

SUPPLEMENTARY REPORT

Organization	PEPSICO, INC.
Public Release Date	JULY 10, 2015

CONFIDENTIAL
PREMIUM RECOMMENDATIONS

Reiterate: Hold

PepsiCo, Inc.

PepsiCo (NYSE: PEP) reported fairly good operating results for the second quarter of 2015. Though actual net sales of \$15.9 billion were short of our estimate of \$16.25 billion, share net came in at \$1.33, which was three cents better than what we had expected. In the prior-year period, the snack and beverage company earned \$1.29 a share, on net sales

of \$16.9 billion. Excluding the negative impact of foreign currency exchange and special items, sales gained 5.1%, year over year, and share earnings increased 11.0%. The Russian ruble, Venezuelan bolivar, and Mexican peso were all a notable drag on results due to economic issues and the strong U.S. dollar. Also, PepsiCo continues to deal with shifting consumer preferences favoring “healthier” drinks and snacks with less sugar and salt. Price hikes, supported by new package configurations, and “natural” product rollouts are helping to shore up top line growth.

Margins have improved, thanks to better global market execution, enhanced productivity initiatives, manufacturing automation, efficient materials sourcing, and staff reductions. For all of this year, we look for sales of \$64.15 billion and reported share earnings of \$4.55, compared to the respective 2014 results of \$66.7 billion and \$4.27. In 2016, the top line may well advance to \$66.5 billion and the bottom line to \$4.90.

Value Line Ranks & Projections

Timeliness	4
Safety	1
Recent Price	\$95.73
2018-2020 Price Forecast	\$130-\$160

Over the pull to 2018-2020, we expect PepsiCo to continue to generate mid-single-digit underlying sales growth and share-net gains in the high single-digits to low double-digits each year, on average. Cash flow should be sufficient to cover operating needs and debt obligations, while funding dividend hikes and share repurchases. The stock yields 3.1%, versus the *Value Line* median of 2.1%, and offers about 4% yearly dividend gains. At the recent share price, we rate the stock a Hold. (For the details on the company's direct share-purchase and dividend reinvestment plans, visit www.pepsico.com.)

FINANCIAL STATEMENTS

Quarterly Net Sales (in millions)

	Mar. Per	Jun. Per	Sep. Per	Dec. Per	Fully Yr.
2012	12,428	16,458	16,652	19,954	\$65,492
2013	12,581	16,807	16,909	20,118	\$66,415
2014	12,623	16,894	17,218	19,948	\$66,683
2015	12,217	15,923	16,500	19,510	\$64,150
2016	12,750	16,550	17,200	20,000	\$66,500

Quarterly EPS

	Mar. Per	Jun. Per	Sep. Per	Dec. Per	Fully Yr.
2012	0.71	0.94	1.21	1.06	\$3.92
2013	0.69	1.28	1.23	1.12	\$4.32
2014	0.79	1.29	1.32	0.87	\$4.27
2015	0.81	1.33	1.34	1.07	\$4.55
2016	0.88	1.42	1.45	1.15	\$4.90

Quarterly Dividends Paid

	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Fully Yr.
2011	0.96	0.515	0.515	—	\$1.99
2012	1.03	0.5375	0.5375	—	\$2.10
2013	1.075	0.5675	0.5675	—	\$2.21
2014	1.135	0.655	0.655	—	\$2.44
2015	1.31	0.703			



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