7            |
| MDT    | 3.5            |
| KO     | 3.6            |
| MSFT   | 3.8            |
| ORCL   | 4.8            |

| Ticker | ▲ 5-Year Price / Sales Range |
|--------|------------------------------|
| AIG-WT |                              |
| NSRGY  |                              |
| CHRW   | 0.7   1.5                    |
| PEP    | 1.5   2.4                    |
| KO     | 2.8   4.8                    |
| BBY    | 0.1   0.4                    |
| BBBY   | 0.7   1.9                    |
| MSFT   | 2.3   5.0                    |
| LO     | 1.9   2.9                    |
| WMT    | 0.4   0.6                    |
| ORCL   | 3.0   5.5                    |
| IBM    | 1.1   2.4                    |
| BRK.B  | 0.9   1.6                    |
| BDX    | 2.0   2.8                    |
| MDT    | 1.9   3.7                    |
| WRLD   | 0.5   2.3                    |
| CTB    | 0.1   0.6                    |
| AAP    | 0.6   1.4                    |
| WAG    | 0.3   0.9                    |
| AIG    | 0.0   1.2                    |



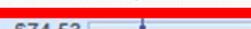
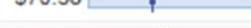
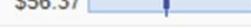
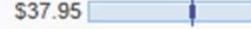
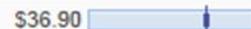
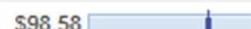
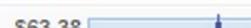
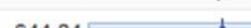
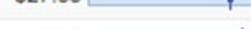
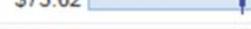
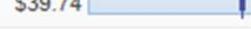
# Price/Free Cash Flow

| Ticker | Price / Cash Flow |
|--------|-------------------|
| AIG-WT | -                 |
| BBY    | 2.7               |
| WRLD   | 4.8               |
| CTB    | 5.2               |
| BRK.B  | 10.5              |
| WMT    | 10.8              |
| MSFT   | 11.2              |
| IBM    | 11.6              |
| ORCL   | 11.9              |
| BDX    | 12.1              |
| AIG    | 12.3              |
| BBBY   | 12.5              |
| MDT    | 12.6              |
| PEP    | 12.7              |
| NSRGY  | 13.9              |
| LO     | 15.0              |
| KO     | 16.3              |
| WAG    | 16.6              |
| AAP    | 17.0              |
| CHRW   | 22.3              |

| Ticker | 5-Year Price / Cash Flow Range |
|--------|--------------------------------|
| AIG-WT | -                              |
| NSRGY  | -                              |
| CTB    | 2.2 -                          |
| CHRW   | 14.7 - 50.1                    |
| AIG    | 0.2 -                          |
| PEP    | 10.5 - 15.5                    |
| ORCL   | 8.4 - 19.0                     |
| BBY    | 1.3 - 17.5                     |
| BDX    | 8.7 - 14.9                     |
| BRK.B  | 7.4 - 12.6                     |
| BBBY   | 8.6 - 15.0                     |
| KO     | 11.7 - 19.0                    |
| LO     | 9.3 - 18.9                     |
| MSFT   | 6.9 - 13.3                     |
| MDT    | 8.0 - 14.0                     |
| WMT    | 7.2 - 11.7                     |
| IBM    | 6.1 - 12.8                     |
| WRLD   | 1.2 - 5.6                      |
| AAP    | 4.7 - 17.2                     |
| WAG    | 6.4 - 16.7                     |



# 52-week Price Range

| Ticker | ▲ 52-wk Range   |
|--------|---|
| CHRW   | \$52.01  \$62.46    |
| KO     | \$36.83  \$43.43    |
| IBM    | \$172.19  \$215.90  |
| CTB    | \$20.55  \$34.80    |
| PEP    | \$74.53  \$87.06    |
| BBY    | \$15.75  \$44.66    |
| WMT    | \$70.58  \$81.37    |
| BBBY   | \$56.37  \$80.82    |
| AIG-WT | \$14.64  \$21.78    |
| LO     | \$37.95  \$53.27    |
| WRLD   | \$73.90  \$107.98   |
| AIG    | \$36.90  \$53.33    |
| BRK.B  | \$98.58  \$119.30   |
| NSRGY  | \$63.38  \$77.85   |
| MDT    | \$44.04  \$60.93  |
| MSFT   | \$27.33  \$38.98  |
| AAP    | \$75.62  \$129.10 |
| WAG    | \$39.74  \$68.24  |
| ORCL   | \$29.86  \$38.83  |
| BDX    | \$86.61  \$115.95 |

