PepsiCo Inc PEP (XNAS)

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★★★	138.06 USD	140.00 USD	0.99	2.86	2.96	190.79	Beverages - Non-Alcoholic	Exemplary
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Morningstar Pillars

Morningstar Pillars	Analyst	Quantitative
Economic Moat	Wide	Wide
Valuation	★★★	Overvalued
Uncertainty	Low	Medium
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation

USA PEP

Undervalued | Fairly Valued | Overvalued

	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	1.08	1.01	0.84	0.83
Price/Earnings	27.3	24.9	19.6	20.1
Forward P/E	22.6	—	16.9	13.9
Price/Cash Flow	18.0	16.2	12.6	13.1
Price/Free Cash Flow	30.3	23.6	21.4	19.5
Trailing Dividend Yield%	2.86	2.85	2.28	2.35

Source: Morningstar

Bulls Say

- In still beverages, a category facing fewer secular challenges, particularly in the U.S., Pepsi is a much more formidable competitor to Coca-Cola.
- Pepsi's global dominance in salty snacks may be underappreciated; with volume share more than 10 times that of the next-largest competitor, the firm benefits from unparalleled unit economics and go-to-market optionality.
- The firm's consolidated beverage and snack distribution operations, combined with its direct store delivery capabilities, allow for better execution in merchandising.

Bears Say

- In most beverage categories globally, Pepsi is still a distant number two to Coke.
- A corollary of Pepsi's less focused product portfolio is inherently less operating leverage in its business model.
- There is no guarantee that management's recent manufacturing and system investments will spawn deeper brand equity longer term.

Business as Usual for Snacks, but Beverage Portfolio Surprises to the Upside in Pepsi's Q3

Business Strategy and Outlook

Nicholas Johnson, Eq. Analyst, 15 July 2020

For many consumers, the Pepsi trademark elicits images of cola containers and curated ads extolling the brand's taste superiority versus Coke. While PepsiCo is still a beverage behemoth, its exploits now extend beyond this industry, with Frito-Lay and Quaker products accounting for over half of sales and over 65% of profits, by our estimate. A diversified portfolio across snacks and beverages is the crux of many of the company's competitive advantages, in our view. Though management missteps have stymied performance in the past, we believe the confluence of better execution and benefits inherent to its integrated business model has Pepsi poised to reaccelerate profitable growth.

After years of sluggish sales growth and underinvestment, Pepsi has committed to reinvigorating its top line. To that end, significant investments have been made in manufacturing capacity (for example, production lines to meet demand for reformulated packaging), system capacity (route optimization and sales technology), and productivity (harmonization and automation). We view these investments as prudent and believe they will allow the company to strengthen key trademarks such as Mountain Dew and Gatorade while also yielding enough cost savings to reinvest and widen profits. Recent strategic pivots within the energy category should also underpin growth and margins.

Pepsi's growth trajectory is not without risk, as the company faces secular headwinds such as normative shifts in consumer behavior. Additionally, shifting go-to-market dynamics, such as online commerce that encourages real-time price comparisons and obviates the extent of Pepsi's retail distribution advantage, allow for more nimble and aggressive competition. Still, we believe that structural dynamics emanating from Pepsi's scale, the cachet of its brands, and the breadth of its portfolio, which support its wide moat, should enable the company to maintain and augment its competitive positioning.

Analyst Note

Nicholas Johnson, Eq. Analyst, 01 October 2020

With wide-moat PepsiCo's stock rallying in the days leading up to its third-quarter earnings print, it seemed like investors were becoming increasingly enamored by the prospects of: 1) continued growth in snacks, 2) recovery in beverages, and 3) moderating coronavirus-related costs. The firm delivered on almost all fronts, culminating in top- and bottom-line beats relative to CapIQ consensus. Management's full-year guidance (4% organic growth and core EPS of $5.50) was a smidge ahead of our expectations though not meaningful enough to alter our $140 fair value estimate, leaving the shares fully valued in our view.

Revenue came in at $18.1 billion, reflecting year-over-year growth of 5.3%. With the coronavirus increasing the frequency of various snacking occasions, the robust 6% organic growth in the snack and food portfolio came as no surprise, but the 3% increase in beverages was stronger than we anticipated, due to the confluence of strength in the off-trade and less precipitous declines in food service. We were particularly pleased with the North America beverage business (up 3% organically), and with commentary regarding improvement in the U.S. convenience channel. Better leveraging scale and portfolio scope to win more placements in this channel was a key rationale of the firm's recent moves in the energy category, namely the Rockstar acquisition and the Bang distribution agreement. As mobility improves, we expect stakeholders within this channel to become less focused on survival and more focused on growth, which should allow Pepsi more latitude to execute against its initiatives.

Core operating margin was resilient, down only 40 basis points to 16.8%. Margins this year have largely been a function of direct COVID-19 costs as well as other corollaries of the crisis and their impacts on strategic investments (like advertising). Profitability will likely be volatile in the near term, but we still see plenty of room for margin expansion longer term.

Economic Moat

Nicholas Johnson, Eq. Analyst, 05 June 2020

We believe several structural dynamics, centered on cost advantages and intangible assets, have solidified PepsiCo's competitive positioning and secured it a wide

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Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
Coca-Cola Co KO	USD	212,023	34,326	27.59	23.31
Keurig Dr Pepper Inc KDP	USD	39,528	11,281	20.57	34.25
General Mills Inc GIS	USD	38,221	17,988	17.58	16.72

economic moat. At a high level, we see characteristics of the snack and beverage categories where Pepsi competes, and its positioning within these categories, that should allow the company to continue to glean economic profits. While the firm's integrated business models across food and beverages have pros and cons, we think the combination of diversity, synergy, and flexibility that they facilitate will allow Pepsi to maintain its standing even as its core categories face secular headwinds.

