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# MERGER AND ACQUISITION of PEPSI Co ON THE BASIS OF FINANCIAL ANALYSIS

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**ABSTRACT:** *Purpose:* The basic purpose of this research is to demonstrate financial position of Pepsi Company with beverages and food industry that how companies amount their financial magnitudes and utilize these financial steps to recognize organization's change associated situations.
*Design/ Methodology:* The detailed analysis strategy is utilized to better understand the organization. In this study analysts created that how organization's operations and position is effected by the incredible financial destruction in general world's economy. Primary and secondary data are used for that ratio analysis Also they examined that how they are attempting to make due in businesses to hold their heading position.
*Findings:* After the ratio analysis researcher found that company is in good position in his beverage and food industry or leading company with high sale growth, No doubt company affected by the worse economic situation but still follows the top level strategies in their operations and sustains their position.

**KEYWORDS:** Financial ratio analysis, merger & acquisition, Beverages industry, performance measurement.

## INTRODUCTION

PepsiCo is one of the leading companies in providing food plus drinks products. It subsidizes in 200 countries and its brands comprises of Frito-Lay North America, PepsiCo Beverages North America, PepsiCo International and Quaker Foods North America. PepsiCo was established in 1965 through the union of Pepsi cola as well as Frito Lay. The company is leading by denoting world with proper foods. It deals with different variety a food preferences and also healthy partialities. . On the basis of revenue PepsiCo is graded as the second major business of food & beverages However in North America, it is first largest business on the basis of net revenue.

It serves as a company due to its justified benefit. It consists of extensively well-known brands, pioneering products, and dominant market services. (financial-management-project-pepsi-financial-ratios, 2014)

## PEPSICO SEGMENT ANALYSIS

Pepsi segments its market on the basis of demographically assuming age, family size and income. The company has identified six main segments, which are Frito-Lay North America (FLNA), (25.5% of total revenue Quaker Foods North America (QFNA), (5.02% of total revenue) Latin America Foods (LAF), (10.6% of total revenue), PepsiCo Americas Beverages (PAB) (35.06% of total revenue), Europe, (15.54% of total revenue) and Asia, Middle East & Africa (AMEA) (9.28% of total revenue). Its competitor is Coca cola. Almost 1 billion sales were generated in 2012, which generated net incomes of $43.3 billion. (The pepsi Store, 2010)

The major reason of expansion of PepsiCo is merger and acquisition. In 1997its business diverse due to many large-scale acquirements, so PepsiCo initiated to spread the processes elsewhere it includes the business of soft drinks and snack foods. In 1998, PepsiCo made another acquisition with orange juice company. In 2001 it merged with another company named as Quaker Oats. In August 2009, in order to purchase the two largest bottlers of its products PepsiCo made a $7 billion proposal in North America: Pepsi Bottling Group and PepsiAmericas. The acquisition was accomplished in 2010. Which result the formation of an innovative wholly preserved subsidiary named as *PepsiCo Beverages Company.* (pepsiCo-completes-transformative-botteling-acquisitions, 2012) .During 2011, main worldwide acquisition was established by acquiring bulk stake in Wimm-Bill-Dan Foods, which is a Russian company of food that products juices, fruits, milk and such kind of products. In October 2011, it became the world's greatest food and Beverages Company by purchasing rest of 23% stake of that Russian food company.

## INDUSTRY ANALYSIS

The industry in which PepsiCo exist is the industry of food and beverages. This industry comprises of considering rare food resources, wrapping and packing, and also allocating them. Its business consists of different varieties of food along with intoxicating and non-alcoholic drinks. Beverages industry comprises of all the food soft drinks business. But its main competitor in that industry is Coca-Cola. It was started by a pharmacist Dr. John S Pemberton in 1886, in Atlanta, Georgia, Coca-Cola is the world's primary producer, dealer as well as supplier of non-distilled beverages distillates and sauces. It contains 500 brands mostly. It operates in almost 200 countries but main region is in USA.