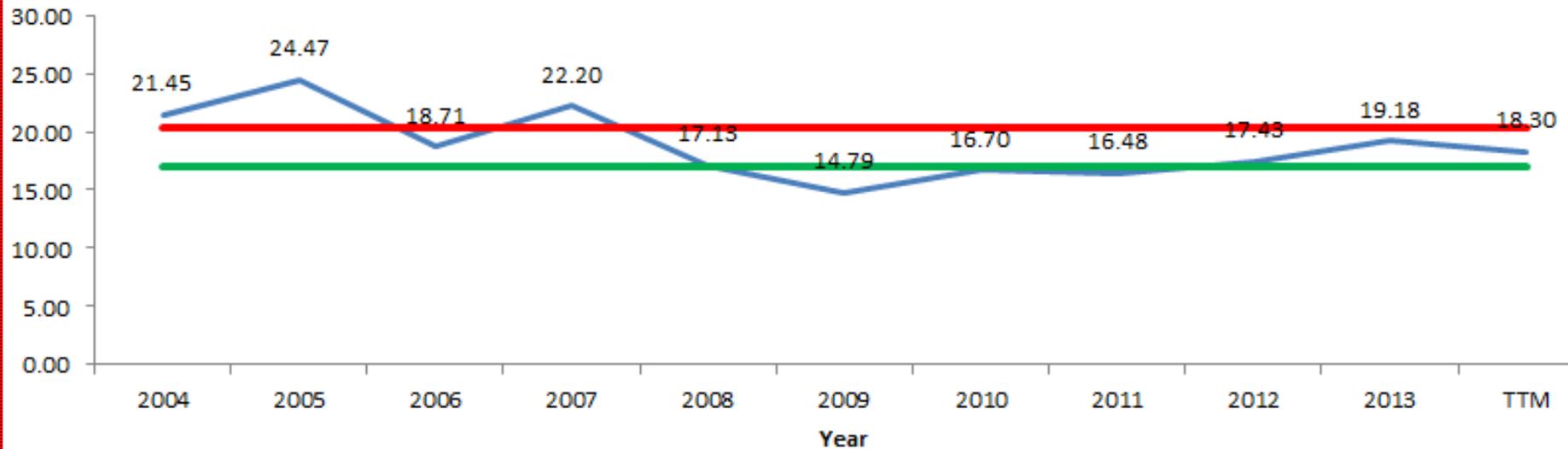


# Van Den Berg Ratios



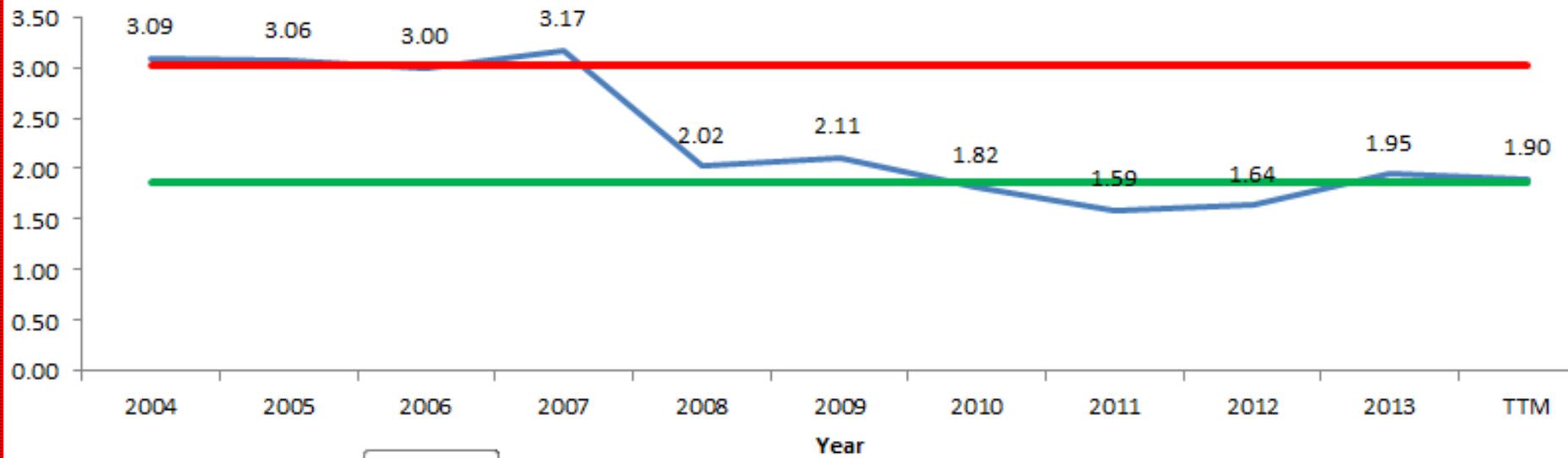
# Price/Earnings

P/E Ratio Valuation (10 year)



