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First Cut Stock Study Report

Company Name:	PepsiCo	**Ticker:**	PEP
Date of Study:	7/13/2009	**Price:**	$ 55.52
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City:	Bloomfield	**State:**	MI
Chapter Name (if applicable):	BetterInvesting Home Office		

Discuss why you consider this to be a high quality, growth company that should be investigated further. Please include comments on historical sales and EPS growth, pre-tax profit margin, return on equity, and debt.

I previously analyzed Pepsi in August, 2008. Since that time we have experienced a world-wide recession and Pepsi has not been immune from the effects. EPS in 2008 grew only 2.7% and EPS is expected to be flat in 2009. Pepsi's consistent historical performance gives me confidence that once the short-term challenges are past, Pepsi will achieve a higher growth rate.

Debt levels have recently risen to about 45% of capital. This raises a concern and should be monitored closely.

Briefly describe how the company makes money:

Pepsi is a globlal producer of food and beverages, manufacturing and distributing a wide variety of snacks, carbonated and noncarbonated beverages, and other foods. Major brands include Fritos, Lay's, Ruffles, Doritos, Cheetos, Quaker, Pepsi, Mountain Dew, Sierra Mist, Garorade, and Tropicana.

Projected growth rate for sales: 6**%**
Why did you select this rate? Discuss from where future growth will come.

Sales growth is projected to be 3-5% for the next year or two. Once the global recession passes growth should rebound led by international expansion, new products, and capitalizing on consumer trends, such as the shift to noncarbonated beverages.

Projected growth rate for earnings per share: 7**%**
Why did you select this rate?

Profit margins are down in 2008 but should rebound as cost-cutting initiatives take effect. A 7% EPS growth rate is reasonable based on a projected PTP margin of 18%, which is lower than the 5 year average of 19.3% but up from the 17.5% margin in 2008.

Projected High P/E: 20

Why did you select this value?

Pepsi's high and low P/Es have been fairly consistent over the past 5 years. In light of current market conditions and slower projected growth I have reduced the P/Es accordingly.

Projected Low P/E: 12

Why did you select this value?

I use the PMG (front) to review the recent P/Es. In Feb. 2009 PEP traded below a P/E of 14, and has not traded at that level in more than 10 years. I went a couple points below this to, hopefully, capture a "worst case scenario."

Projected Low Price: $41.9

Why did you select this value?

Multiplying my projected low P/E by the EPS from the last 4 quarters results in a low price of $41.90. Comparing this to the current price of $55.52 and the 52-week low of $43.78 allows for a reasonable cushion on the downside.

At the current price, the stock is a (check one):

☒**Buy** or ☐**Hold** or ☐**Sell**

At the current price, the upside-downside ratio is: 3.0 **to 1**

Projected compounded rate of return: 13.8**%**

Your final recommendation (check one):

☐**Buy** or ☒**Hold** or ☐**Sell**

Explain:

While the SSG reports the stock to be in the buy range PEP will not double my money in 5 years if purchased at the current price. I would prefer to purchase this stock at a price under $53, which I project would give me a return of 15%.

The dividend yield is currently over 3% which is a nice addition to the anticipated price appreciation.

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Stock Selection Guide ®

The most widely used aid to good investment judgment

Company	PEPSICO INC	Date	07/13/09
Prepared by	Ann	Data taken from	NAIC Data
Where traded	NYSE	Major product/service	Soft Drinks

CAPITALIZATION --- Outstanding Amounts | Reference

Preferred($M)		-98.0	% Insiders	% Institution
Common(M Shares)		1,556.0	0.0	0.0
Debt($M)	9,496.0	% to Tot.Cap. 43.9	% Potential Dil.	None