Scale is usually the epicenter of the cost advantage moat source when it appears in the snack food and beverage spaces, and we believe both industries are conducive to scale efficiencies. The primary beverage and snack categories where Pepsi competes, carbonated soft drinks and salty snacks, are highly consolidated, with the top three players controlling anywhere from 40%-70% of global volume, according to GlobalData. Concurrently, the taste sensitivity of each player's core consumer is belied by the relative similarity across ingredient formulations. This means that even as market share vacillates at the margin, category leaders can typically maintain volume within a range that is suitable for cost leverage.

Pepsi enjoys leading production volume in many of its categories, which allows for favorable unit economics in manufacturing processes. The efficiency of the firm's beverage business is less pronounced relative to snacks, given the higher capital intensity; beverages have more-involved production lines because of the various infrastructure requirements, such as piping, tubing, and filters, in addition to less streamlined packaging. Still, we believe the cost structures of the company's two core operations compare favorably with those of most peers, due to Pepsi's ability to better leverage fixed costs and reduce variable costs through procurement advantages. In beverages, we see Pepsi's unit cases per manufacturing facility and cost of goods sold per unit case as evidence of the firm's top-tier capacity utilization and procurement, respectively. The firm materially trails Coca-Cola in these two metrics (by factors of 3 in both respects), owing to the latter's structurally lower-cost position in the supply chain (focusing primarily on beverage concentrates in lieu of finished drink manufacturing) as well as its more streamlined raw material procurement. Still, Pepsi is superior in these regards to established peers like Keurig Dr Pepper and other competitors. While a dearth of available data inhibits us from explicitly estimating similar metrics to elucidate Pepsi's relative positioning on the cost curve in the snack industry, we believe the firm is far better positioned than peers. With Pepsi's leading unit share, combined with the relative similarity across basic ingredient composition and manufacturing processes, we would be shocked if any snack competitor were able to achieve better productivity or procurement leverage than Pepsi.

The breadth of the firm's portfolio, spanning a variety of snacks and beverages, also begets synergies in distribution that support its cost advantage, in our view. Unlike Coca-Cola, Pepsi owns a large portion of its distribution apparatus, whether it be bottling plants and warehouses or delivery trucks. While the value/volume profile of certain snacks can make distribution less economically desirable, Pepsi is able to increase its distribution route density by filling trucks with both beverage and snack stock-keeping units, leading to economies of scope as the firm spreads distribution costs across a greater number of products. In some cases where large customers are ordering products that span the gamut of Pepsi's portfolio, the firm leverages third-party distributors to streamline this delivery, in light of the greater SKU complexity and dispersion of its various manufacturing facilities. We believe this also yields superior economics for Pepsi, and while the utilization of third-party distributors is replicable, our view is that the company's ability to do this comes from the breadth of its product portfolio and the accompanying volume, which make it worthwhile for these distributors to service Pepsi's customers on terms that are economically palatable to both sides. These are structural characteristics, and it would be difficult for upstarts to replicate similar pecuniary benefits, in our view.

Brand resonance is the most salient avenue through which the intangible assets moat source manifests itself in the consumer packaged goods space, and we believe Pepsi's categories boast characteristics that are conducive to brand development. These include relatively conspicuous consumption in various on-trade contexts and heightened taste sensitivity among a large cohort of consumers.

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Additionally, private-label penetration in many beverage and snack categories is relatively low--between low single digits and low double digits on a volume basis. These numbers are even lower on a value basis, given the price disparities of these SKUs vis-a-vis branded products.

Against this backdrop, we see Pepsi's stable of trademarks as among the most iconic and enduring in the world. The firm consistently appears in surveys highlighting the most favored brands among fast-moving CPG wares (with a strong CSD brand in Pepsi and a number-one sports drink in Gatorade, for example), and we believe the company's leadership across its categories evinces this sentiment. In beverages, the firm's global nonalcoholic ready-to-drink volume share of roughly 7% is only one third of Coke's, but is still almost double that of the next closest competitor (Nestle, due to its water portfolio), according to GlobalData. In global CSDs, Pepsi's market share of close to 20% is again less than half of Coca-Cola's, but close to 5 times that of the next-largest player (Keurig Dr Pepper). In snacks, Frito-Lay products boast pre-eminent status in corn/tortilla chips and other extruded snack categories, as well as potato chips, with volume share in the mid-30s and mid-40s respectively, according to GlobalData. The firm is number one in these snack categories by an even larger margin in the U.S.

While we view Pepsi's sustained elevated market share across industries as a core tenet supporting its intangible assets, we also believe the firm's pricing history represents demonstrably strong evidence. The dynamic and channel-specific nature of retail pricing, particularly exacerbated by the prevalence of behavioral algorithms in online commerce and the ability of consumers to compare prices in real time, makes general statements about relative pricing difficult. Still, we believe the firm has been a price leader in many of its categories. Pepsi has historically garnered outsize top-line gains from the combination of discrete pricing actions and mix shifts, in the mid- to high-single-digit range in some of its most penetrated markets in the Americas, which we find impressive. Even in beverages, where the firm's relative positioning is much weaker, there are a few markets--in Latin America, for example--where Pepsi boasts material price premiums (as high as 40%) above Coca-Cola.

A natural corollary of brand appeal is the supply chain entrenchment and relationships with retailers that it facilitates. The categories in which Pepsi competes constitute approximately a mid-30s proportion of total food and grocery sales in the U.S., based on GlobalData's retail tracking. Owing to its category leadership across snacks and beverages, Pepsi is often viewed as a strategic partner by retailers, helping to incubate strategies to increase overall category value. Pepsi and its retail customers also share data centered on consumer insights. We think that in an era where competitive differentiation is increasingly driven by technology-enabled analytics and algorithms, the data feedback loop that these retail relationships engender will serve to perpetuate Pepsi's advantage.