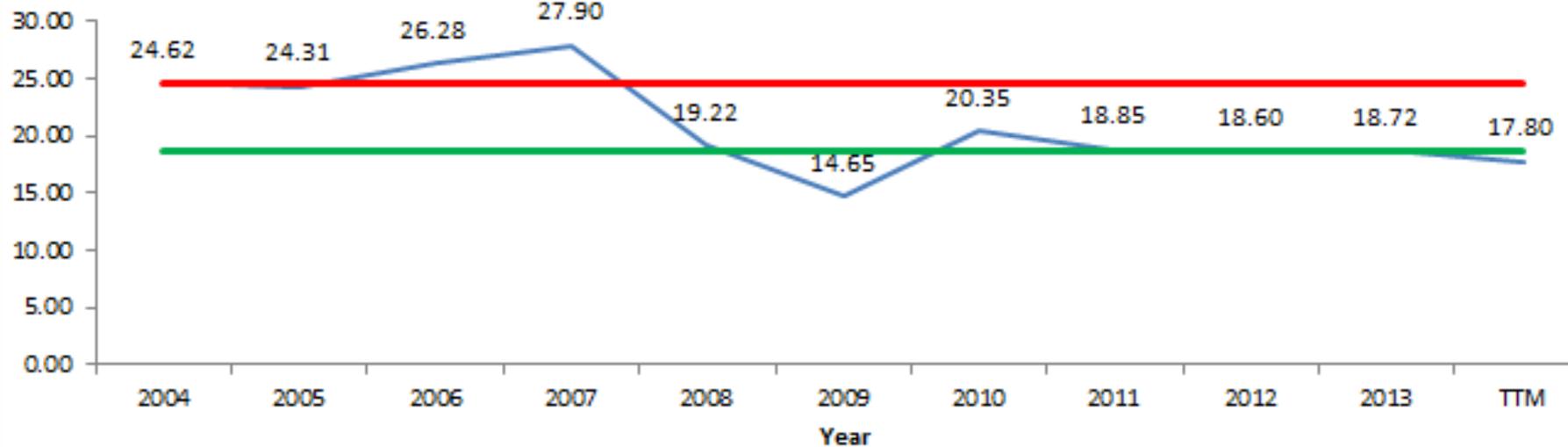
# Price/Sales

## Price/Sales Ratio Valuation (10 year)



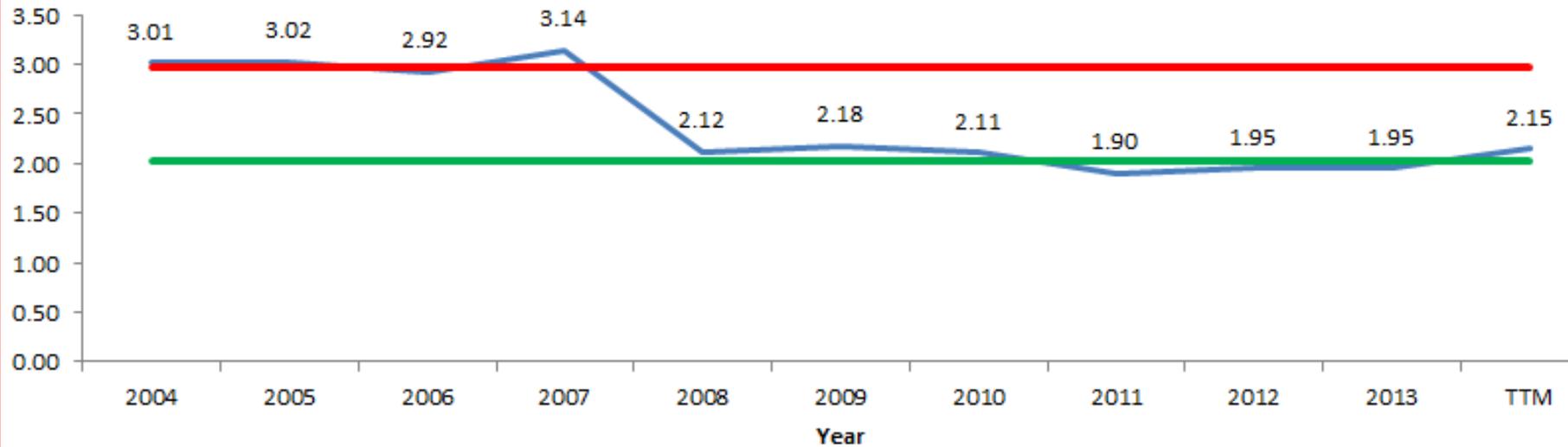