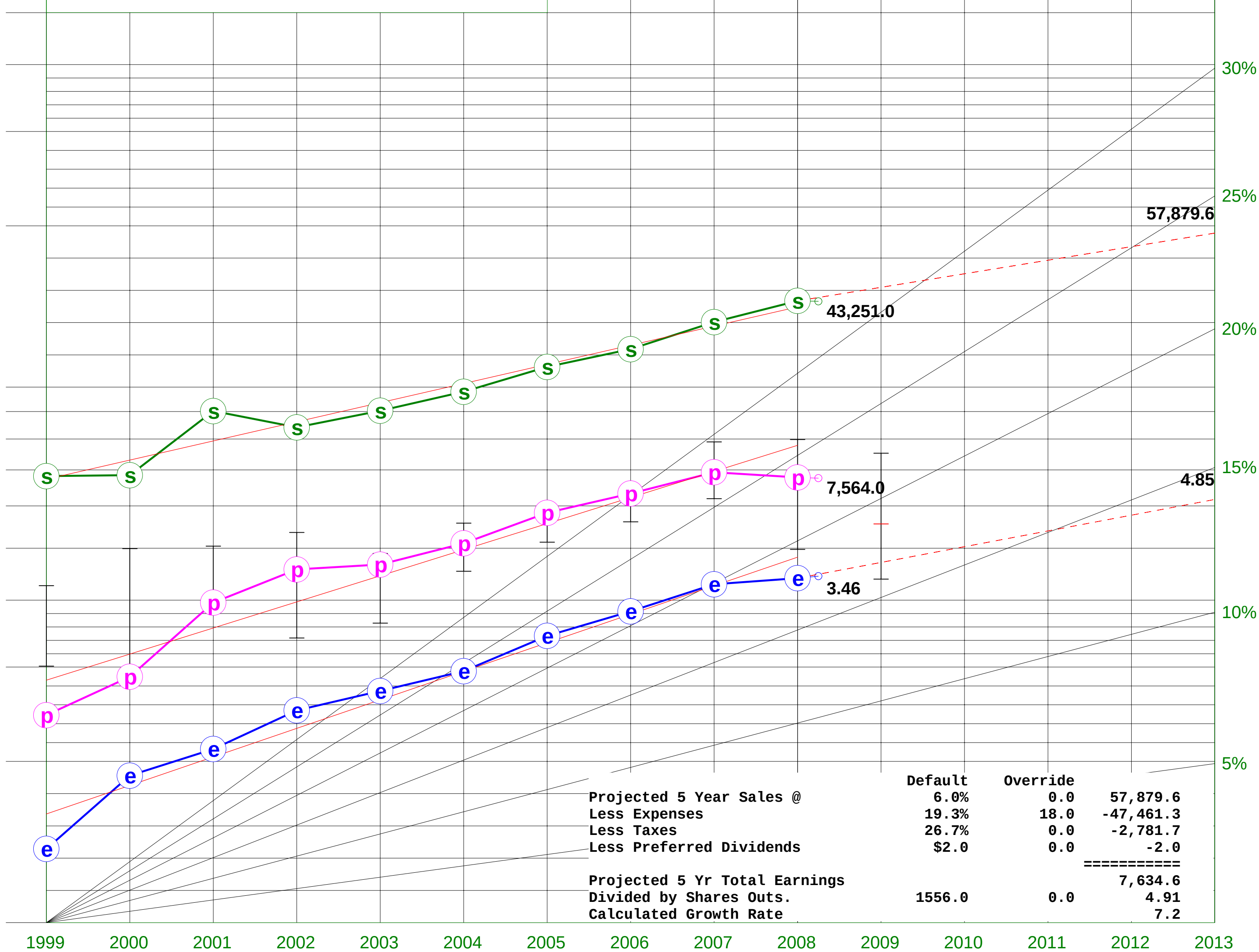
1 VISUAL ANALYSIS of Sales, Earnings and Price

PEP

FY 2009 Q1 (Ended 3/31/2009)
RECENT QUARTERLY FIGURES

	SALES ($M)	EARNINGS PER SHARE ($)
Latest Quarter	8,263.0	0.73
Year Ago Quarter	8,333.0	0.70
Percentage Change	-0.8%	4.3%

See Chapters 8, 9, and 10 of the BetterInvesting Official Guide for complete instructions.
Use this Guide as working section of BetterInvesting Stock Selection Guide & Report.



	Default	Override	
Projected 5 Year Sales @	6.0%	0.0	57,879.6
Less Expenses	19.3%	18.0	-47,461.3
Less Taxes	26.7%	0.0	-2,781.7
Less Preferred Dividends	$2.0	0.0	-2.0
			===========
Projected 5 Yr Total Earnings			7,634.6
Divided by Shares Outs.	1556.0	0.0	4.91
Calculated Growth Rate			7.2

(1) Historical Sales Growth 8.6 %
(3) Historical Earnings Per Share Growth 13.1 %
(2) Estimated Future Sales Growth 6.0 %
(4) Estimated Future Earnings Per Share Growth 7.0 %

Printed: 07/13/09 03:21 PM Prepared by: Ann Using The Investor's Toolkit

2 EVALUATING MANAGEMENT

Company PEPSICO INC (PEP) 07/13/09

		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	LAST 5 YEAR AVG.	TREND UP	TREND DOWN
A	% Pre-tax Profit on Sales (Net Before Taxes ÷ Sales)	13.4	15.7	16.4	20.3	19.3	19.5	19.9	20.1	19.6	17.5	19.3		DOWN
B	% Earned on Equity (E/S ÷ Book Value)	22.8	29.5	33.7	36.3	30.5	28.7	31.2	31.8	31.2	44.0	33.4	UP	

3 PRICE-EARNINGS HISTORY as an indicator of the future

This shows how stock prices have fluctuated with earnings and dividends. It is a building block for translating earnings into future stock prices.

