

PepsiCo

Thoughts on strategic priorities update & preliminary FY26 outlook

Reiterate Rating: NEUTRAL | PO: 155.00 USD | Price: 145.63 USD

Strategic update follows Elliott's involvement

After Monday's market close, PEP announced updated commercial & financial priorities to boost shareholder value following talks with Elliott. Plans include accelerating org sales growth and improving op. margins via affordable pricing, innovation, and cost cuts. We believe PEP's decision not to divest brands or rebrand US bottlers signals confidence in its structural soundness, while targeting adjustments for outperformance. Included with today's updated financial priorities was a preliminary outlook for FY26 (already contemplated in our original estimate) and calls for org sales to increase +2% to +4% and core EPS growth of +5% to +7%. Our FY26 EPS estimate of \$8.60 (+6% YoY) remains unchanged, however we now expect higher sales growth driven by FX and acquisitions to be offset by higher effective tax rate. PEP also reiterated FY25 guidance. Our Neutral rating reflects our view that we still see PEP's portfolio challenged despite today's announcements. Maintain \$155 PO based on 18x CY26 EPS.

Commercial actions and financial priorities

PEP aims to accelerate org sales growth and core op. margin expansion to enhance long term shareholder value. The company is acting with urgency to improve competitiveness in its PFNA segment through three initiatives: 1) Sharpening everyday value with targeted affordable price tiers to boost growth and purchase frequency. 2) Advancing an innovation agenda focused on simpler ingredients and functional benefit. 3) Reduce op. cost to fund marketing, supported by plant closures and 20% SKU reduction.

FY26 model changes and capital allocation update

We maintain FY26 EPS of \$8.60. Key drivers include: 1) total sales +5.1% YoY (prior +3.5%) with org sales +3.1% (unchanged), FX +1.0% (prior +0.2%) & acquisitions +1.0% (prior +0.2%). Our model now reflects revenue contribution from Alani Nu. 2) 2H org sales (+3.7%) to outpace 1H (+2.3%). 3) Higher tax rate of 22% driven by pending impact of global min. tax (prior 20%). 4) Capital spending expected to be <5% of sales (reflected in our model). PEP stated it will carefully consider and balance portfolio optimization activities versus share buybacks, while ensuring access to Tier 1 commercial paper.

Estimates (Dec) (US\$)	2023A	2024A	2025E	2026E	2027E
EPS	7.62	8.16	8.12	8.60	9.10
GAAP EPS	6.56	6.99	6.39	8.60	9.10
EPS Change (YoY)	12.2%	7.1%	-0.5%	5.9%	5.8%
Consensus EPS (Bloomberg)			8.12	8.57	9.06
Consensus EPS (Visible Alpha)			8.11	8.59	9.10
DPS	4.95	5.33	5.62	5.90	6.20
Valuation (Dec)					
P/E	19.1x	17.8x	17.9x	16.9x	16.0x
GAAP P/E	22.2x	20.8x	22.8x	16.9x	16.0x
Dividend Yield	3.4%	3.7%	3.9%	4.1%	4.3%
EV / EBITDA*	14.7x	13.9x	13.8x	12.8x	12.3x
Free Cash Flow Yield*	3.9%	3.5%	2.0%	5.3%	5.5%

* For full definitions of *IQmethod*SM measures, see page 5.

08 December 2025

Equity

Key Changes

(US\$)	Previous	Current
2026E Rev (m)	96,800.8	98,282.3
2027E Rev (m)	99,751.1	101,290.4

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Stock Data

Price	145.63 USD
Price Objective	155.00 USD
Date Established	10-Oct-2025
Investment Opinion	A-2-7
52-Week Range	127.60 USD - 161.50 USD
Mrkt Val (mn) / Shares Out (mn)	202,717 USD / 1,392.0
Free Float	99.8%
Average Daily Value (mn)	990.34 USD
BofA Ticker / Exchange	PEP / NAS
Bloomberg / Reuters	PEP US / PEP.OQ
ROE (2025E)	62.4%
Net Dbt to Eqty (Dec-2024A)	195.6%

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 08 December 2025 10:05PM EST

iQprofileSM PepsiCo

iQmethodSM – Bus Performance*

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Return on Capital Employed	15.3%	15.7%	15.4%	15.8%	16.9%
Return on Equity	58.7%	61.1%	62.4%	70.8%	84.3%
Operating Margin	15.2%	16.0%	15.9%	16.3%	16.6%
Free Cash Flow	7,924	7,189	4,104	10,724	11,074