# Price/Free Cash Flow

Price/Free Cashflow Ratio Valuation (10 year)



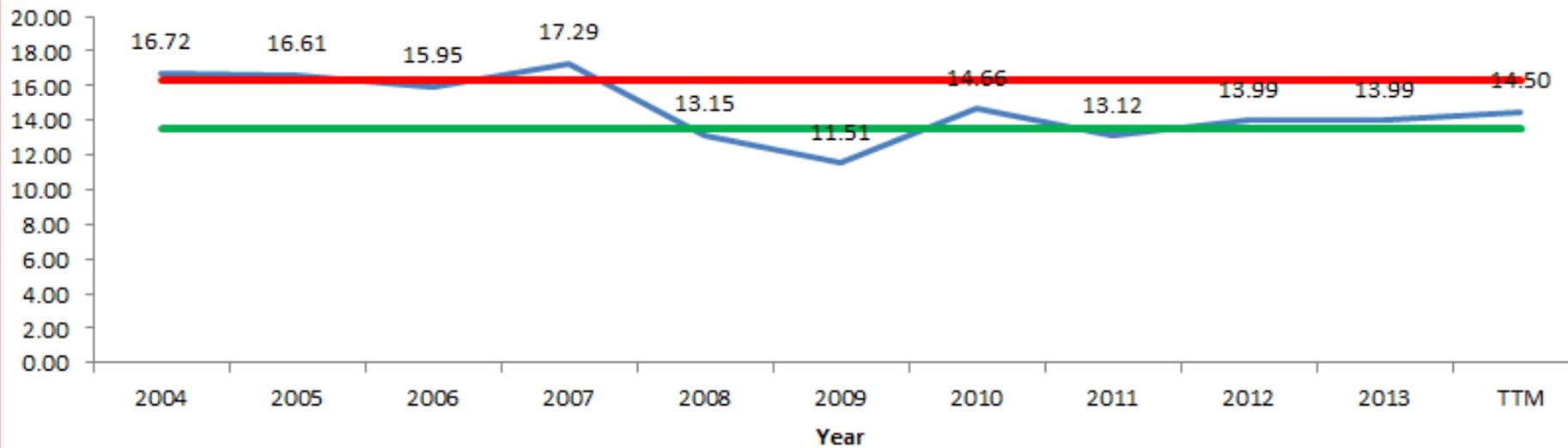
# EV/Revenue

EV/Revenue Ratio Valuation (10 year)



