



# A Financial Analysis and Valuation of PepsiCo

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**Abstract.** The integration of environmental awareness into the food industry has created challenges and opportunities, particularly for multinational corporations like PepsiCo. This study examines PepsiCo's strategies in market expansion, technological innovation, and financial management to understand its competitive position. Using Porter's Five Forces and financial ratio analysis, the external and internal factors influencing PepsiCo's operations are evaluated. Externally, PepsiCo's global supply chain demonstrates strong bargaining power with suppliers, while customer loyalty remains low due to the fast-moving consumer goods nature of its products. The company faces significant competition from Coca-Cola, though PepsiCo's diversified portfolio, including its successful Lay's brand, strengthens its market presence. Internally, PepsiCo's financial ratios reveal a stable revenue trajectory and effective inventory management, though liquidity challenges persist. Strong cash flow and long-term solvency highlight its resilience and capacity for expansion. This paper provides valuable insights into PepsiCo's strategic planning, emphasizing its ability to adapt to market dynamics and maintain profitability. The findings offer lessons for the food industry and beyond, demonstrating how strategic innovation and comprehensive management can foster sustainable growth in a competitive global market.

**Keywords:** PepsiCo, Porter's Five Forces, Financial Analysis, Food Industry, Sustainable Development.

## 1 Introduction

Based on the deep integration of the food industry with environmental awareness has become a significant trend worldwide, and the increasing emphasis on health and sustainable development, the food industry is facing unprecedented challenges and opportunities. This report aims to conduct an in-depth discussion and research on this cutting-edge field. Among the many food companies, PepsiCo has become the focal case study of this article due to its outstanding market performance and strong brand influence.

PepsiCo has consistently maintained a leading position in the field of technological innovation. The company is committed to the research and development of new

products and the improvement of production processes to meet consumers' dual pursuit of health and taste.

In terms of market expansion, PepsiCo also performs excellently. Through precise market positioning and flexible marketing strategies, the company has successfully entered emerging markets and secured a position in a fiercely competitive market environment. PepsiCo not only focuses on expanding its domestic market but also actively expands its international presence through mergers and collaborations, further enhancing its global influence.

PepsiCo's business operations have maintained a stable and developing trend. Through effective cost control and financial management, the company ensures strong profitability. At the same time, PepsiCo emphasizes the shaping of corporate culture, highlighting employees' innovative spirit and teamwork, providing solid internal support for the company's sustained development.

Through a comprehensive study of PepsiCo, it can be learned from its excellent corporate culture and study its forward-thinking business and management models. PepsiCo's successful experiences not only provide important references for the food industry but also offer insights for companies in other sectors. By deeply analyzing PepsiCo's strategic planning, market strategies, technological innovation, and corporate culture, it can be better understood its leading position in the global food industry and draw valuable experiences and lessons from it.

PepsiCo is a multinational food, beverage, and retail company [1]. The company's predecessor was Pepsi-Cola, which initially produced cola and later expanded its range within the domestic food industry in the United States, growing to cover global operations today and becoming a major competitor to Coca-Cola. The company owns multiple well-known brands, not limited to beverages and potato chips, but also including a variety of consumer products such as breakfast cereals, dairy products, and candies [2]. PepsiCo's business spans over 160 countries worldwide, with a total workforce of about 290,000 employees and revenue exceeding \$70 billion.

This article mainly discusses the external and internal environment of PepsiCo, as well as the challenges it currently faces and its future development plans. This article will choose Porter's Five Forces as the main analytical model to analyze the external environment of PepsiCo. When analyzing its internal environment, various ratios will be used as entry points to assess PepsiCo's financial condition through various ratio data. Then, a comprehensive consideration of the past, present, and future will be made to conduct a risk assessment and to forecast the company's performance for the next 1-2 years.

## **2 External Environment**

This section selects Porter's Five Forces as the analysis model.

## 2.1 Bargaining Power of Suppliers

PepsiCo's suppliers mainly include raw material suppliers and equipment suppliers. Currently, PepsiCo's industrial chain has formed a complete structure, with raw material processing plants, food production bases, and storage and logistics centers located around the world. This approach compresses PepsiCo's transportation costs and ensures cost-effectiveness. In addition, PepsiCo's global distribution is dense, forming a scale advantage, and its strong bargaining power has also reduced costs to some extent [3]. PepsiCo has established solid cooperative relationships with suppliers to form a complete supply chain, which has strong bargaining power in the industry.