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Cash Realization Ratio	1.3x	1.1x	1.1x	1.3x	1.3x
Asset Replacement Ratio	0.9x	0.8x	1.3x	0.7x	0.8x
Tax Rate	20.3%	19.7%	19.6%	22.0%	22.0%
Net Debt-to-Equity Ratio	183.2%	195.6%	234.4%	252.0%	277.6%
Interest Cover	16.9x	16.0x	13.5x	14.6x	15.4x

Income Statement Data (Dec)

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Sales	91,471	91,854	93,506	98,282	101,290
% Change	5.9%	0.4%	1.8%	5.1%	3.1%
Gross Profit	49,737	50,611	50,750	53,768	55,711
% Change	7.9%	1.8%	0.3%	5.9%	3.6%
EBITDA	16,823	17,858	17,985	19,317	20,106
% Change	11.5%	6.2%	0.7%	7.4%	4.1%
Net Interest & Other Income	(556)	(633)	(933)	(922)	(922)
Net Income (Adjusted)	10,533	11,246	11,141	11,745	12,361
% Change	11.8%	6.8%	-0.9%	5.4%	5.2%

Free Cash Flow Data (Dec)

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Net Income from Cont Operations (GAAP)	10,697	11,342	11,243	11,835	12,451
Depreciation & Amortization	2,948	3,160	3,135	3,280	3,280
Change in Working Capital	(337)	(1,696)	(1,248)	259	144
Deferred Taxation Charge	(271)	(42)	30	0	0
Other Adjustments, Net	405	(257)	(881)	264	264
Capital Expenditure	(5,518)	(5,318)	(8,175)	(4,914)	(5,065)
Free Cash Flow	7,924	7,189	4,104	10,724	11,074
% Change	41.4%	-9.3%	-42.9%	161.3%	3.3%
Share / Issue Repurchase	(1,000)	(1,000)	(1,002)	(1,000)	(1,200)
Cost of Dividends Paid	(6,682)	(7,229)	(7,642)	(8,064)	(8,419)
Change in Debt	0	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Cash & Equivalents	9,711	8,505	10,282	11,942	13,397
Trade Receivables	10,815	10,333	10,503	11,040	11,378
Other Current Assets	6,424	6,988	7,117	7,333	7,463
Property, Plant & Equipment	27,039	28,008	28,233	24,953	21,673
Other Non-Current Assets	46,506	45,633	48,783	48,783	48,783
Total Assets	100,495	99,467	104,918	104,050	102,694
Short-Term Debt	6,510	7,082	12,056	12,056	12,056
Other Current Liabilities	25,137	24,454	24,599	25,611	26,224
Long-Term Debt	37,595	37,224	39,328	39,328	39,328
Other Non-Current Liabilities	12,616	12,536	11,403	11,403	11,403
Total Liabilities	81,858	81,296	87,386	88,398	89,011
Total Equity	18,771	18,301	17,532	15,652	13,683
Total Equity & Liabilities	100,629	99,597	104,918	104,050	102,694

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Soft Drinks

Company Description

PepsiCo, a global snack and beverage company, manufactures and markets salty and convenient snacks, carbonated and non-carbonated beverages and foods. Divisions include Frito-Lay North America (FLNA), Quaker Foods NA, North America Beverages (NAB), Latin America, Europe Sub-Saharan Africa (ESSA) and Asia, Middle East and North Africa (AMENA). Key exposures include UK, Mexico, India and China. Brands include Pepsi Cola, Mountain Dew, Gatorade, Tropicana, Frito-Lay, Quaker, among others.

Investment Rationale

We rate PEP shares at Neutral. In our view, the business remains defensive into US economic slowdown, albeit less so than in previous recessions owing to stretched pricing in Frito. Still, we think PEP is well positioned to deliver consistent shareholder returns supported by a balance of growth and returning cash to shareholders via dividends and share repurchases.

