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PepsiCo Inc. (NYSE : PEP)

BUY

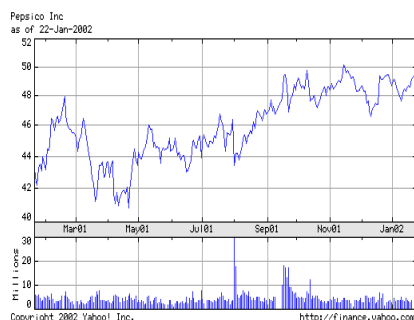
January 24, 2002

Consumer Staples

Beverages

MARKET DATA

Price	\$49.41
52 wk range	\$40.25 - \$50.46
Price Target	\$54.00
Shares Out:	1.75 billion
Market Cap:	\$86.46 billion
Book Value	\$5.47
Beta	.77
Revenue 2000A	\$23,140 MM
Net Income 2000A	\$2390 MM



COMPANY OVERVIEW

PepsiCo Inc. recently acquired Quaker Oats. In 1997 Pepsi spun off its restaurant businesses to shareholders. A couple years later in 1999 bottling operations in the form of Pepsi Bottling Co. The company now exists as producer and distributor of concentrate product to licensed bottlers as well as a top seller of snack foods. In August of 2001 PepsiCo acquired Quaker Oats, strengthening its revenue and profit stream and resulting in a more positive outlook for the company and its stock.

INVESTMENT CONCLUSION

- ☐ Buy 300 shares of Pepsi-Cola Inc. at \$49.

SUMMARY

- ☐ Recent business reorganization lead to spin-offs of restaurant businesses and bottling operations.
- ☐ Acquired Quaker Oats to gain ownership of popular Gatorade brand.
- ☐ EPS growth target of 13-14%. Earnings forecast of \$1.66 per share for FY '01
- ☐ Main source of growth and stability is the Frito-Lay snack foods division.
- ☐ Pepsi is performing well in harsh conditions, unlike Coke which is struggling due to international exposure.
- ☐ Used a Discounted Free Cash Flow model and dividend discount model.
- ☐ The fund will be slightly overweight, however all companies in the consumer staples sector tend to be stable companies.

INDUSTRY INSIGHT

News & Trends

Soft drinks have under-performed the market this past year, falling 15.3% v. an 11.8% decline in the S&P 500 Index.

Investors have been questioning whether drink volumes and earnings would continue their historical growth rates. Coca-Cola's under-performance in the past couple years has contributed to these worries.

Current investments in the Wright Fund include Anheuser Busch and Philip Morris for the consumer staples sector.

INVESTMENT HIGHLIGHTS

Company Strategy or Company Discussion

The industry in which it operates is dominated by Coca-Cola and Pepsi. The company successfully reduced the capital intensiveness of its business with the spin-off of its restaurant businesses (now listed as "YUM" on the NYSE) and its bottling operations.

Pepsi is experiencing strong growth in all of its core products. The business focuses on three product areas: soft drinks, snack foods, and non-carbonated drinks (strengthened by acquisition of Quaker Oats). Soft drinks represent 25% of sales and 28% of operating profits. Non-carbonated drinks are represented mainly by Tropicana and represent 12% of sales and 6% of profits. The snack foods division represents 63% of sales and 66% of operating profits.

Investment Risks

Currently, market exposure to international markets is low. This is working in Pepsi's favor since it limits foreign currency exposure, especially considering a strong dollar. However when markets overseas recover, the impact on competitors like Coca-Cola will be less. Pepsi has benefited from weakness in Coke, as investors have taken positions in Pepsi. Over the long-term, growth in international markets is key to growth in profitability. Interest rate risk and the effect of changes in the cost of fuel are also risks.

FINANCIAL RESULTS

Recent Results

Pepsi has guided investors to expect earnings of \$1.66 per share for the FY '01, closing a year of high growth for the company. Pepsi expects growth of 13-14% for FY '02.

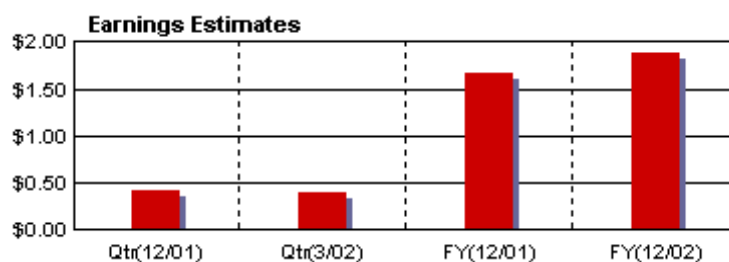
In the most recent quarter Pepsi's EPS increased 13% to 48 cents per share. Net sales increased 8% to \$6.9 billion, marking the third consecutive quarter of double digit growth for the company.

Earnings will be released on February 6th. Expectations is for overall EPS to be \$1.66 for the year. At that time a conference call write-up will be submitted to further detail Pepsi's position and performance to date.

Recent Results

Quarterly results came in at 13% EPS increase. Expectations are for a earnings of \$1.66 per share with earnings on February 6th.

Cumulative For Period Ended:	9/2/00	12/30/00	3/24/01	6/16/01	9/8/01
Net Income	1,845,000	2,183,000	498,000	1,150,000	1,995,000
Depreciation	711,000	960,000	208,000	425,000	737,000
Deferred Taxes	138,000	63,000	-12,000	-3,000	-4,000
Non Cash Charges	219,000	317,000	32,000	65,000	154,000
Change in					
Operating	-388,000	—	-648,000	-997,000	-390,000
Non-Cash Items	194,000	—	—	—	145,000
Bottling Equity Inc.	-135,000	-130,000	-5,000	-68,000	-153,000
Cash From					
Operations	2,584,000	3,911,000	73,000	572,000	2,484,000
Additions/Acq.	-66,000	-98,000	-407,000	-415,000	-432,000
Capital Expenditure	-744,000	-1,067,000	-171,000	-399,000	-756,000
ST Investment	-836,000	-4,536,000	-292,000	-949,000	-3,026,000
ST Investment Mat.	726,000	4,171,000	207,000	426,000	1,389,000
STI-3 mons. or less	-55,000	-9,000	-8,000	-24,000	-67,000
Sales of Property	47,000	53,000	—	41,000	27,000
Other Investing	-150,000	-227,000	22,000	196,000	111,000
Cash From					
Investing	-1,078,000	-1,713,000	-649,000	-1,124,000	-2,754,000
Issue LT Debt	108,000	130,000	11,000	11,000	11,000
Payment LT Debt	-799,000	-795,000	-129,000	-243,000	-317,000
STD Proceeds	125,000	156,000	31,000	64,000	125,000
STD Payments	-83,000	-79,000	-23,000	-84,000	-180,000
Debt, Net	341,000	-43,000	345,000	7,000	-54,000
Cash Dividend	-710,000	-796,000	-202,000	-405,000	-752,000
Purch./Sale of	-906,000	-871,000	89,000	684,000	859,000

Financial Outlook

INVESTMENT HIGHLIGHTS

Using a ten-year Discounted Cash Flow Model, the valuation for Pepsi came to \$49.94. However, the valuation was conducted using the lowest estimates of future earnings. I believe there is still room for appreciation in shares of Pepsi and limited downside to the company's shares.

Summary of Model

Current Price	\$49.41
Target Price	\$49.94
Stop Price	\$44
Growth Rate	13-14%
WACC	10.18%

CHARTS / TECHNICAL

Pepsico Inc
as of 22-Jan-2002