We view Pepsi's distribution apparatus as another core pillar supporting the firm's intangible asset moat source, whether it is company-controlled direct store delivery or customer warehouse systems (depending on the nature of the product and its responsiveness to in-store merchandising), or even its ability to deploy third-party distributors in an economically viable way. The firm's distribution reach encompasses over 200 countries, and this apparatus has been refined over decades, making the company more equipped to strategically and tactically deploy the appropriate go-to-market approach that will extract the best possible economics from its businesses. Unlike the alcoholic beverage industry, there are no laws mandating distribution to customers through an intermediary, which makes the nonalcoholic industry more susceptible to secular shifts in distribution and fulfilment. In general, and particularly for snack consumption situations where immediacy of need is low, digitization and the concomitant growth in the e-commerce channel have disrupted shopping paradigms, both in the ways CPG firms deliver their wares and the ways consumers make purchasing decisions. However, we see various normative trends that will ensure distribution prowess and retail relationships remain pertinent to competitive dynamics in both the snack and beverage spaces. Chief among these is consumers' penchant for social consumption, which makes on-premise food and beverage consumption a staple in many public communal settings. This type of social behavior is much less likely to be disrupted by e-commerce, in our view. Also, we believe there will be a plethora of scenarios, where purchases are impromptu and the immediacy of the need is high, that will continue to be conducive to physical purchases. We think the resiliency of convenience store and supermarket share of grocery purchases supports our views in this regard.

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There are mutually reinforcing dynamics at play in the firm's intangible assets, in our view. The breadth of its distribution network (which we believe is tied to the broad appeal of its brands) makes Pepsi a choice partner of smaller beverage and snack companies. In the realm of product development, the prospect of being able to scale distribution of the final product quickly and broadly makes other companies willing to embark on joint ventures with Pepsi. Such codevelopment and distribution initiatives can be seen in Pepsi's partnership with Starbucks for ready-to-drink coffee and its Lipton partnership with Unilever. Partnerships like this further diversify Pepsi's brand portfolio and increase the avenues through which the company can monetize its innovation. In addition to the synergistic relationship among intangible assets, these partnerships improve Pepsi's capacity utilization and distribution density, thus bolstering its cost advantage.

We believe intangible assets represent Pepsi's primary moat source, with cost advantages secondary, which is the converse of our view of wide-moat Coca-Cola. Though geographic and portfolio-related idiosyncrasies make generalities difficult to make for the two behemoths, we believe that, in the aggregate, the confluence of brand strength and retailer relationships is more important to Pepsi's economic rent generation. The premise for this argument lies in the two firms' relative marketing spending, with Pepsi spending appreciably less as a percentage of revenue (midsingle digits) than Coca-Cola (low double digits). Some may argue that Coke's more robust market share in beverages is evidence of a stronger intangible asset. However, we think a brand-predicated moat is not best reflected in popularity (for which market share is the best proxy), but in the ability to parlay popularity into profitability and excess returns on capital. We think Coke's relatively higher marketing spending reflects the firm's choice to leverage superior margins emanating from its scale efficiencies to reinforce its brands and maintain market share. While the absolute spending levels by the firms are similar, we believe Pepsi has been able to leverage the breadth of its portfolio across both snacks and beverages, and the inherent promotional synergies that accompany this breadth, to achieve a similar level of brand recognition and channel entrenchment as Coca-Cola, but to do so in a much more efficient way in terms of relative advertising dollars. Moreover, we see no demonstrable evidence that Coke's higher relative spending has been more productive. In our view, these realities lend credence to our contention that Pepsi's intangible assets have been a stronger contributor to its competitive advantage.

We believe the characteristics we have outlined are self-perpetuating and mutually reinforcing. These structural dynamics, in our view, are highly unlikely to be replicated by a new entrant in a way that fundamentally alters Pepsi's competitive positioning, and we believe the firm's edge is more likely than not to persist over the next 20 years. In conjunction with returns on invested capital (averaging in the high teens historically and over the course of our explicit forecast) well in excess of the firm's cost of capital, we believe these support a wide moat rating.

Fair Value & Profit Drivers

Nicholas Johnson, Eq. Analyst, 05 June 2020

Our $140 fair value estimate for PepsiCo did not change following third-quarter results. The firm's snack portfolio is allowing it to navigate COVID-19 better than peers, and near-term weakness in on-premises sales (impacting the beverage business disproportionately), as well as heightened supply chain costs, are moderating in certain markets, particularly Asia. 2020 will likely belie the volatile operating environment, with our forecast 4% organic growth in line with its typical growth algorithm, and its trajectory should remain supported by price/pack frameworks and investments in system capacity/efficiency.

Longer term, we envision snack foods, roughly 55% of revenue, growing faster than beverages and increasing as a proportion of the total mix. We see particularly auspicious results for the Frito-Lay brands, which have greater international brand equity than signature Pepsi beverages, with the latter afflicted by huge share disparities in most international markets relative to Coke. We also expect stellar growth from "better-for-you" snack brands like Bare and Smartfood.

From a division perspective, we forecast price/mix contributing the preponderance of revenue growth except in Asia and Africa, where we expect more unit growth as underpenetrated Asian markets where the firm is investing spur volume contributions. Latin America, a predominantly snack business where the firm boasts dominant share and per capita consumption of its products is high, should be particularly conducive to price/mix growth (roughly 6% on average in our projection). All in,

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we model a five-year top-line CAGR of 3.5%.

We model gross and operating margins widening to 55.9% and 17.5%, respectively, in 2024, versus 55.1% and 15.3% in 2019. Margins were hit in 2019 as Pepsi booked charges for severance and system implementation associated with its productivity initiatives, in addition to incremental strategic investments. We expect yet another nadir in 2020 due to coronavirus-induced costs. Still, we believe harmonization of systems and optimization of the supply chain and manufacturing apparatus will allow for margin expansion while reinvesting appropriately for growth. The margin improvements will be buttressed by continued growth in the U.S. ready-to-drink coffee market, which the firm is exposed to through equity income from its joint venture with Starbucks (via Nestle), as well as growing exploits in the high-margin energy category.