## 2.2 Bargaining Power of Buyers

PepsiCo's customers include wholesalers and other distributors. Across the entire market, Pepsi's product base spans multiple age group demographics, with a high concentration of customers. Moreover, due to the products being part of the fast-moving consumer goods (FMCG) category, prices and customer loyalty are relatively low. Whether customers will purchase their products also depends on their shopping habits and even consumer psychology. Therefore, the switching costs for customers are low, so the buyer's bargaining power is weak.

## 2.3 Threat of New Entrants

The entry barriers in the food and beverage industry are relatively low compared to other industries, and the form of low cost and high profit is very attractive to businesses looking to enter this sector [4]. With an increasing number of new entrants, the competition in the food and beverage industry is becoming more intense. In order to secure more customer resources, businesses are forced to reduce their profits. However, PepsiCo has a strong and long-standing industrial system, and its comprehensive system ensures stable development amidst fierce market competition [5]. Moreover, PepsiCo continuously acquires various food and beverage companies, leveraging its powerful influence to absorb new entrants, reducing threats while also expanding its own industrial scale.

## 2.4 Threat of Substitutes

About "Closeness" of substitute, Pepsi's business is divided into two main parts, that are beverage part and the snack part. For the former, Coca-Cola has always the biggest rival to Pepsi. The beverage products in these two companies has serious homogeneous problem, showed the high level "closeness" of substitute. Also, with more and more focuses of the health issue, some emerging health beverages may have negative impact on Pepsi's beverage. For another part, There are many brands and products with serious product homogenization problem in the whole snack industry [5]. So it thinks its substitute similarity is lower middle.

## 2.5 Industry Rivalry

In terms of price competition, due to the fact that most of Pepsi's products are fast-moving consumer goods, customer loyalty is low, product homogeneity is severe, and the utility gap is small, it is difficult for products to stand out from others based solely on their own merits. Therefore, fierce price competition occurs from time to time, causing fluctuations in Pepsi's profits. The key to price competition is who has a higher market share. The latest data indicates that Pepsi and Coca-Cola have market shares of approximately 7.2% and 14.9% in the global beverage industry, roughly a ratio of 1:2, which means Pepsi is at a slight disadvantage [6]. However, this also implies that due to its larger market share, Coca-Cola's profits decrease faster, so now both companies have reached a relatively stable and healthy competitive state, and price wars are no longer intense.

In terms of competitors, due to low technological barriers, there are many companies in the beverage and snack industries, but Pepsi has an absolute advantage in terms of scale and operational results [7]. On the market, the main threat to Pepsi is — Coca-Cola. Coca-Cola is also one of the most famous beverage companies in the United States, with its beverage market share even being double that of Pepsi's. According to Coca-Cola's 2023 annual financial report, its net income reached \$45.755 billion. According to Pepsi's 2023 annual report, Pepsi and Coca-Cola accounted for 19% and 20% of the beverage market in the United States, respectively. Coca-Cola has a significant advantage in the market share of carbonated soft drinks in many markets outside the United States, and therefore the competition is fierce [8]. However, it is worth noting that although Pepsi is slightly behind in beverage business, it performs much better in terms of total revenue. Coca-Cola focuses only on the beverage industry, while Pepsi still performs well in other businesses. From the analysis results, it can be concluded that the business that contributes the most to Pepsi's revenue and profits is the Lay's brand business.

## 3 Internal Environment

### 3.1 Ratio Analysis

For the ratio analysis, by filtering and analyzing PepsiCo's balance sheets and income statements from 2021 to 2023, a general conclusion can be drawn: PepsiCo's operational status has been good over the past three years, with a positive profit trend and good prospects for expansion. However, the short-term liquidity ratios are not very strong, indicating relatively weak short-term debt-paying ability.

