

Initiating Coverage:

PepsiCo, Inc. (\$PEP)

An Acquisition That Is Sure to Draw Some Pep from Its Investors

Key Takeaway: A “portfolio transformation” is underway for Pepsi as they try to address consumers’ desire for healthier food and beverage options. The company has begun to invest in in-house innovation of products that are low in sodium, low in saturated fats, and high in protein. As American consumers have begun to emphasize all things protein, sugar-free, and healthy, the shift to a focus on healthier products should help boost Pepsi’s slumping Frito-Lay North American revenue, which fell by 1% last quarter. Recent acquisitions of Sabra, a leading hummus brand, and Siete, a healthy alternative to traditional tortilla chips, are where the company has begun to address these shortfalls.

Acquisition of Poppi: In May of 2025, PepsiCo completed its acquisition of Poppi, a prebiotic soda brand, for \$1.95 billion dollars. Poppi has become a popular alternative to traditional soda, with a consumer-base largely focused around teenagers and young adults who are primarily female, largely in-part to influencers and TikTok which have helped launch the soda into success. The move is intended to stave off attempts from outside health fads to steal market share in the health drinks department. Between Gatorade, Pepsi Zero Sugar, and now Poppi, the company should be well positioned among all consumer groups to provide healthy alternatives to their traditional brand products.

International Success: In PepsiCo’s 2025 Q1 earnings, the company highlighted its international revenue as a key driver for the company’s overall performance. The international revenue growth of 5% YOY marks a success for the recent global expansion goals that the company put forth. International beverage revenue grew 11% YOY, marking a breakthrough into most international markets, especially in Europe, India, and Brazil. International revenue is not only a key growth driver for the company, but has also become a key profit driver for them. Pepsi plans to continue their investment into international markets, with a focus on addressing flavor and texture combinations that fit local preferences, like adding hot pot flavored Lay’s chips to their Asian markets.

Film to Reignite Cola Wars: A new film about the 1980’s battle for cola supremacy between Coca-Cola and Pepsi is in development, with highly respected director Steven Spielberg behind the production. Films set on corporate beginnings have succeeded in recent years, and this film will likely be no different. For example, following the movie *Air*, renewed interest in the Jordan Brand led to increased sales for those shoes and a 17% YOY revenue growth for the overall Nike brand. The film will be an opportune time to garner media attention and spark debate among passionate cola fans. The film should spark attention in the media and we think it will be a strong boost to North American beverage revenue.

Valuation: We initiate coverage with a \$152 PT.



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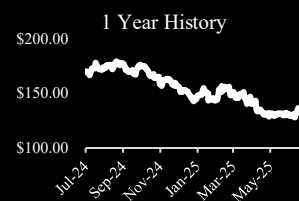
Stock Rating: Overweight

Price Target: \$152

Price: \$129.07

Potential Upside/Downside: 17.84%

Ticker: \$PEP



Consumer Coverage Group

Analyst
Carson Vidra
University of Kentucky
cavi231@uky.edu

Company Overview

Company Description: PepsiCo Inc. is a global leader in the food and beverage industry, with a large portfolio of brands. PepsiCo is most commonly known for its popular products such as Pepsi, Gatorade, and Aquafina in the beverage space, and Frito-Lay in the food space. The Frito-Lay brand covers numerous popular brands in the snack space such as Cheetos, Doritos, and traditional Lays chips. The company is organized into 7 segments, including 4 that cover international areas. The company has begun moving into Latin America, Europe, Africa and Asia, and New Zealand and Australia. PepsiCo is already highly diversified across all PepsiCo is already highly diversified across all the food and beverage industry, but now is now is turning its attention to continued international expansion and diversification across health food and beverages.