When we compare PepsiCo and Coca-Cola, it is seen that in 2005, PepsiCo exceeded from The Coca-Cola for the first time in many years and that's why competition started between both companies. In 2009, In U.S, Coca-Cola Company earned greater market shares by the sale of soft drinks.. In similar year, PepsiCo preserved much shares of whole U.S beverages industry higher share of the U.S. refreshment beverage market, but with some changings in product categories of both companies. In 1990s and 2000s, PepsiCo made much more partnerships, so it made its business of mainly beverages, snacks and foods. In 2009, different brands of PepsiCo like Quaker Oats, Frito-Lay earned many U.S market shares in snack food sales. These shares were almost 39% of whole snack food market. In snack food market main competitor of PepsiCo is Kraft Foods which preserved 11% market shares at that time. Many other competitors are RC Cola, Turk Kola, Real Inca Kola and Zam Zam Cola etc. Others may be Evoca Cola and Afri Cola. 19% return of PepsiCo made it to defeat Coca-Cola from 9%. (pepsi-Cola Brands, 2010)

Recently it is confirmed that in many regions like restaurant chain Buffalo Wild Wings has moved beverage contractors from Coca-Cola to Pepsi, which is positive and create high demand of Pepsi. Moreover, PepsiCo's benefits bonds through the National Football League and Major League Baseball. Coca-Cola has three sections of its incomes .For PepsiCo; it's only a sector of its incomes. More income of PepsiCo's is earned from snacks and foods, and different brands like Quaker, Frito-Lay and Cheetos etc. According to author, the transformation happening in the product mix is the real reason of PepsiCo success and that's why in 2013, it has beaten Coca-Cola. Some financial results of PepsiCo and Coca-Cola are shown below. The amount is in $.

| | | Coca-Cola | | PepsiCo |
|---|---|---|---|---|
| **Market Cap** | | 173 Billion | | 125 Billion |
| **Sales** | | 47 Billion | | 66 Billion |
| **Net Profit Margin** | | 18.5% | | 10.1% |
| **ROE** | | 26.7% | | 30.5% |
| **Net Income** | | 8.7 Billion | | 6.7 Billion |

Coca-Cola, temporarily, is in a harder situation and the reasons are just dependability on different flavored beverages. According to Cortes. "Customers are progressively turning away from sentimental beverages, moreover, enlarged government instructions on how to sell soda drinks. On the apparent side, both companies look as similar given that they both are appreciated at about 17 times their future anticipated incomes.

## PEPSI FINANCIAL RATIO ANALYSIS

Financial ratio analyses for Pepsi Company are as follows. PepsiCo Inc.'s current ratio improved from 2011 to 2012 and from 2012 to 2013 but it is decrease from 2009.In the same way quick ratio shows that Pepsi hold more inventory than industry and its time series analysis shows that this ratio slightly fluctuate from 2009 to 2013.The current and quick ratios are not sustained of Pepsi. Current ratio of Pepsi company is relatively stable .quick ratio of Pepsi is also not stable and have declining trend in 2011 but it is much better than industry.

| Year | Current ratio | Quick ratio | Debt-to-Equity ratio | Debt-to-capital ratio | *Interest Coverage ratio* | *Inventory Turnover* ratio | payable turnover ratio | working capital turnover | Gross profit margin | Net Profit Margin | Return on Assets | Return on Equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2009** | 1.44 | 1.00 | 0.47 | 0.32 | 21.35 | 7.68 | 6.98 | 11.33 | 53.51 | 13.75 | 14.92 | 35.86 |
| **2010** | 1.11 | 0.80 | 1.18 | 0.54 | 10.12 | 7.88 | 6.88 | 34.49 | 54.05 | 10.93 | 9.27 | 29.86 |
| **2011** | 0.96 | 0.62 | 1.30 | 0.57 | 11.32 | 8.26 | 7.74 | 0 | 52.49 | 9.69 | 8.84 | 31.29 |
| **2012** | 1.10 | 0.80 | 1.27 | 0.56 | 10.24 | 8.74 | 7.03 | 40.15 | 52.22 | 9.43 | 8.28 | 27.71 |
| **2013** | 1.14 | 0.93 | 1.22 | 0.55 | 10.76 | 9.16 | 6.41 | 15.22 | 52.96 | 10.15 | 8.70 | 27.76 |