Risk & Uncertainty

Nicholas Johnson, Eq. Analyst, 05 June 2020

Various secular dynamics introduce risk to Pepsi's competitive positioning. One of the most salient, from our vantage point, is consumers' increasing penchant for more natural food and drinks. As much as Pepsi has pivoted its portfolio and its messaging, it still has to battle the stigma that accompanies processed food and drink companies. There are structural impediments to these dynamics in developing and emerging countries, but Pepsi is disproportionately exposed to markets like the U.S. where these sentiments seem unabated.

More stringent environmental regulation also represents a risk. For example, some states in the U.S. have bottle deposit return systems in place, which charge consumers deposits that are refundable, as an incentive mechanism to reduce waste. Many legislatures are seeking to place more of the financial burden for these types of policies on producers like Pepsi. To the extent that more cumbersome laws and proposals come to fruition, there could be a nontrivial impact on the firm's business model.

Finally, the increasingly viral nature of the media, along with the democratization of information and amplification of opinions that this begets, create a secular risk in the form of potential brand degradation that is quite acute for most corporations, in our view. We believe these risks become near existential for the most consumer-oriented firms that rely on brand resonance most heavily. Anything that is not consistent with the political or social zeitgeist, which can manifest in anything from a marketing campaign to supply chain governance, gives rise to the possibility that a company's business model will be disrupted. While the diversity of Pepsi's portfolio and the vast resources at its disposal should help the firm navigate these risks, we do not think any entity is completely immune to them.

Stewardship

Nicholas Johnson, Eq. Analyst, 05 June 2020

We rate the stewardship of shareholder capital at PepsiCo as Exemplary. The company's stewardship is not beyond reproach; particularly over the past few years, there have been instances of mismanagement and injudicious capital allocation, in our view. However, we don't believe these hiccups supplant a multidecade history of stellar portfolio expansion and shareholder returns, and we see recent strategic initiatives as particularly supportive of an Exemplary rating.

Since merging with Frito-Lay in 1965, PepsiCo has demonstrated a proclivity for expanding its portfolio in ways that allow it to ride various secular tailwinds, illustrated by its purchases of Tropicana and Naked Juice, for example. Even its Quaker Foods acquisition, whose significance has waned as the business has been beleaguered by category headwinds in cereals and robust competition, allowed the company to attain control of Gatorade. Gatorade remains the number-one sports drink globally, with particularly strong performance recently, and competes in a favorable category.

Former CEO Indra Nooyi was well regarded--appropriately so, in our opinion--for her ability to read the consumer ethos and pivot the company's portfolio accordingly. However, there were a series of execution missteps and underinvestment, particularly in the beverage business, that stymied momentum, in our view. Nooyi stepped down after 12 years at the helm in October 2018 and was replaced by Ramon Laguarta. A Pepsi veteran, having been with the company for over two decades, Laguarta has been key to a number of strategic initiatives particularly in the European business. For example, he was instrumental in the acquisition of Russian dairy and juice company Wimm-Bill-Dann. This strategic move significantly augmented the company's financial position in Russia, which has grown to become Pepsi's third most important market behind the U.S. and Mexico.

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We believe Laguarta and his team have thus far been prudent in their approach to portfolio expansion, paying premiums for businesses with torrid growth prospects and secular tailwinds, such as SodaStream, while picking up bargains that allow for footprint expansion in areas where the company is underpenetrated, such as Pioneer Foods. We have a particularly favorable view of SodaStream, a maker and distributor of sparkling water machines. It dovetails well with the consumer zeitgeist, in our opinion, as consumers look for consumption mechanisms with reduced packaging footprints, as well as more choice and customizability. In 2020, the firm reinvigorated its strategy for energy drinks, a high-growth and inherently profitable category that skews to favorable channels like convenience. Specifically, it consummated its acquisition of Rockstar Energy, a longtime partner brand that was distributed through Pepsi's system, and also entered into an exclusive distribution agreement with Bang, a disruptive energy player that has rapidly gained market share in recent years. These two deals, in conjunction with more leeway to parlay Mountain Dew into the energy category (the previous Rockstar agreement was more restrictive on this front), should allow Pepsi to migrate from the energy periphery and compete more aggressively.

Pepsi has also been robust on the capital return front, with over a decade of dividend increases and share buybacks of $2 billion-$5 billion over the past five years. We expect dividend increases to continue to the tune of 6% on average over the course of our explicit forecast and envision the firm buying back roughly $2 billion worth of stock annually, which should be particularly accretive when executed at prices below our estimates of intrinsic value. Finally, we do not foresee any egregious issues on the governance front. The company has a robust corporate governance apparatus, with a slew of committees dedicated to all salient operational and stewardship-related matters.

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Analyst Notes Archive

Snack Business Well Suited for Pandemic Environment, Allowing Pepsi to Focus on Strategic Priorities

Nicholas Johnson, Eq. Analyst, 28 April 2020

Heading into wide-moat PepsiCo's first-quarter earnings print, with its geographic mix somewhere in the middle of the spectrum relative to Coke and Keurig Dr Pepper, it was unclear how much of a bellwether these peers' results would be. As such, we think investors were keenly focused on: 1) the resilience of the business in the quarter and 2) whether this performance was sustainable throughout the COVID-19 onslaught. Management commentary turned out to be mixed, with stellar results (top- and bottom-line beats relative to CapIQ consensus) juxtaposed with a retraction of full-year guidance and an expectation for a low-single-digit decline in second-quarter organic sales. As we update our near-term outlook, we do not plan to change our $140 fair value estimate and see shares as fairly valued.

Revenue came in at $13.9 billion, an increase of 7.7% (almost entirely organic) from the year-ago period, reflecting strength across developed and developing markets. As sheltering in place has become the order of the day in many of the firm's territories, its snack portfolio (roughly 55% of sales) has been more immune to closures and cuts in discretionary spending. Different production processes and business models make snacks more profitable for Pepsi, which should bode well for margins in the current environment. However, any margin uplift should be offset by heightened costs for labor and logistics across the supply chain, which left margins roughly flat at 15.5% during the quarter.