Diversification into Health Food and Beverage: Consumer demand has shifted towards healthier products that including clean labels and recognizable ingredients, all while being convenient for consumers to purchase. One initiative that the company has put forward is the pep+ campaign, which has started to address their needs for a healthier food system. The company has recently acquired Sabra and Poppi, two leading companies in the health food and beverage spaces. Alongside these recent acquisitions, PepsiCo has also sought to reduce its sodium, saturated fats, and added sugars in their current brand lines by the end of 2025. To achieve these goals, PepsiCo has invested heavily in research for a science-based set of guidelines to help transform their products to reach their healthier initiatives. Between their new health guidelines and their continued portfolio transformation, PepsiCo should be well positioned for the changing consumer demand.

Industry Overview

RFK's Ban on Food Dyes: Current United States Secretary of Health and Human Services Robert F. Kennedy Jr. recently announced plans to remove certain artificial dyes from food and drugs across the US food and drug industry. The ban will target petroleum-based synthetic dyes with the removal targeted for the end of 2026. Companies will have to find alternative, healthier sources of ingredients, without sacrificing their classic taste that brings the product its success. Recognizing the impact that these new regulations will have on a large food and beverage conglomerate like PepsiCo, the 40% of products they sell that contain those dyes will mostly phase out by the end of 2025, well before the 2026 deadline.

Tariffs and Prices: As an international company, the tariffs threatened by the United States government pose a great threat against the international growth that the company has experienced in recent years. As of July 2025, deals with the European Union, Brazil, and India, the 3 biggest international markets for PepsiCo, all are without a trade agreement with the United States. If no trade deal is reached, and President Trump enforces his original tariffs, inflation could arise in both international and U.S. markets. Inflation tightens consumer's budgets, usually leading to less spending on snacks and drinks that cost extra. The company has sought to continue to fight inflation by making their products more affordable, adding more promotional products, and adding value to their brand by putting more product per container. In recent years, PepsiCo's sales have hurt as a result of inflation, but with their recent strategic decisions around price changes, the company should be in better shape if inflation arises again.

Deportations Threaten Food Supply Chain: President Trump's recent crackdown on immigration is starting to have negative effects on the food production supply chain in the US. Multiple farms and processing plants have been raided, resulting in labor shortages and the possibility of higher labor costs. PepsiCo and other food and beverage companies rely on their farms to supply a lot of basic crops like corn, fruits, and other vegetables that are necessary for the food industry. About 2/3 of U.S crop farmworkers are foreign, and 42% of those are not

legally authorized to work in the country. Food officials say that labor shortages will ultimately result in higher costs to consumers, especially if these deportations last into the future.

Peer Comparisons

Comparable Companies					
\$mm					
Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM
The Coca-Cola Company	\$299,017	\$336,753	22.96x	\$46,890	\$15,388
Keurig Dr Pepper Inc.	\$44,875	\$62,904	16.10x	\$15,518	\$4,167
Mondelez International, Inc.	\$87,724	\$106,356	21.65x	\$36,464	\$5,634
The Kraft Heinz Company	\$30,524	\$49,485	9.92x	\$25,434	\$6,369
PepsiCo.Inc	\$175,800	\$215,876	16.08x	\$91,523	\$17,303

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	1 Yr Rev Growth Rate LF
The Coca-Cola Company	21.9x	61.1%	32.8%	30.5%	1.8%
Keurig Dr Pepper Inc.	15.1x	55.3%	26.9%	22.2%	4.0%
Mondelez International, Inc.	18.9x	32.7%	15.5%	11.9%	0.9%
The Kraft Heinz Company	7.8x	34.6%	25.0%	21.3%	(4.3%)
PepsiCo.Inc	12.5x	55.1%	18.9%	15.6%	(0.4%)

High	21.88x	61.1%	32.8%	30.5%	4.0%
75th Percentile	18.88x	55.3%	26.9%	22.2%	1.8%
Average	15.22x	47.8%	23.8%	20.3%	0.4%
Median	15.10x	55.1%	25.0%	21.3%	0.9%
25th Percentile	12.48x	34.6%	18.9%	15.6%	-0.4%
Low	7.77x	32.7%	15.5%	11.9%	-4.3%