When analyzing turnover ratio, there are two key points to note. The first is that the accounts receivable turnover ratio is bigger than the accounts payable turnover ratio. PepsiCo's accounts receivable turnover ratio in 2023 was 8.5, meaning the company collects its average accounts receivable balance 8.5 times a year. The company has a high efficiency in collecting receivables and a fast turnover of funds, indicating good liquidity. The accounts payable turnover ratio is 1.7, which suggests that the company has a high credit rating with its suppliers and good management of cash flow. These

ratio figures indicate that the speed of cash inflow is greater than the speed of cash outflow, leading to a comfortable cash flow situation and a strong ability to generate cash, making it suitable for expansion and growth.

The inventory turnover ratio of PepsiCo in 2021 was above the average, reaching a high figure of 8.5. The inventory turnover ratios for 2023 and 2022 were 7.85 and 7.77 respectively, which are considered high within the average range, indicating that PepsiCo's inventory turnover was fast from 2022 to 2023, with a low risk of inventory accumulation. However, data like that of 2021 is excessively high, suggesting that inventory reserves were insufficient that year, leading to a risk of stockouts. The reason for this is that in 2021, a global COVID-19 crisis impacted PepsiCo's upstream production chain significantly, whereas in 2022, after the pandemic eased, the figures returned to a normal and advantageous level.

When analyzing the short-term liquidity ratios of PepsiCo, the conclusion is not impressive. Low current and quick ratios indicate that PepsiCo has a weak ability to pay off short-term debts. PepsiCo's current ratio was only 85% in 2023, and the quick ratio was even lower at 66%. This suggests that PepsiCo has more liabilities than assets and faces the risk of insufficient short-term funds, potentially needing to use long-term assets such as fixed assets to pay off short-term liabilities. However, the operating cash flow to current liabilities ratio is favorable, at 42.47% for 2023, and has been around forty percent for the years 2021 to 2023, indicating that PepsiCo has a strong ability to pay off the total debt.

Although the short-term solvency is not optimistic, PepsiCo has shown strong long-term solvency, with an interest coverage ratio reaching a high of 12.66 in 2023, indicating that its interest payments are well secured and the risk of default is low. Coupled with the previous turnover ratios, PepsiCo has demonstrated good credit in front of suppliers and consumers, which gives it a significant advantage in expanding the company and attracting investments.

In the sections on Leverage and Return on shareholders' equity, three indicators stand out in particular. They are the long-term debt to shareholders' equity ratio, the equity multiplier, and the liabilities to shareholders' equity ratio.

From 2021 to 2023, PepsiCo's long-term debt ratio has been decreasing year by year, with a 7.46% decrease from 2021 to 2022 and a 2.28% decrease from 2022 to 2023. This reflects the company's increasing profitability and growing cash flow. However, there are also potential risks. With the rise in social environmental awareness, PepsiCo faces some environmental issues, some of which have been taken to court, negatively impacting the company and potentially affecting its long-term debt repayment ability [9].

The ratio of liabilities to shareholders' equity has fluctuated slightly over the past three years, with a decrease of 8.1% from 2021 to 2022 and an increase of 1.27% from 2022 to 2023, but it has generally remained stable around 4. This indicates that the company has a strong ability to expand its operations and makes full use of shareholders' equity. Combining this with previous analysis, PepsiCo has too much debt, which can affect its ability to repay debts, has a significant financial leverage effect, and a high financial risk. If the company's profitability decreases, it will face the risk of debt default.

The equity multiplier has fluctuated over the past three years, with a decrease of 6.69% in 2022 and an increase of 1.03% in 2023, but it has remained generally stable at around 5, reflecting PepsiCo's relatively high debt-to-equity ratio. PepsiCo faces significant financial risks, but leveraging its strong market position, the company can use a substantial amount of funds from upstream and downstream sources for operations [10]. With robust competitiveness and no concerns about interest expenses eroding profits, PepsiCo can employ a higher equity multiplier, thereby achieving a higher return on equity and enjoying a higher valuation. A high equity multiplier has a dual nature; it amplifies profitability but also increases the company's risk.