As a sign of confidence in the business' prospects even amid economic turbulence, management reiterated shareholder return plans, which entail $5.5 billion in dividends and $2 billion in share repurchases. Still, while we suspect a large portion of first-quarter buybacks ($573 million) were executed after the sharp sell-off in the stock, we look askance at the firm's commitment to a fixed level of repurchases irrespective of valuation.

Pepsi's Snack Business Allowing It to Adroitly Navigate Uncertain Marketplace; Shares Fully Valued

Nicholas Johnson, Eq. Analyst, 13 July 2020

With the second quarter widely expected to be the ugliest for most beverage companies, we think investors had relatively facile expectations heading into wide-moat PepsiCo's earnings print and were primarily looking to gauge how the resilience of the snacking business (55% of sales) would offset weakness in soft drinks. The results were comforting in this regard (top- and bottom-line beats relative to CapIQ consensus), and management alluded to a sequential recovery from COVID-19 disruption during the third quarter. We plan to tweak our near-term estimates modestly, but our $140 fair value estimate will not change, and the shares look fully valued to us. Sentiment around wide-moat Coca-Cola's stock has been less constructive due to its pure-play beverage exposure, but despite a more precarious near-term outlook, we still see a more compelling long-term risk/reward opportunity in Big Red's shares.

Sales came in at $15.9 billion for the quarter, a 3% year-over-year decline. Organic revenue, however, was roughly flat, an impressive feat reflecting a booming snack business (up 5% globally with brands like Tostitos and Cheetos growing double-digits) juxtaposed against weak beverage performance (down 7%, with on-premises restrictions more than offsetting strong traditional retail sales). Headline Latin America revenue (a 17% decline) reflected currency headwinds and belied the region's relatively healthy organic sales (which were flat). A predominantly snack food business, Pepsi's Latin American operations are well suited for this environment due to less on-premises exposure and more containment-induced consumption occasions (whether for breakfast, snacking, dinner, or the like). Nevertheless, we'll keep a close eye on how this business holds up, given the socioeconomic realities of the region (which have been exacerbated by COVID-19) and fundamentally different go-to-market dynamics.

Business as Usual for Snacks, but Beverage Portfolio Surprises to the Upside in Pepsi's Q3

Nicholas Johnson, Eq. Analyst, 01 October 2020

With wide-moat PepsiCo's stock rallying in the days leading up to its third-quarter earnings print, it seemed like investors were becoming increasingly enamored by the prospects of: 1) continued growth in snacks, 2) recovery in beverages, and 3) moderating coronavirus-related costs. The firm delivered on almost all fronts, culminating in top- and bottom-line beats relative to CapIQ consensus.

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02 Oct 2020 21:46, UTC	02 Oct 2020	15 Feb 2020 16:05, UTC		02 Oct 2020	02 Oct 2020	02 Oct 2020		

Management's full-year guidance (4% organic growth and core EPS of $5.50) was a smidge ahead of our expectations though not meaningful enough to alter our $140 fair value estimate, leaving the shares fully valued in our view.

Revenue came in at $18.1 billion, reflecting year-over-year growth of 5.3%. With the coronavirus increasing the frequency of various snacking occasions, the robust 6% organic growth in the snack and food portfolio came as no surprise, but the 3% increase in beverages was stronger than we anticipated, due to the confluence of strength in the off-trade and less precipitous declines in food service. We were particularly pleased with the North America beverage business (up 3% organically), and with commentary regarding improvement in the U.S. convenience channel. Better leveraging scale and portfolio scope to win more placements in this channel was a key rationale of the firm's recent moves in the energy category, namely the Rockstar acquisition and the Bang distribution agreement. As mobility improves, we expect stakeholders within this channel to become less focused on survival and more focused on growth, which should allow Pepsi more latitude to execute against its initiatives.

Core operating margin was resilient, down only 40 basis points to 16.8%. Margins this year have largely been a function of direct COVID-19 costs as well as other corollaries of the crisis and their impacts on strategic investments (like advertising). Profitability will likely be volatile in the near term, but we still see plenty of room for margin expansion longer term.

Quantitative Equity Report | Release: 05 Oct 2020, 09:28 UTC | Reporting Currency: USD | Trading Currency: USD | Exchange:XNAS Page 9 of 16

PepsiCo Inc PEP ★★Q 05 Oct 2020 02:00 UTC

Last Close	Fair ValueQ	Market Cap	Sector	Industry	Country of Domicile
02 Oct 2020	05 Oct 2020 02:00 UTC	02 Oct 2020			
138.06	127.44	190.8 Bil	Consumer Defensive	Beverages - Non-Alcoholic	USA United States

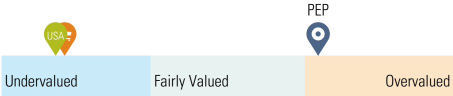
There is no one analyst in which a Quantitative Fair Value Estimate and Quantitative Star Rating are attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative fair value. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities. For information regarding Conflicts of Interests, visit http://global.morningstar.com/equitydisclosures

Company Profile

PepsiCo is one of the largest food and beverage companies globally. It makes, markets, and sells a slew of brands across the beverage and snack categories, including Pepsi, Mountain Dew, Gatorade, Doritos, Lays, and Ruffles. The firm uses a largely integrated go-to-market model, though it does leverage third-party bottlers, contract manufacturers, and distributors in certain markets. In addition to company-owned trademarks, Pepsi manufactures and distributes other brands through partnerships and joint ventures with companies such