PepsiCo Valuation	
Implied Enterprise Value (25th Percentile)	\$ 215,876
Implied Enterprise Value (Median)	\$ 261,201
Implied Enterprise Value (75th Percentile)	\$ 326,637
Implied Share Price (25th Percentile)	\$ 128.32
Implied Share Price (Median)	\$ 161.38
Implied Share Price (75th Percentile)	\$ 209.11

Source: Capital IQ

Investment Theses

Something for Everyone: With recent portfolio acquisitions that addressed lack of health-conscious food and beverages, PepsiCo now seems well positioned among every consumer base across the globe. The diverse portfolio that PepsiCo has contains over 23 brands that generate at least \$1 billion in annual revenue on their own, allowing the company to generate revenue of around \$92 billion. PepsiCo is equipped to handle any macroeconomic situation as well as any change in consumer preferences, which are rapidly changing through social media and more. The company is able to serve a wide variety of consumers, with heavy market share in sports drinks, soda, and their largest market share in snacks through the Frito-Lay brand. Although the company

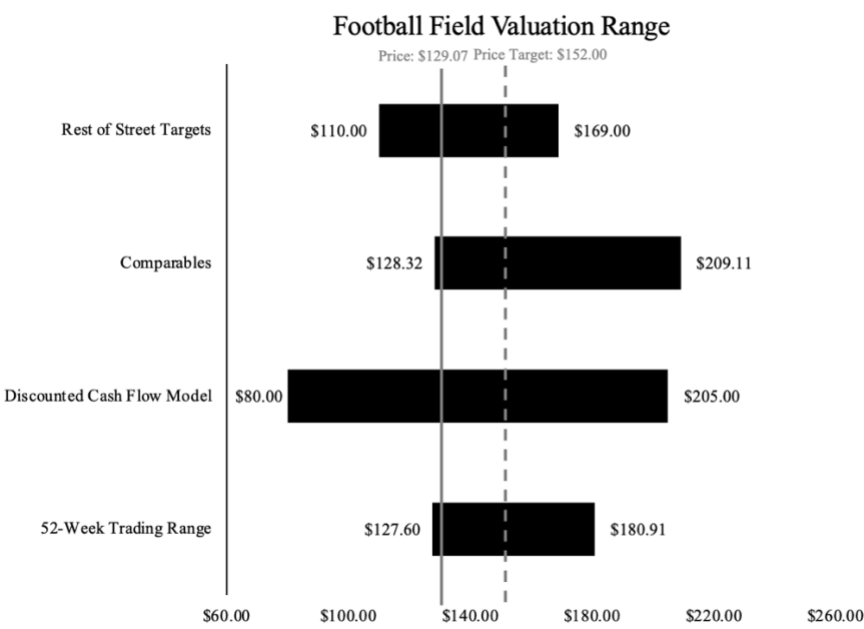
is already heavily diversified, they are constantly looking for ways to better serve consumers and are always at the forefront of food and beverage innovation.

International Growth: The company's international growth, particularly in Europe, Russia, India, and Brazil, has already led to increased profitability in those areas, and is showing no signs of slowing down anytime soon. With 44% of revenue already being brought in from countries outside of the United States, that number is likely to grow as PepsiCo continues to invest in international markets. Management believes that opportunities for growth remain present, especially in the global beverages and convenience food markets, which represent a \$1.3 trillion global opportunity.

Sustainability Initiatives: In recent years, PepsiCo announced pep+, their vision to transform their business into a more sustainable, people-centric future. Since the program's release, they have seen lower use of plastic and emissions, while also reaching water-efficiency goals. Pep+ aligns with the increasing demand from consumers and investors for companies to establish environmental and social initiatives. In 2024, research indicates that ESG and sustainability-focused funds have over \$6.5 trillion in assets under management. The goals of this program should not only help with their brand image and loyalty but should also appeal to consumers and investors that are eco-conscious.