Stock Data

Average Daily Volume 6,800,396

Quarterly Earnings Estimates

	2024	2025
Q1	1.61A	1.48A
Q2	2.28A	2.12A
Q3	2.31A	2.29A
Q4	1.96A	2.24E



Income Statement

Exhibit 1: We are forecasting FY25E EPS of \$8.12

Income Statement

PepsiCo, Inc.										
Income Statement										
(millions, except for per share data)										
Dec. Year End	53rd week			Mar-25 1Q25	Jun-25 2Q25	Sep-25 3Q25	Dec-25 4Q25E	Dec-25 FY25E	Dec-26 FY26E	Dec-27 FY27E
	Dec-22 FY22	Dec-23 FY23	Dec-24 FY24							
Net sales	\$86,392.0	\$91,471.0	\$91,854.0	\$17,919.0	\$22,726.0	\$23,937.0	\$28,923.8	\$93,505.8	\$98,282.3	\$101,290.4
Cost of goods sold	40,290.0	41,734.0	41,243.0	7,936.0	10,200.0	11,033.0	13,586.9	42,755.9	44,514.2	45,579.5
Gross profit (adjusted)	\$46,102.0	\$49,737.0	\$50,611.0	\$9,983.0	\$12,526.0	\$12,904.0	\$15,336.9	\$50,749.9	\$53,768.1	\$55,710.9
Selling, general & administrative expenses	33,777.0	35,862.0	35,913.0	7,194.0	8,615.0	8,767.0	11,323.7	35,899.7	37,731.2	38,884.6
Operating profit (adjusted)	\$12,325.0	\$13,875.0	\$14,698.0	\$2,789.0	\$3,911.0	\$4,137.0	\$4,013.2	\$14,850.2	\$16,036.9	\$16,826.3
Other pension and retiree medical benefits income	476.0	263.0	286.0	39.0	39.0	38.0	50.7	166.7	173.3	173.3
Net interest expense and other	939.0	819.0	919.0	264.0	260.0	264.0	312.0	1,100.0	1,095.0	1,095.0
Income before taxes (adjusted)	\$11,862.0	\$13,319.0	\$14,065.0	\$2,564.0	\$3,690.0	\$3,911.0	\$3,751.9	\$13,916.9	\$15,115.3	\$15,904.6
Provision for income taxes	2,372.0	2,704.0	2,771.0	524.0	767.0	759.0	\$675.3	2,725.3	3,325.4	3,499.0
Net income attributable to noncontrolling interests	69.0	82.0	48.0	9.0	16.0	15.0	11.0	51.0	45.0	45.0
Net income attributable to PEP (adjusted)	\$9,421.0	\$10,533.0	\$11,246.0	\$2,031.0	\$2,907.0	\$3,137.0	\$3,065.5	\$11,140.5	\$11,744.9	\$12,360.6
Non-recurring items	(511.0)	(1,459.0)	(1,620.0)	(197.0)	(1,644.0)	(534.0)	-	(2,375.0)	(0.0)	-