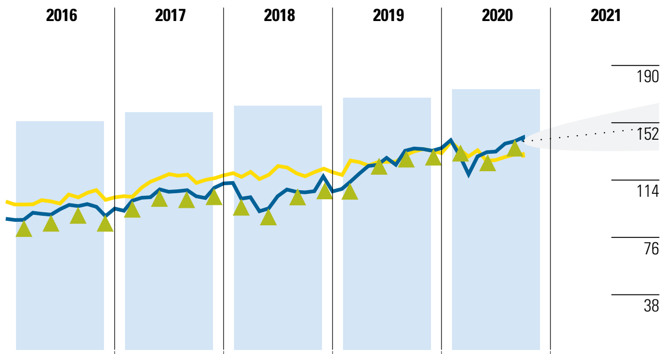
Quantitative Scores

		Scores		
		All	Rel Sector	Rel Country
Quantitative Moat	Wide	100	100	100
Valuation	Overvalued	5	6	6
Quantitative Uncertainty	Medium	100	100	100
Financial Health	Moderate	86	54	86



Source: Morningstar Equity Research

Price vs. Quantitative Fair Value



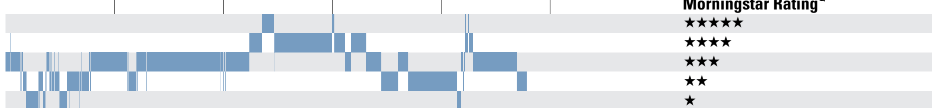
- Quantitative Fair Value Estimate
- Total Return
- Sales/Share
- Forecast Range
- Forcasted Price
- Dividend
- Split

Momentum:	Neutral
Standard Deviation:	16.67
Liquidity:	High

101.42	52-Wk	147.20
92.53	5-Yr	147.20

2016	2017	2018	2019	2020	2021	
7.7	17.6	-4.9	27.1	3.2		Total Return %
-4.8	-3.8	0.2	-4.1	-2.5		+/– Market (Morningstar US Index)
2.83	2.64	3.25	2.77	2.86		Trailing Dividend Yield %
2.88	2.69	3.36	2.80	2.96		Forward Dividend Yield %
22.9	24.8	31.7	15.6	27.3		Price/Earnings
2.5	2.7	2.4	2.9	2.8		Price/Revenue

Morningstar RatingQ



2015	2016	2017	2018	2019	TTM	Financials (Fiscal Year in Mil)
63,056	62,799	63,525	64,661	67,161	68,557	Revenue
-5.4	-0.4	1.2	1.8	3.9	2.1	% Change
9,712	9,785	10,509	10,110	10,291	9,953	Operating Income
1.4	0.8	7.4	-3.8	1.8	-3.3	% Change
5,452	6,329	4,857	12,515	7,314	7,041	Net Income
10,580	10,404	9,994	9,415	9,649	10,709	Operating Cash Flow
-2,758	-3,040	-2,969	-3,282	-4,232	-4,347	Capital Spending
7,822	7,364	7,025	6,133	5,417	6,362	Free Cash Flow
12.4	11.7	11.1	9.5	8.1	9.3	% Sales
3.67	4.36	3.38	8.78	5.20	5.05	EPS
-14.1	18.8	-22.5	159.8	-40.8	-2.9	% Change
5.21	5.17	4.65	3.90	4.31	3.91	Free Cash Flow/Share
2.76	2.96	3.17	3.59	3.79	3.96	Dividends/Share
9.27	8.80	9.33	7.30	10.16	9.04	Book Value/Share
1,448	1,428	1,420	1,409	1,391	1,382	Shares Outstanding (Mil)
						Profitability
37.2	55.1	44.3	98.7	49.9	51.0	Return on Equity %
7.8	8.8	6.3	15.9	9.4	8.3	Return on Assets %
8.6	10.1	7.6	19.4	10.9	10.3	Net Margin %
0.90	0.87	0.83	0.82	0.86	0.81	Asset Turnover
5.9	6.7	7.4	5.3	5.3	6.8	Financial Leverage
55.0	55.1	54.7	54.6	55.1	55.2	Gross Margin %
15.4	15.6	16.5	15.6	15.3	14.5	Operating Margin %
29,213	30,053	33,796	28,295	29,148	37,879	Long-Term Debt
11,923	11,095	10,889	14,518	14,786	13,483	Total Equity
3.8	3.8	3.8	3.7	3.5	3.7	Fixed Asset Turns

Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	1.08	1.01	0.84	0.83
Price/Earnings	27.3	24.9	19.6	20.1
Forward P/E	22.6	—	16.9	13.9
Price/Cash Flow	18.0	16.2	12.6	13.1
Price/Free Cash Flow	30.3	23.6	21.4	19.5
Trailing Dividend Yield %	2.86	2.85	2.28	2.35
Price/Book	14.2	12.4	2.0	2.4
Price/Sales	2.8	2.5	1.1	2.4

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	51.0	57.0	12.1	12.9
Return on Assets %	8.3	9.6	5.8	5.2
Revenue/Employee (K)	256.8	242.6	646.1	325.9

Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.7	0.7	0.6	0.5
Solvency Score	475.6	—	467.9	552.4
Assets/Equity	5.3	6.1	1.8	1.7
Long-Term Debt/Equity	2.0	2.4	0.2	0.4

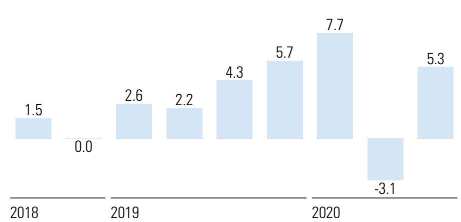
Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	3.9	2.3	0.1	4.5
Operating Income %	1.8	1.6	1.4	2.5
Earnings %	-40.8	6.1	4.0	3.3
Dividends %	5.7	8.6	8.4	7.9
Book Value %	3.2	11.2	-1.9	-0.1
Stock Total Return %	6.0	11.0	10.5	9.5

Quarterly Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2020	13,881.0	15,945.0	18,091.0	—	—
2019	12,884.0	16,449.0	17,188.0	20,640.0	67,161.0
2018	12,562.0	16,090.0	16,485.0	19,524.0	64,661.0
2017	12,049.0	15,710.0	16,240.0	19,526.0	63,525.0
Earnings Per Share ()					
2020	0.96	1.18	1.65	—	—
2019	1.00	1.44	1.49	1.26	5.20
2018	0.94	1.28	1.75	4.83	8.78
2017	0.91	1.46	1.49	-0.50	3.38

Revenue Growth Year On Year %



Research Methodology for Valuing Companies

Qualitative Equity Research Overview
At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. We believe this bottom-up, long-term, fundamentally based approach allows our analysts to focus on long-term business drivers, which have the greatest valuation impact, rather than short-term market noise.