PRESENT PRICE 55.520 HIGH THIS YEAR 75.250 LOW THIS YEAR 43.780

	Year	A PRICE HIGH	B PRICE LOW	C Earnings Per Share	D Price Earnings Ratio HIGH A ÷ C	E Price Earnings Ratio LOW B ÷ C	F Dividend Per Share	G % Payout F ÷ C X 100	H % High Yield F ÷ B X 100
1	2004	55.7	45.3	2.32	24.0	19.5	0.850	36.6	1.9
2	2005	60.3	51.3	2.70	22.3	19.0	1.010	37.4	2.0
3	2006	66.0	56.0	3.00	22.0	18.7	1.160	38.7	2.1
4	2007	79.0	61.9	3.37	23.4	18.4	1.425	42.3	2.3
5	2008	79.8	49.7	3.46	23.1	14.4	1.650	47.7	3.3
6	TOTAL		264.2		114.8	90.0		202.7	
7	AVERAGE		52.8		23.0	18.0		40.5	

8 AVERAGE PRICE EARNINGS RATIO 20.5 9 CURRENT PRICE EARNINGS RATIO 15.9

Proj. P/E [14.87] Based on Next 4 qtr. EPS [3.73] Current P/E Based on Last 4 qtr. EPS [3.49]
PEG=212

4 EVALUATING RISK and REWARD over the next 5 years

Assuming one recession and one business boom every 5 years, calculations are made of how high and how low the stock might sell. The upside-downside ratio is the key to evaluating risk and reward.

A HIGH PRICE -- NEXT 5 YEARS

Avg. High P/E ~~23.0~~ 20.0 (3D7 as adj.) X Estimate High Earnings/Share 4.85 = Forecast High Price $ 97.0 (4A1)

B LOW PRICE -- NEXT 5 YEARS

(a) Avg. Low P/E ~~18.0~~ 12.0 (3E7 as adj.) X Estimated Low Earnings/Share ~~3.46~~ 3.49 = $ 41.9

(b) Avg. Low Price of Last 5 Years = 52.8 (3B7)

(c) Recent Severe Market Low Price = 43.8

(d) Price Dividend Will Support Present Divd. / High Yield (H) = 1.800 / 0.033 = 54.2

Selected Estimate Low Price = $ 41.9 (4B1)

C ZONING

97.0 (4A1) High Forecast Price Minus 41.9 (4B1) Low Forecast Price Equals 55.1 (C) Range. 1/3 of Range = 13.8 (4CD)

(4C2) Lower 1/3 = (4B1) 41.9 to 55.7 (Buy) Note: Ranges changed to 25%/50%/25%

(4C3) Middle 1/3 = 55.7 to 83.2 (Maybe)

(4C4) Upper 1/3 = 83.2 to 97.0 (4A1) (Sell)

Present Market Price of 55.520 is in the Buy (4C5) Range

D UP-SIDE DOWN-SIDE RATIO (Potential Gain vs. Risk of Loss)

High Price (4A1) 97.0 Minus Present Price 55.520 / Present Price 55.520 Minus Low Price (4B1) 41.9 = 41.5 / 13.6 = 3.0 (4D) To 1

E PRICE TARGET (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)

High Price (4A1) 97.0 / Present Market Price 55.520 = (1.747) X 100 = (174.7) - 100 = 74.7 (4E) % Appreciation

Relative Value: 77.6% Proj. Relative Value: 72.5%

5 5-YEAR POTENTIAL

This combines price appreciation with dividend yield to get an estimate of total return. It provides a standard for comparing income and growth stocks.

Note: Results are expressed as a simple rate; use the table below to convert to a compound rate.

A Present Full Year's Dividend $ 1.800 / Present Price of Stock $ 55.520 = 0.032 X 100 = 3.2 (5A) Present Yield or % Returned on Purchase Price

B AVERAGE YIELD OVER NEXT 5 YEARS

Avg. Earnings Per Share Next 5 Years 4.24 X Avg. % Payout (3G7) ~~40.5~~ 40.0 = 169.6 / Present Price $ 55.520 = 3.1 (5B) %

C ESTIMATED AVERAGE ANNUAL RETURN OVER NEXT FIVE YEARS

5 Year Appreciation Potential (4E) 74.7 / 5 = 14.9 %

Average Yield (5B) 3.1 %

Average Total Annual Return Over the Next 5 Years (5C) 18.0 %

	P.A.R.	Tot. Ret.
Average Yield	2.5%	2.0%
Annual Appreciation	6.9%	11.8%
% Compd Ann Rate of Ret	9.4%	13.8%