GAAP net income	\$8,910.0	\$9,074.0	\$9,626.0	1,834.0	1,263.0	2,603.0	\$3,065.5	\$8,765.5	\$11,744.9	\$12,360.6
GAAP EPS	\$6.42	\$6.56	\$6.99	\$1.33	\$0.92	\$1.90	\$2.24	\$6.39	\$8.60	\$9.10
Adjusted EPS	\$6.79	\$7.62	\$8.16	\$1.48	\$2.12	\$2.29	\$2.24	\$8.12	\$8.60	\$9.10
Weighted average diluted shares outstanding	1,387.0	1,383.0	1,378.0	1,376.0	1,373.0	1,372.0	1,370.3	1,372.8	1,366.0	1,358.2
Dividends Per share	\$4.53	\$4.95	\$5.33	\$1.36	\$1.42	\$1.42	\$1.42	\$5.62	\$5.90	\$6.20
YoY growth Dividend	5.2%	9.3%	7.8%	7.1%	5.0%	5.0%	5.0%	5.5%	5.0%	5.0%
Payout ratio	66.6%	64.9%	65.3%	91.8%	67.2%	62.2%	63.6%	69.3%	68.7%	68.1%
EBITDA calculation										
Adjusted operating profit	\$12,325.0	\$13,875.0	\$14,698.0	\$2,789.0	\$3,911.0	\$4,137.0	\$4,013.2	\$14,850.2	\$16,036.9	\$16,826.3
Depreciation & amortization	2,763.0	2,948.0	3,160.0	684.0	807.0	824.0	820.0	3,135.0	3,280.0	3,280.0
Adjusted EBITDA	\$15,088.0	\$16,823.0	\$17,858.0	\$3,473.0	\$4,718.0	\$4,961.0	\$4,833.2	\$17,985.2	\$19,316.9	\$20,106.3
Margin analysis										
Gross margin	53.4%	54.4%	55.1%	55.7%	55.1%	53.9%	53.0%	54.3%	54.7%	55.0%
SG&A as a % of sales	39.1%	39.2%	39.1%	40.1%	37.9%	36.6%	39.2%	38.4%	38.4%	38.4%
Operating margin	14.3%	15.2%	16.0%	15.6%	17.2%	17.3%	13.9%	15.9%	16.3%	16.6%
Pre-tax margin	13.7%	14.6%	15.3%	14.3%	16.2%	16.3%	13.0%	14.9%	15.4%	15.7%
Net profit margin	10.9%	11.5%	12.2%	11.3%	12.8%	13.1%	10.6%	11.9%	12.0%	12.2%
Effective tax rate	20.0%	20.3%	19.7%	20.4%	20.8%	19.4%	18.0%	19.6%	22.0%	22.0%
YoY % change										
Sales	8.7%	5.9%	0.4%	-1.8%	1.0%	2.7%	4.1%	1.8%	5.1%	3.1%
Gross profit	8.6%	7.9%	1.8%	-1.8%	-0.4%	-0.4%	2.7%	0.3%	5.9%	3.6%
SG&A	8.8%	6.2%	0.1%	-0.4%	2.0%	-0.1%	-1.2%	0.0%	5.1%	3.1%
Operating profit	8.0%	12.6%	5.9%	-5.1%	-5.1%	-0.9%	15.9%	1.0%	8.0%	4.9%
Pre-tax profit	8.5%	12.3%	5.6%	-8.5%	-6.7%	-2.8%	14.1%	-1.1%	8.6%	5.2%
Net income	8.4%	11.8%	6.8%	-8.5%	-7.5%	-1.6%	13.8%	-0.9%	5.4%	5.2%
Adjusted EPS	8.6%	12.1%	7.2%	-8.2%	-7.1%	-1.2%	14.4%	-0.6%	6.0%	5.8%