Price Target & Valuation

Our analysis gives (\$PEP) a price target of \$152.00 and an overweight rating.



Potential Downsides to Our Rating

Continued Slow US Sales: The recent years have seen struggling North American sales for the company, particularly in their Frito-Lay brand, with a decline from 2023-2024. The company struggled to combat lack of consumer demand mainly caused by inflation, and if inflation or economic pressures continues to worsen, Frito-Lay may struggle to contribute significantly to PepsiCo’s revenue.

Geopolitical Issues Stunt International Growth: Trade tensions between the U.S and the rest of the world may pose issues for further international growth. Although PepsiCo is not terribly positioned for tariffs, tensions between the U.S and other countries could harm the brand image of PepsiCo as an American brand and also could lead to poor expansion and integration into both current and new international markets. If the company is not able to continue its recent international sales growth, then the stock could face downside risk.

Taxes on Unhealthy Foods: Certain jurisdictions in PepsiCo’s markets have either proposed or already imposed new taxes on food and beverage products based on the ingredients that they contain. Foods and beverages with added sugar, saturated fats, and sodium over a certain threshold may be open to an additional tax. The tax may either increase the cost of the products or reduce profit margins, which would be difficult for the business to overcome.

Our Price Target: \$152.00

Our PT is based on the assumption that PepsiCo’s international growth continues to rise and help lead to higher revenue and margins. This also assumes that the integration of new health-food brands is smooth and delivers increased food revenue for the company.

Our Upside Case: \$205.00

Our upside case is based on the assumption that PepsiCo’s investments into health foods and beverages leads to increased market share in an unfamiliar space. That, along with increased national and international success, would combine to the price target in our upside case.

Our Downside Case: \$80.00

Our downside case is based on the assumption that sales in North America fall worse, inflation kills consumer demand for non-essential food and drinks. It also assumes that international growth falls flat quickly, and the brand fails to establish a large presence in other countries

DCF Case Values



Projections

Income Statement (\$mm)	2024A	2025E	2026E	2027E	2028E	CAGR%
Revenue	91,854	92,900	95,895	98,686	101,244	3.3%
EBITDA	17,996	18,219	18,508	19,157	19,768	3.2%
EBIT	14,380	14,530	14,864	15,420	15,946	3.5%
NOPAT	9,037	9,716	10,583	11,749	12,060	10.1%
Margin & Growth Data	2024A	2025E	2026E	2027E	2028E	AVG%
EBITDA Margin	19.6%	19.6%	19.3%	19.4%	19.5%	19.5%
EBIT Margin	15.7%	15.6%	15.5%	15.6%	15.8%	15.6%
Revenue Growth	0.4%	1.1%	3.2%	2.9%	2.6%	2.1%
EBIT Growth	2.6%	1.0%	2.3%	3.7%	3.4%	2.6%
Valuation Metrics	2024A	2025E	2026E	2027E	2028E	AVG%
P/FCF	18.0x	16.4x	16.7x	15.9x	15.2x	16.4x
EV/Sales	2.4x	2.4x	2.3x	2.2x	2.2x	2.3x
EV/EBITDA	12.2x	12.1x	11.9x	11.5x	11.1x	11.7x
FCF Yield	5.6%	6.1%	6.0%	6.3%	6.6%	6.1%

About \$PEP

PepsiCo (\$PEP), founded in 1919 operates as a leading global beverage and convenient food company. PepsiCo makes, markets, distributes and sells a wide variety of beverages and convenient foods, serving customers and consumers in more than 200 countries. PepsiCo operates a complimentary portfolio of companies that makes them involved with almost every segment within food and beverage. PepsiCo's goal is to be the global leader in beverages and convenient foods while putting sustainability and human capital at the center.

Disclosures & Ratings

Consortium Equity Research does not hold any professional relationships with any reported equities.