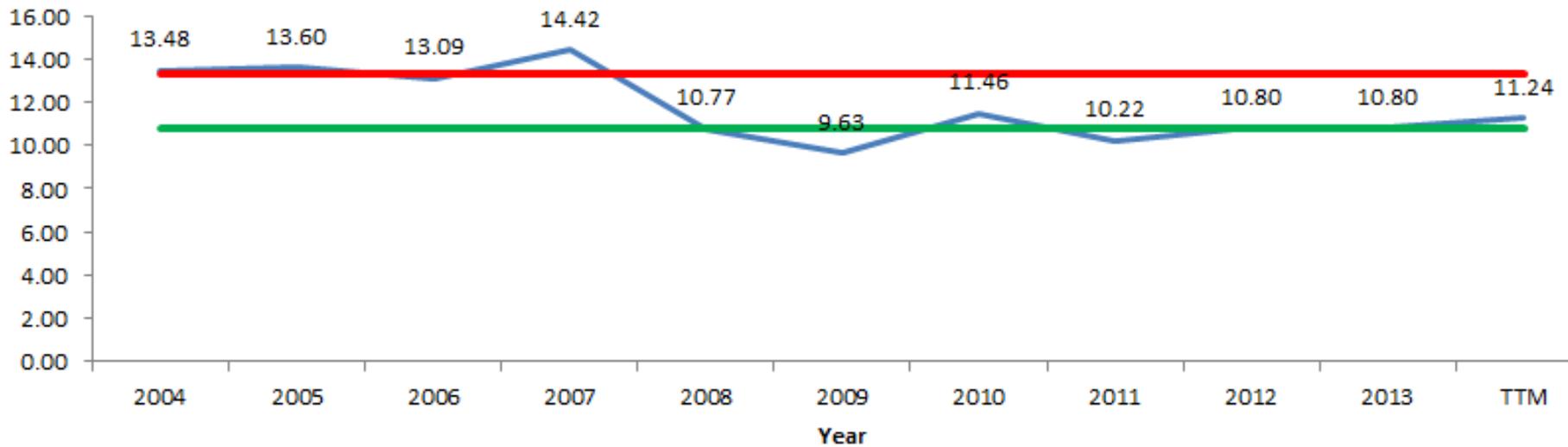
# EV/EBIT

EV/EBIT Ratio Valuation (10 year)



# EV/EBITDA

EV/EBITDA Ratio Valuation (10 year)



# Valuation Recap

|                          | 2003  | 2004  | 2005  | 2006  | 2007  | 2008  | 2009  | 2010  | 2011  | 2012  | 2013  | TTM   |
|--------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Price/Earnings           | 22.64 | 21.45 | 24.47 | 18.71 | 22.20 | 17.13 | 14.79 | 16.70 | 16.48 | 17.43 | 19.18 | 18.30 |
| Shiller Price/Earnings   | 27.70 | 27.61 | 28.25 | 25.90 | 27.28 | 18.64 | 18.21 | 18.27 | 17.12 | 17.27 | 20.15 | 19.20 |
| Price/Free Cashflow      | 27.10 | 24.62 | 24.31 | 26.28 | 27.90 | 19.22 | 14.65 | 20.35 | 18.85 | 18.60 | 18.72 | 17.80 |
| Price/Sales              | 2.99  | 3.09  | 3.06  | 3.00  | 3.17  | 2.02  | 2.11  | 1.82  | 1.59  | 1.64  | 1.95  | 1.90  |
| Enterprise Value/Revenue | 2.98  | 3.01  | 3.02  | 2.92  | 3.14  | 2.12  | 2.18  | 2.11  | 1.90  | 1.95  | --    | 2.15  |
| Enterprise Value/EBITDA  | 13.59 | 13.48 | 13.60 | 13.09 | 14.42 | 10.77 | 9.63  | 11.46 | 10.22 | 10.80 | --    | 11.24 |
| Enterprise Value/EBIT    | 17.12 | 16.72 | 16.61 | 15.95 | 17.29 | 13.15 | 11.51 | 14.66 | 13.12 | 13.99 | --    | 14.50 |

| TTM   | Average | High  | Low   |
|-------|---------|-------|-------|
| 18.30 | 19.12   | 24.47 | 14.79 |
| 19.20 | 22.13   | 28.25 | 17.12 |
| 17.80 | 21.53   | 27.90 | 14.65 |
| 1.90  | 2.36    | 3.17  | 1.59  |
| 2.15  | 2.50    | 3.14  | 1.90  |
| 11.24 | 12.03   | 14.42 | 9.63  |
| 14.50 | 14.97   | 17.29 | 11.51 |



# Conclusion

- Significantly undervalued
- Industry leader in both snacks and beverages
- Care about shareholder wealth
  - Continuously buying back shares
  - 42 straight years of increasing dividends
- Great financials



# Decision

- Write a put option contract at \$80 per share
  - With an April 19 expiration date and a \$1.78 premium



# Questions?