*(Source: Annual Report of PepsiCo 2012-2013) (Inc, 2014)*

Pepsi Company's debt equity ratio enhanced through 2009 to 2013. This implies, relative to the industry, the Pepsi Company takes a less destructive method to finance its growth with its debt, reducing its risk as a company similarly debt to capital ratio improved through 2009 to 2013.pepsico Inc. interest coverage ratio declined from 2009 to 2010 but enhanced from 2012 to 2013. Inventory turnover ratio of Pepsi is much greater in comparison with industry. Payable turnover is same to some extent of both PepsiCo and industry. But the working capital turnover of Pepsi is declining every year which shows that working capital turnover of Industry is greater than Pepsi. PepsiCo Inc.'s gross profit margin declined from 2011 to 2012 but then enhanced from 2012 to 2013 beyond 2011 level. Similarly case with net profit margin that shows company has higher level of earnings. Return on assets this ratio shows that Pepsi has ability to use their assets efficiently to produce more revenue. The Pepsi's return on equity ratio slightly decreased from 2009 to 2013 but it is higher than industry. It showing that profits are using to make the money the actual shareholders have invested.

***2013 Ratio Analysis of industry***

| Ratios | Pepsi | Industry |
|---|---|---|
| **Current ratio** | 1.14 | 1.11 |
| **Quick ratio** | 0.93 | 0.76 |
| **Debt to Equity** | 1.22 | 0.99 |
| **Debt to capital** | 0.55 | 0.50 |
| **Interest coverage** | 10.76 | 14.40 |
| **Inventory Turnover** | 9.16 | 6.79 |
| **R/A Turnover** | 9.55 | 12.70 |
| **P/A Turnover** | 6.41 | 6.69 |
| **Working capital** | 15.22 | 23.12 |
| **Gross profit** | 52.96 | 50.22 |
| **Net Profit** | 10.15 | 8.60 |
| **Return on Assets** | 8.70 | 6.29 |
| **Return on equity** | 27.76 | 20.00 |

*(Source: Annual Report of PepsiCo 2012-2013) (Inc, 2014)*

There are several reasons to contemplate when defining whether a stock is a good investment, not just whether the free cash flows are positive. In 2009 the Pepsi Company acquires two largest bottler in North America. And in 2011 it makes its largest acquisition. Due to this Pepsi increase its assets and its liquidity ratio increase. And due to this its inventory turnover ratio also increase because it had not hold inventory for long time period .Pepsi invest in different projects and earn profit. But due to this acquisition it faces many problems it go far away from its core business due to this investors believe become low and the profitability ratio some extent affected. And gross profit margin become low as industry. But according the ratio analysis of industry of 2013 you can see that Pepsi's ratios greater than industry ratios Company's performing well in 2013 as compared to all previous years and overall it is efficiently succeeded in the industry and most of the performance measuring ratios are better than industry which can be easily understand by the following graphic representation of the Pepsi & Industry average.

## SHORT TERM LIQUIDITY MANAGEMENT

The beverage and food industry averages a current ratio of 1.11 and a quick ratio of 0.76, so Pepsi's current ratio is 1.14 and quick ratio is 0.93, the observation after combined the both ratios are lead to the conclusion that Pepsi is in a solid short-term liquidity position. Although this favorable solid position is important for owners it may become is the important for debt investors.

In case of Pepsi, many solid improvements have to be seen in its liquidity position since 2011 to2013. But a large increase which is shown is in other current assets. The other current assets

increased 46% percent in 2013 Several improvement in short term liquidity is the result to reductions in and income tax pay able and short term obligations slightly reduced total current liabilities. .Pepsi in 2013 also increases the sales revenue because its cost of sales become low and the result due to increase in sale revenue the operating profit also increase throughout the period But its selling expense and net income remain same. This increase in sales revenue and operating profit shows its management efficiency.