Overweight means the analyst team believes the stock price will outperform the coverage industry benchmark (TMT, Healthcare, Industrial, Consumer, FIG, Energy & Sustainability) in the next 6-12 months. **Equal Weight** means the team expects performance in line with the industry benchmark. **Underweight** means the team expects underperformance relative to the industry benchmark.

Appendix

DCF Analysis (\$mm)												
	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	
	12/31/2020	12/31/2021	12/31/2022	12/31/2023	12/31/2024	12/31/2025	12/31/2026	12/31/2027	12/30/2028	12/30/2029	12/31/2030	
Stub						0.49	1.49	2.49	3.49	4.49	5.49	
Discount Period						1.00	1.01	2.01	3.01	4.01	5.01	
Revenue	70,372	79,474	86,392	91,471	91,854	92,900	95,895	98,686	101,244	103,543	105,558	
Revenue Growth	0%	13%	9%	6%	0%	1%	3%	3%	3%	2%	2%	
Bev North America	22,559	25,276	26,213	27,626	27,769	28,100	28,803	29,451	30,040	30,565	31,024	
Frito-Lay NA	18,189	19,608	23,291	24,914	24,755	24,950	25,449	25,926	26,380	26,809	27,211	
International	29,624	34,590	36,888	38,931	39,330	39,850	41,643	43,309	44,825	46,170	47,324	
EBIT	10,931	11,858	12,310	14,011	14,380	14,530	14,864	15,420	15,946	16,438	16,889	
EBIT Margin	16%	15%	14%	15%	16%	16%	16%	16%	16%	16%	15%	
Tax Expense	1,894	2,142	1,727	2,262	2,320	2,368	2,453	2,606	2,759	2,909	3,057	
Effective Tax Rate	17%	18%	14%	16%	16%	16%	17%	17%	17%	18%	18%	
NOPAT	9,037.00	9,716.00	10,583.00	11,749.00	12,060.00	12,162.00	12,411.18	12,813.72	13,187.32	13,528.07	13,832.35	
D&A	2,874	3,080	3,157	3,359	3,616	3,689	3,644	3,738	3,822	3,896	3,958	
Capex	4,240	4,625	5,207	5,518	5,318	5,307	5,754	5,859	5,948	6,018	6,070	
Changes in NWC	(490)	11	(1,026)	(937)	382	(439)	(479)	(617)	(759)	(906)	(1,056)	
UFCF	8,161	8,160	9,559	10,527	9,976	10,983	10,781	11,309	11,821	12,311	12,777	
PV of FCF						10,358	10,164	10,055	9,912	9,737	9,530	
Terminal Value					Terminal Value		Weighted Average Cost of Capital (\$mm)					
Perpetuity Growth Method					Exit Multiple Method							
2034 FCF					\$12,777		\$16,889		Market Risk Premium			4.33%
Growth					1.50%		19.0x		Beta			0.46
Terminal Value					\$282,057		\$320,897		Risk Free Rate			4.39%
PV of Terminal Value					\$210,388		\$239,359		Cost of Equity			5.03%
PV of Projection Period					\$59,757		\$59,757		Weighted Average Cost of Debt			5.63%
PV of Terminal Value					\$210,388		\$239,359		Tax Rate			16.50%
Implied TEV					\$270,145		\$299,116		Cost of Debt			1.00%
(-) Debt					\$48,518		\$48,518		Total Equity			\$179,666
(+) Cash		\$8,582		\$8,582		Total Debt			\$39,936			
Implied Equity Value		\$230,209		\$259,180		Equity/Total Capitalization			78.74%			
Basic Shares Outstanding		1371		1,371		Debt/Total Capitalization			21.26%			
Implied Share Price		\$167.90		\$189.03		WACC			6.03%			
Upside/Downside		28.13%		44.3%								
Implied Exit BF EV/EBIT		16.0x		Implied PGR		0.7%						
Blended Share Price												
Perpetuity Growth Method					0%							
Exit Multiple Method					100%							
Blended Share Price					\$189.03							
Upside/Downside					16.30%							