Morningstar's equity research group (“we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at an uncertainty-adjusted discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat
The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define excess economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

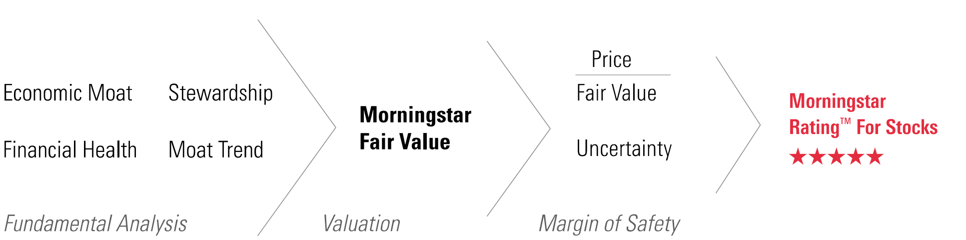
Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the direction of the underlying competitive advantages, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

All the moat and moat trend ratings undergo periodic review and any changes must be approved by the Morningstar Economic Moat Committee, comprised of senior members of Morningstar's equity research department.

2. Estimated Fair Value
Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies



Our model is divided into three distinct stages:

Stage I: Explicit Forecast
In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes, or EBI, and the net new investment, or NNI, to derive our annual free cash flow forecast.

Stage II: Fade
The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital, or RONIC, and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until the perpetuity stage is reached. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity
Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term market-value weights.

Research Methodology for Valuing Companies

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the fair value estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

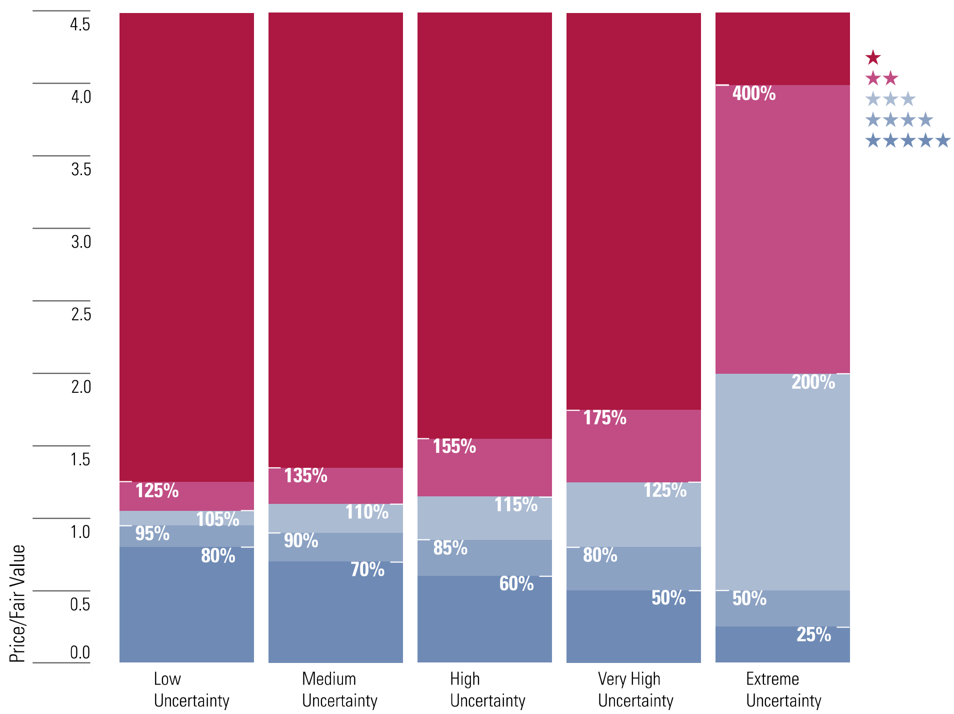
- Low–margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- Medium–margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- High–margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- Very High–margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- Extreme–margin of safety for 5-star rating is a 75% discount and for 1-star rating is 300% premium.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed, which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com.

Morningstar Equity Research Star Rating Methodology



Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. The current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. The market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Research Methodology for Valuing Companies

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- Undervalued: Last Price is below Morningstar's quantitative fair value estimate.
- Fairly Valued: Last Price is in line with Morningstar's quantitative fair value estimate.
- Overvalued: Last Price is above Morningstar's quantitative fair value estimate.

Risk Warning

Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

Quantitative Equity Reports Overview

The quantitative report on equities consists of data, statistics and quantitative equity ratings on equity securities. Morningstar, Inc.'s quantitative equity ratings are forward looking and are generated by a statistical model that is based on Morningstar Inc.'s analyst-driven equity ratings and quantitative statistics. Given the nature of the quantitative report and the quantitative ratings, there is no one analyst in which a given report is attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative equity ratings used in this report. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities.

Quantitative Equity Ratings

Morningstar's quantitative equity ratings consist of:

(i) Quantitative Fair Value Estimate
(ii) Quantitative Star Rating
(iii) Quantitative Uncertainty
(iv) Quantitative Economic Moat
(v) Quantitative Financial Health

(collectively the "Quantitative Ratings").

The Quantitative Ratings are calculated daily and derived from the analyst-driven ratings of a company's peers as determined by statistical algorithms. Morningstar, Inc. (""Morningstar," "we," "our") calculates Quantitative Ratings for companies whether it already provides analyst ratings and qualitative coverage. In some cases, the Quantitative Ratings may differ from the analyst ratings because a company's analyst-driven ratings can significantly differ from other companies in its peer group.