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2010% | 2011% | 2012% | 2013% |
|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | |
| **Cash &cash equivalents** | 3943 | 5943 | 4067 | 6297 | 2375 | 50.72% | -31.56% | 54.83% | -62.3% |
| **short term investments** | 192 | 426 | 358 | 322 | 303 | 121.8% | -15.96% | -10.1% | -5.9% |
| **Account Receivable** | 4624 | 6323 | 6912 | 7041 | 6954 | 36.740% | 9.315% | 1.866% | -1.23% |
| **Inventories** | 2618 | 3372 | 3827 | 3581 | 3409 | 28.800% | 13.49% | -6.42% | -4.81% |
| **Other current assets** | 1194 | 1505 | 2277 | 1479 | 2162 | 26.046% | 51.295% | -35.04% | 46.18% |
| **Total Current Assets** | 12571 | 17569 | 17441 | 18720 | 22203 | 39.75% | -0.72% | 7.333% | 18.61% |
| **Liabilities** | | | | | | | | | |
| **Short term obligation** | 464 | 4898 | 6205 | 4815 | 5306 | 955.6% | 26.68% | -22.41% | 10.10% |
| **Accounts payable** | 8127 | 10923 | 11757 | 11903 | 12533 | 34.404% | 7.635% | 1.242% | 5.293% |
| **Income taxes payable** | 165 | 197 | 192 | 371 | | 19.39% | -2.54% | 93.23% | -100 |
| **Total Current liabilities** | 8756 | 15892 | 18154 | 17089 | 17839 | 81.498% | 14.23358 | -5.866% | 4.388% |
| **Liquidity ratios** | | | | | | | | | |
| **Current ratio** | | | | | | 1.11 | 0.96 | 1.10 | 1.14 |
| **Quick ratio** | | | | | | 0.80 | 0.60 | 0.80 | 0.93 |

*(PepsiCo, Stock analysis, 2014) Beverages and food industry ratios.*

## CAPITAL STRUCTURE &DEBT MANAGEMENT

There is a substantial change in Pepsi's capital structure over the last several years. The amount of Pepsi's long term debt increased since 2009 to 2013.but since 2012 to 2013 the percentage to increase the amount of long term debt go down by 4% from 2012 to 2013, while short term obligations increases in 2012 to 2013 more than 10%. the retained earnings of Pepsi improved through 2009 to 2013, this increasing trend in debt while retained earnings also increased shows that company uses more debt for to meet their expense or to improve the short term liquidity position of the firm, and might be possible their earnings are to be saved for some future projects which making the firm more risky. Debt to equity ratio of Pepsi is decrease from 2012 to 2013 which is a good indication for creditors. Some of the decrease in long term debt from 2012 to 2013 is due to increase in use of short-term debt 10%.

However, we watched prior that trade offsets expanded essentially in for spendable dough the same time period, showing that a percentage of the fleeting financing was utilized in this way, the liquidity position of Pepsi is expansion throughout the time of 2012 to 2013.

On the off chance that supports are required past which are accessible inside, pepsi ought to turn to the value market, which is by and large recognized to be good right now.

Pepsi's Debt/Equity ratio is 1.22, which is higher than the industry average of 0.99, So, pepsi has not just expanded its influence; it has expanded its power well over the business normal influence proportion. Notwithstanding, the deviation from the business normal influence degree ought to be nearly analyzed as, on normal, different firms in comparative business circumstances see the proper harmony between the duty safe house profit and trouble costs at much lower levels of power.

| **Year** | **2009** | **2010** | **2011** | **2012** | **2013** | **2010%** | **2011%** | **2012%** | **2013%** |
|---|---|---|---|---|---|---|---|---|---|
| **Short term obligation** | 464 | 4,898 | 6,205 | 4,815 | 5,306 | 955.6034 | 26.68436 | -22.40 | 10.1973 |
| **Long term debt** | 7,400 | 19,999 | 20,568 | 23,544 | 24,333 | 170.2568 | 2.845142 | 14.46908 | 3.351172 |
| **R/E** | 33,805 | 37,090 | 40,316 | 43,158 | 46,420 | 9.717497 | 8.697762 | 7.04931 | 7.558274 |
| **Debt to capital ratio** | | | | | | 0.54 | 0.57 | 0.56 | 0.55 |
| **Debt to equity** | | | | | | 1.18 | 1.30 | 1.27 | 1.22 |
| **Interest coverage ratio** | | | | | | 10.12 | 11.32 | 10.24 | 10.76 |

*(Source: Annual Report of PepsiCo, 2012-2013) (Inc, 2014)*

### DUPONT ANALYSIS

For PepsiCo and the beverages industry DuPont analysis is shown in table below. There is much similarity between DuPont analysis and analyzing ratios.

| | **Pepsi** | **Industry** |
|---|---|---|
| **Return on Equity (ROE)** | 30.5% | 26.7% |
| **=** | = | = |
| **Net Profit Margin( NPM)** | 10.1% | 18.5% |
| **X** | X | X |
| **Total Asset Turnover (TAT)** | 0.86 | 0.73 |
| **X** | X | X |
| **Assets/Equity (A/E)** | 3.52 | 2.00 |
| **ROA** | 8.686 | 13.505 |
| **=** | = | = |
| **NPM(Net Profit Margin)** | 10.1% | 18.5% |
| **X** | X | X |
| **Total Asset Turnover** | 0.86 | 0.73 |

- **ROE = NPM * TAT * A/E**
- **ROA= NPM*TAT**

Return on the shareholders' equity of PepsiCo is greater than the industry.