Source: Company filings, BofA Global Research estimates

BofA GLOBAL RESEARCH



Price objective basis & risk

PepsiCo (PEP)

Our \$155 PO is based on a 18x CY26E EPS target multiple, below non-alcoholic beverage peers, justified by our view of PEP's near-term challenges in its US Salty Snacks and Soft Drinks businesses, balanced by positioning to deliver still-resilient earnings thanks to considerable portfolio flexibility. Dividends & share repurchases, though somewhat tempered in the near-term by portfolio and pricing strategy realignments, nonetheless remain a viable avenue to return cash to shareholders.

Upside risks to our PO: 1) Low to moderate FX headwinds. 2) Rebase initiatives put the business in a better position for growth. 3) Improving volume/price/mix in soft drinks.

Downside risks to our PO: 1) FX becomes a larger headwind than expected. 2) Frito Lay North America experiences a major continued decline in volumes despite tempered pricing.

Analyst Certification

I, Peter T. Galbo, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Consumables Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Altria Group	MO	MO US	Lisa K. Lewandowski
	Church & Dwight	CHD	CHD US	Anna Lizzul
	Colgate-Palmolive Company	CL	CL US	Peter T. Galbo, CFA
	e.l.f. Beauty	ELF	ELF US	Anna Lizzul
	General Mills	GIS	GIS US	Peter T. Galbo, CFA
	Keurig Dr Pepper	KDP	KDP US	Peter T. Galbo, CFA
	Kimberly-Clark	KMB	KMB US	Anna Lizzul
	McCormick & Co.	MKC	MKC US	Peter T. Galbo, CFA
	Mondelez International	MDLZ	MDLZ US	Peter T. Galbo, CFA
	Monster Beverage Corporation	MNST	MNST US	Peter T. Galbo, CFA
	Oddity Tech	ODD	ODD US	Anna Lizzul
	Philip Morris International	PM	PM US	Lisa K. Lewandowski
	Primo Brands	PRMB	PRMB US	Peter T. Galbo, CFA
	Smithfield Foods Inc	SFD	SFD US	Peter T. Galbo, CFA
	The Coca Cola Company	KO	KO US	Peter T. Galbo, CFA
	The Procter & Gamble Company	PG	PG US	Peter T. Galbo, CFA
	The Vita Coco Company, Inc.	COCO	COCO US	Peter T. Galbo, CFA
	Utz Brands	UTZ	UTZ US	Peter T. Galbo, CFA
NEUTRAL				
	BellRing Brands Inc	BRBR	BRBR US	Yasmine Deswandhy
	Clorox	CLX	CLX US	Anna Lizzul
	Freshpet, Inc.	FRPT	FRPT US	Peter T. Galbo, CFA
	Hormel Foods Corp.	HRL	HRL US	Peter T. Galbo, CFA
	JM Smucker Company	SJM	SJM US	Peter T. Galbo, CFA
	Lamb Weston Holdings Inc	LW	LW US	Peter T. Galbo, CFA
	Molson Coors Beverage Company	TAP	TAP US	Peter T. Galbo, CFA
	PepsiCo	PEP	PEP US	Peter T. Galbo, CFA
	Pilgrim's Pride Corp.	PPC	PPC US	Peter T. Galbo, CFA
	The Hershey Company	HSY	HSY US	Peter T. Galbo, CFA
	Tyson Foods, Inc.	TSN	TSN US	Peter T. Galbo, CFA
UNDERPERFORM				
	Celsius Holdings Inc	CELH	CELH US	Peter T. Galbo, CFA
	Conagra Brands, Inc.	CAG	CAG US	Peter T. Galbo, CFA
	Constellation Brands	STZ	STZ US	Peter T. Galbo, CFA



US - Consumables Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Coty Inc.	COTY	COTY US	Anna Lizzul
	Dole plc	DOLE	DOLE US	Peter T. Galbo, CFA
	Herbalife Ltd	HLF	HLF US	Anna Lizzul
	Kraft Heinz Company	KHC	KHC US	Peter T. Galbo, CFA
	The Campbell's Company	CPB	CPB US	Peter T. Galbo, CFA
RSTR	Kenvue Inc.	KVUE	KVUE US	Anna Lizzul

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and valuations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase[®] is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

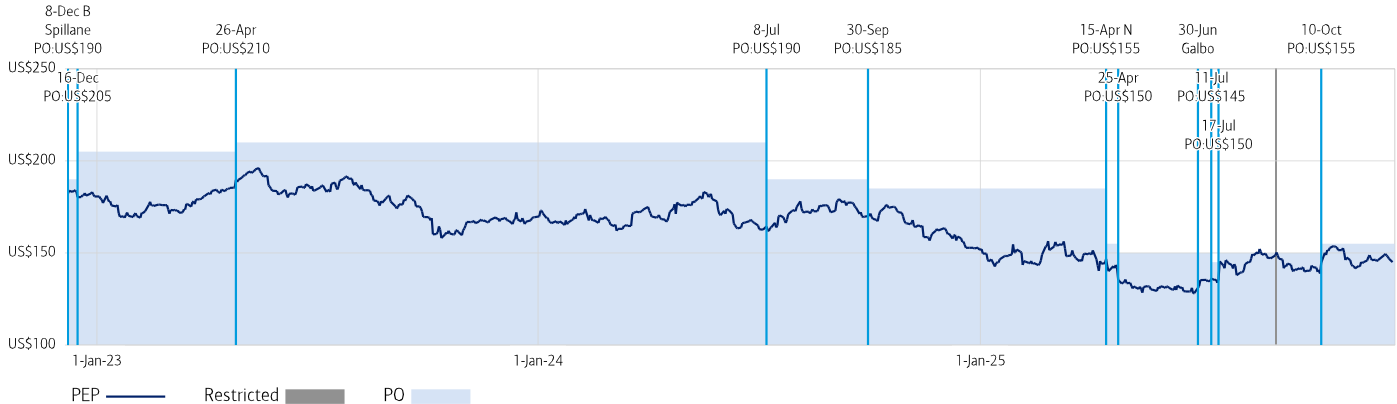
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Disclosures

Important Disclosures

PepsiCo (PEP) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Beverages - Soft Drinks Group (as of 30 Sep 2025)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	11	61.11%	Buy	6	54.55%
Hold	5	27.78%	Hold	5	100.00%
Sell	2	11.11%	Sell	0	0.00%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2025)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1816	53.11%	Buy	1062	58.48%
Hold	825	24.13%	Hold	480	58.18%
Sell	778	22.76%	Sell	385	49.49%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
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Underperform	N/A	≥ 20%

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