### **3.2 Competitiveness**

In terms of resource competition, PepsiCo has a clear advantage. It optimizes production processes, adopts advanced production technologies and automated equipment to improve production efficiency and product quality stability; it has strict quality management, establishing a comprehensive quality control system to ensure that products meet international high standards; cost control is effective, reducing production costs through optimizing the supply chain and improving production efficiency. Its production equipment covers the most advanced beverage filling production lines and food processing equipment worldwide to ensure efficient production; and in terms of upstream supply, raw material supply is stable, establishing long-term cooperative relationships with numerous global suppliers to ensure the supply of raw materials such as fruits, sugars, and grains. Additionally, they have globally distributed storage facilities and logistics distribution centers, forming a comprehensive logistics network that greatly improves distribution efficiency. In terms of brand recognition, PepsiCo's brand value is high, with brands like Pepsi, Lay's, and Gatorade being well-known among global consumers, and customers having a high level of brand loyalty.

In terms of business competition, PepsiCo continuously explores celebrity endorsements and taste innovations, and for some traditional beverage or food businesses with shrinking market shares, they are considered for cancellation as appropriate.

## **4 Risk Assessment & Forecast**

### **4.1 Risk**

There are many factors that can bring business risks, such as the Russia-Ukraine conflict, water scarcity, changes in the retail landscape, or changes in sales to any major customer, political, social, and geopolitical conditions, the current state of the world economy, climate change or measures taken to address climate change and other sustainability issues, etc.

The Russia-Ukraine conflict and related sanctions have continued to result in worldwide geopolitical and macroeconomic uncertainty. The conflict has resulted and

could continue to result in volatile commodity markets, supply chain disruptions, the availability of input costs decreases and costs increase, other legislation or regulations and restrictions on the transfer of funds to and from Russia. The ongoing conflict could result in the temporary or permanent loss of assets, including the nationalization or expropriation of assets, result in additional impairment charges or significantly affect its ability to manage its operations in these markets which could result in the deconsolidation of such businesses. The conflict has adversely affected and could continue to adversely affect demand for the products and the global business.

In January, PepsiCo announced the launch of its new lemon-lime soda brand Starry into the U.S. market, and in April unveiled a new logo and visual identity for its flagship soft drink Pepsi. Leftover potato peelings from the manufacturing process are used to help power the plant using anaerobic digester technology, then converted into a low-carbon fertilizer which is given back to the farmers to help them grow their next crop. In March, the snacks and beverage giant made a \$216 million multiyear investment in long-term, strategic partnership agreements with three U.S.-based farmer-facing organizations, designed to drive adoption of regenerative agriculture practices across the U.S. The company expects the combined impacts of the partnerships to support the uptake of regenerative practices on more than three million acres, delivering approximately three million metric tons of GHG emission reductions and removals by 2030.

## 4.2 Forecast

This research chose the Compound Annual Growth Rate to estimate the revenue in the future, and find the total revenue from 2020 to 2023 of Pepsi from NASDAQ website (see Table 1), computing the CAGR of Pepsi with the formula. The calculation result is about 9%, which means Pepsi can be seen as a well-performed company with good growth rate. The revenue forecast results in the next two year are shown in Table 2 below. Till 2026, under the CAGR of 9%, Pepsi's revenue will continue to grow steadily and is likely to reach \$1184 billion.

**Table 1.** Total revenue of Pepsi from 2020 to 2023.

Year	2020	2021	2022	2023	CAGR
Revenue (million)	70372	79474	86392	91471	9.13%

**Table 2.** Revenue forecast in the next two years.

Year	2023	2024	2025	2026
Revenue (million)	91471	99703.39	108676.69	118457.59

## 5 Conclusion

In terms of the whole industry, according to some relative data, previous studies have noticed that the global average annual growth rate of the whole food and beverage manufacturing industry is 3% to 4%, and is expected to maintain stable growth over the next three to five years. Global food revenue maintained a growth rate of 6%, with China, the United States and India being the three major markets for the food industry. This is mainly due to consumers' pursuit of the quality, taste and nutritional value of food and beverages, as well as the continuous expansion of emerging markets. As the global population grows and urbanization accelerates, the consumer demand for food and beverages continues to increase, driving the steady growth of the industry.

PepsiCo has an optimistic outlook for the future. It will continue to advance product innovation and diversification, expand into emerging markets, strengthen digital transformation, adhere to sustainable development, and meet consumers' demand for healthy food and beverages. With its strong brand influence and strategic positioning, it is expected to achieve sustained growth and consolidate its leading position in the global food and beverage industry.

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