Report on pepsico annual

[Business](), [Company]()

Introduction.

Pepsi Co is an American based public company with long history and traditions. It was first imcorporated almost 100 years ago in 1919 in Delaware. Throughout the century it has become one of the leaders of beverage and food industry with brands like Pepsi, Mountain Dew, Mirinda, Lay’s, Doritos, Cheetos, etc. It is a multi-billion dollar business with last year sales of more than $65 billion. PepsiCo employs 278, 000 people worldwide and operates in each major geographical region of the world: North and Latin America, Europe, Asia, Middle East and Australia. Company is listed on the NYSE under the ticker PEP. Because of its successful performance for decades, it is included to the S&P 500 index.

In order to perform the analysis of the Annual Report we will take the Pepsico’s Inc. annual report (also known as Form 10-K) for the fiscal year ended December 29, 2012 as an example. The report provides detailed information on company’s business and its operations, presents analysis of financial statements and risk factors throughout the year, and depicts the structure of corporate governance within the company. Annual Report consists of 4 major parts. Part I defines Pepsico's area of expertise and major milestones in its history, as well as potential risk factors which may affect the price of Pepsico's stock. Part II depicts company's stock performance throughout the year, provides consolidated financial data (Income Statement, Balance Sheet, Statement of Cash Flows and Statement of Changes in Equity) and its analysis, as well as analysis of the effectiveness of the Control System. Part III gives references to the company's official documents regarding Corporate Governance, Executive Compensation and Investor Relationship issues. Part IV includes Closing Remarks, Exhibits and Financial Statement Schedules.

Auditor's Report.

Annual report claims that all financial statements of the company were audited by KPMG LLP. Their report may be found in the Part II of the annual report titled " Report of Independent Registered Public Accounting Firm". Independent auditors produced an unqualified opinion. According to the KPMG, Pepsico's financial statements present the financial position of Pepsico fairly in all material respects. Auditors also notice that Pepsico maintained effective control over financial reporting in the year ended 29 December, 2012. From the auditor's report we may conclude that there were no subsequent events, errors and irregularities, illegal acts, or related-party transactions that had a material effect on the financial statements.

Balance Sheet

We may see from the Balance Sheet statement that Pepsico's Total assets increased by 2. 5% from $72. 8 billion to $74. 7 billion. This growth was mainly driven by increase in cash and cash equivalents which increased from

$4 billion in 2011 to $6. 3 billion in 2012. Other asset accounts remained more or less stable, compared to 2011. Major assets of PepsiCo include Buildings and improvements evaluated at $7. 9 billion, machinery and equipment, including fleet and software ($24. 5 billion) and goodwill evaluated at $16. 9 billion. Interestingly, that Pepsico's reputation and other intangible assets are worth more than its depreciated tangibles, which proves that PepsiCo has a strong brand and projects a reliable and respectful image in the beverage industry. Overall, unstable economic situation around the world did not influenced Company's efficiency. Pepsico continues to maintain a reasonable level of inventory turnover through the 4-year period. It also efficiently manages its receivables, maintaining the receivables turnover ratio at around 9. Due to unfavorable level of sales in 2012, Return on assets had slightly decreased in 2012 and equaled 0. 88, compared to 0. 91 in 2011 and 1., 08 in 2009.

Growth in Liabilities and Shareholder's equity was driven by increase in long-term debt obligations (increase by $3 billion), decrease in short term debt (decrease by $2 billion). Shareholder's equity account increased from $20. 7 billion in 2011 to $22. 4 billion in 2012 due to increase in the retained earnings account (increase from $40. 3 billion in 2011 to $43. 2 billion in 2012). Pepsi Co manages to maintain reasonable level of liquidity, as quick and current ratio indicators remain higher than 1. This means that Pepsi Co has no difficulties in repaying its short-term obligations and maintains reasonable level of cash to finance its operations. However, structure of PepsiCo's liabilities may seem a little bit disturbing as company has been accumulating long-term debt for the past 3 years. In 2012 it equaled $23. 5

billion compared to $7. 4 billion in 2009. As a result, debt-to-equity ratio increased from 0. 44 in 2009 to 1. 05 in 2012, which is way higher than industry's average. Increased debt will result in increased interest payments in future periods, which may affect Pepsico's profitability. In addition, high amount of debt may deter potential investors from the company. However, if company manages to invest debt money into profitable and valuable projects, it could result in subsequent growth of sales and development of the business. Major liabilities include Notes due 2018-2042 ($13. 8 billion) - interest rate is 4. 4% and 4. 8% respectively, and current maturities of long-term debt - $2. 9 billion.

Although company demonstrates a slight decline in 2012, its financial position is still credible and favorable. Most companies within the food & beverages sector demonstrated a slight decrease in profitability, so that's an industry issue. Pepsi Co still efficiently manages its payables and receivables, and maintains strong cash position to deal with current liabilities. However, increased debt may result in serious concerns regarding company's credibility, as it is unfavorable to maintain debt-to-equity ratio higher than 1, as it might deter potential partners and investors. In addition, such significant surge in debt will result in increased interest payments in the future periods, which will affect company's expenses, and, thus, reduce profitability.

Common Stock.

The report claims that as of December 29, 2012, PepsiCo Inc. had 1, 542, 782, 724 shares of common stock issued and outstanding. In addition, PepsiCo has 600 thousand shares of authorized preferred stock which is valued at $164 million. Managers of PepsiCo argue that there were 152, 290 shareholders as of December 29, 2012.

Income Statement.

PepsiCo uses a multiple-step income statement, which means that expenses are subtracted multiple times in order to provide a clear understanding of gross profit, operating profit and net profit. Income statement contains consolidated information about company’s sales, costs and other income and expenses. Although company successfully managed to recover from the world-economic crisis in 2008-2009, it has experienced a slight drop in sales of its products in 2012 due to highly-competitive environment and uncertain conditions in the world’s economy. In 2012 sales decreased by 1. 5%, while cost of goods sold drop only by 1%. Currency instability and uncertain economy had influenced the decrease in operating and gross margins. Gross margin decreased by almost 2% compared to 2010, while operating margin decreased by 0. 5% . Decreased sales and dropping margins resulted in slight decrease of net income by 3. 8% compared to 2011.

Cash Flow Statement.

In order to analyze Pepsico’s cash position we will refer to the Consolidated Cash Flow Statement, located in the second part of the report. Cash flow from operating activities is formed using indirect method, while Cash Flow from financing and investing activities are prepared using direct method. We may see that Cash inflow from operating activities decreased by more than 5% in 2012, mainly because of decrease in net income (from $6. 4 billion in 2011 to $6. 2 in 2012) and increase in pension and retiree medical plan contributions (from $349 million in 2011 to $1. 87 billion in 2012).

Cash outflow from investing activities has decreased from $5. 6 billion in 2011 to almost $3 billion in 2012. This decrease was mainly driven by decrease in capital spending (from $3. 4 billion in 2011 to $2. 7 billion in 2012) and absence of acquisition deals (in 2011 PepsiCo invested approximately $2. 5 billion in M&A deals). Largest items in CFI include capital spending, short-term investment and cash-payments for acquisition transactions completed in previous years.

Reference List

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