Quantitative Fair Value Estimate: Intended to represent Morningstar's estimate of the per share dollar amount that a company's equity is worth today. Morningstar calculates the quantitative fair value estimate using a statistical model derived from the fair value estimate Morningstar's equity analysts assign to companies. Please go to https://shareholders.morningstar.com for information about fair value estimates Morningstar's equity analysts assign to companies.

Quantitative Economic Moat: Intended to describe the strength of a firm's competitive position. It is calculated using an algorithm designed to predict the Economic Moat rating a Morningstar analyst would assign to the stock. The rating is expressed as Narrow, Wide, or None.

- Narrow: assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 70% but less than 99%.
- Wide: assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 99%.
- None: assigned when the probability of an analyst receiving a "Wide Moat" rating by an analyst is less than 70%.

Quantitative Star Rating: Intended to be the summary rating based on the combination of our Quantitative Fair Value Estimate, current market price, and the Quantitative Uncertainty Rating. The rating is expressed as 1-Star, 2-Star, 3-Star, 4-Star, and 5-Star.

★: the stock is overvalued with a reasonable margin of safety.
Log (Quant FVE/Price)<–1*Quantitative Uncertainty

★★: the stock is somewhat overvalued.
Log (Quant FVE/Price) between (–1*Quantitative Uncertainty, –0.5*Quantitative Uncertainty)

★★★: the stock is approximately fairly valued.
Log (Quant FVE/Price) between (–0.5*Quantitative Uncertainty, 0.5*Quantitative Uncertainty)

★★★★: the stock is somewhat undervalued.
Log (Quant FVE/Price) between (0.5*Quantitative Uncertainty, 1*Quantitative Uncertainty)

★★★★★: the stock is undervalued with a reasonable margin of safety. Log (Quant FVE/Price) >1*Quantitative Uncertainty

Quantitative Uncertainty: Intended to represent Morningstar's level of uncertainty about the accuracy of the quantitative fair value estimate. Generally, the lower the quantitative Uncertainty, the narrower the potential range of outcomes for that particular company. The rating is expressed as Low, Medium, High, Very High, and Extreme.

- Low: the interquartile range for possible fair values is less than 10%.
- Medium: the interquartile range for possible fair values is less than 15% but greater than 10%.
- High: the interquartile range for possible fair values is less than 35% but greater than 15%.
- Very High: the interquartile range for possible fair values is less than 80% but greater than 35%.
- Extreme: the interquartile range for possible fair values is greater than 80%.

Quantitative Financial Health: Intended to reflect the probability that a firm will face financial distress in the near future. The calculation uses a predictive model designed to anticipate when a company may default on its financial obligations. The rating is expressed as Weak, Moderate, and Strong.

- Weak: assigned when Quantitative Financial Health <0.2
- Moderate: assigned when Quantitative Financial Health is between 0.2 and 0.7
- Strong: assigned when Quantitative Financial Health >0.7

Research Methodology for Valuing Companies

Other Definitions

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- Fairly Valued: Last Price is in line with Morningstar's quantitative fair value estimate.
- Overvalued: Last Price is above Morningstar's quantitative fair value estimate.

This Report has not been made available to the issuer of the security prior to publication.

Risk Warning

Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report.

The quantitative equity ratings are not statements of fact. Morningstar does not guarantee the completeness or accuracy of the assumptions or models used in determining the quantitative equity ratings. In addition, there is the risk that the price target will not be met due to such things as unforeseen changes in demand for the company's products, changes in management, technology, economic development, interest rate development, operating and/or material costs, competitive pressure, supervisory law, exchange rate, and tax rate. For investments in foreign markets there are further risks, generally based on exchange rate changes or changes in political and social conditions.

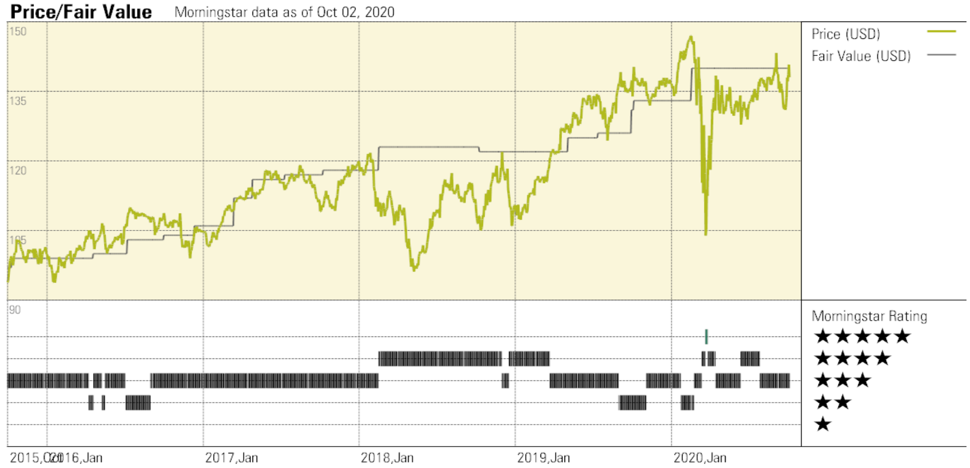
A change in the fundamental factors underlying the quantitative equity ratings can mean that the valuation is subsequently no longer accurate.

For more information about Morningstar's quantitative methodology, please visit http://global.morningstar.com/equitydisclosures.

PepsiCo Inc PEP (XNAS)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★	138.06 USD	140.00 USD	0.99	2.86	2.96	190.79	Beverages - Non-Alcoholic	Exemplary
02 Oct 2020 21:46, UTC	02 Oct 2020	15 Feb 2020 16:05, UTC		02 Oct 2020	02 Oct 2020	02 Oct 2020		

Price/Fair Value Morningstar data as of Oct 02, 2020



General Disclosure

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PepsiCo Inc PEP (XNAS)

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★★★	138.06 USD	140.00 USD	0.99	2.86	2.96	190.79	Beverages - Non-Alcoholic	Exemplary
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