

PepsiCo Inc.- Cost Of Capital

Joseph Tkac, Jared Grobels, Qijia (Vikie) Huang, Michael Maiorelli

PepsiCo's Future in a Changing Market
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Choosing a Director
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Market Position
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SWOT Analysis
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Consumer Awareness
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- Growing concerns about the food and beverage industry
- Potentially overvalued by the increasing cost of debt and equity
- Market moves the product mix and age of food and beverage may be high value, but requires, with its underlying high level of capital and operational loss

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PepsiCo's Future in a Changing Market

- Significant overvalued capital
- Increased financial risk and overvalued market capitalization
- The higher market value of PepsiCo's stock
- Strong financial performance and strong reputation in food and beverage industry
- Strong and healthy growth in sales
- Strong and healthy growth in sales

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Questions?

Choosing a Direction
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- CEO Indra Nooyi has recognized that "society, people, and times have changed" - she has also indicated that PepsiCo has no choice but to move in healthier directions
- The food and beverage industry in its entirety needs to make changes for a healthier more sustainable future

Market Position
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- PepsiCo is one of the largest and most widely recognized in the industry
- Huge opportunity to target the consumers who seek out healthier organic alternatives
- Can increase brand image by producing healthier products and by being socially friendly

Consumer Awareness
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- The consumer needs a product that is healthy and sustainable
- The consumer needs a product that is healthy and sustainable
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- The consumer needs a product that is healthy and sustainable

SWOT Analysis
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Strengths	Weaknesses	Opportunities	Threats
• Strong financial performance	• High market value	• Growing market for healthier products	• Increasing competition
• Strong reputation in food and beverage industry	• High level of capital and operational loss	• Growing market for healthier products	• Increasing competition
• Strong and healthy growth in sales	• High level of capital and operational loss	• Growing market for healthier products	• Increasing competition
• Strong and healthy growth in sales	• High level of capital and operational loss	• Growing market for healthier products	• Increasing competition



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PepsiCo's Future in a Changing Market

- Growing criticism toward the food and beverage industry
 - Partially responsible for the increasing trend in obesity, disease and widespread ecological devastation
 - Mainly due to the production and sale of food and beverages that are high-calorie, nutrient-poor, while containing high levels of sugar and saturated fats

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Consumer Awareness

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- An increasing number of scientific studies are confirming that many processed foods are unhealthy to consume
 - Due to today's widespread internet access as well as the use of social media more and more consumers are becoming aware of the associated risks with consuming convenient processed foods
 - The market is seeing a shift as more and more consumers are seeking more healthy organic choices



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Risks & Opportunities

- *Acquisitions cost significant capital*
 - *Inherent financial risk in acquiring smaller companies*
 - *Use higher margin F&B profits to fund long-term opportunities*
 - *Timing critical if base business suffers*
- *Easier to acquire an established brand than experiment in-house*
 - *Market risk mitigated, product is proven*
 - *Focus on sales expansion, rather than R&D*

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Recommendations

SWOT Analysis

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Strength	Weakness
<ol style="list-style-type: none">1. Solid market position & strong revenue growth2. Superior manufacturing and distribution channels3. Brand diversification4. Superior taste (Pepsi Challenge)5. Celebrity effect	<ol style="list-style-type: none">1. Health concerns---unhealthy products2. Ecological problems3. High lobbying expenses4. Barrier to entry carbonated industry
Opportunity	Threat
<ol style="list-style-type: none">1. Invest additional capital in R&D and IT2. Exclusivity agreement3. Expansion in the non-carbonated market4. Marketing efforts focused on younger generations5. Change with market demands6. Sustainable development	<ol style="list-style-type: none">1. Health and social concerns2. Coca Cola and other smaller operators3. Growing number of products in the market4. Economic recession

Choosing a Direction

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- CEO Indra Nooyi has recognized that "society, people, and lifestyles have changed", she has also realized that PepsiCo has no choice but to move in healthier directions
- The food and beverage industry in its entirety needs to make changes for a healthier more sustainable future

How Will This Be Accomplished

- PepsiCo as well as many other food and beverage companies have already helped shaped consumer tastes and behavior in the past
- Why can't we continue this trend but in a more healthy and sustainable direction?
- What advantages and disadvantages does Pepsi Co possess which can help steer consumers toward a healthier more sustainable lifestyle?