The constituents of the ratios show that PepsiCo's net profit margin ratio is lower than the industry. PepsiCo has benefit in its (Assets to Equity of **3.52%** in comparison with **2.00%** which is of industry). Moreover assets ratio of PepsiCo is also greater than industry. (Total Asset Turnover of **0.86%** compared to **0.73%**), so return on equity is greater, the reason is its greater net profit margin.

Probably high leverage ratio shows lower net profit margin because of some facts as to pay interest and debt that made leverage ratio high. But PepsiCo has a different situation as many operational efficiencies like total asset turnover is greater than the industry overall ROE is high than industry. ROA of PepsiCo is lower than the industry which shows that the investment of PepsiCo is less as compared to industry. For DuPont analysis there is shown comparison of PepsiCo and beverages industry, In order to improve profit margins, PepsiCo requires to enhance manufacture effectiveness and cost relevant efficiencies. In this way it can generate more benefits and success than its competitor.

### SUMMARY AND CONCLUSION

In This paper more focus on financial ratio analysis of Pepsi Company which have shown more complex for us because they do not fall in single company but we

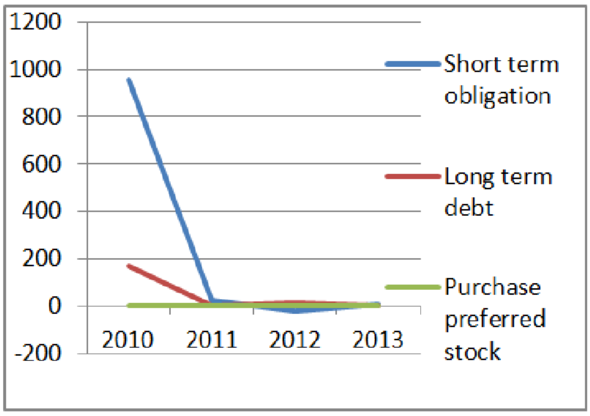
Also compare it and make analysis of beverages and food industry where Pepsi Company lies. The variances in the industry features of the industry obscure the financial ratio analysis of Pepsi. Though, a more applicable description of the operating characteristics of Pepsi is achieved by increasing the density of the analysis, that is, by comparing Pepsi to the industry.

## SUGGESTIONS AND RECOMMENDATIONS

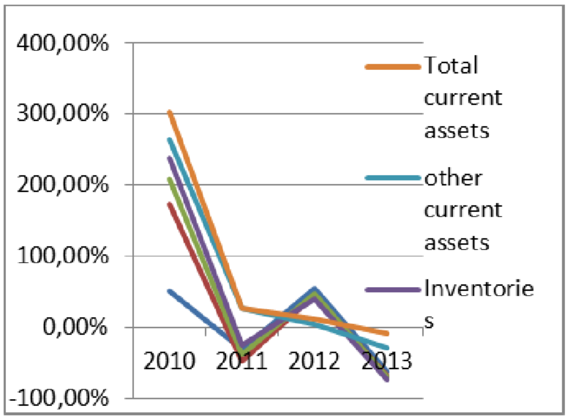
The primary proposal that I might make to PepsiCo is that they ought to center all the more on making items that could be viewed as solid options to their clients. PepsiCo can go about this in two ways: 1. making new brands that give solid snacks or refreshments, and 2. making their current items more solid. By and large, this center will give PepsiCo an edge in an environment where less than great snacks and refreshments are beginning to get less and less gainful consistently.

The second suggestion I might have for PepsiCo might be to grow their center out of the US and into remote markets. Remote shoppers, particularly ones in creating nations, are searching for approaches to enhance their lives. The interest is there for American brands and items. By stretching their center, PepsiCo might not be so vulnerable to market vacillations in the US. This will make PepsiCo a stronger organization and provide for them considerably a greater amount of an edge general. At last, PepsiCo is an extraordinary organization. They have made due for almost one hundred years by listening to purchasers and giving items that they need. As long as they can keep up this method, they are prone to be an effective organization for a long time to come.

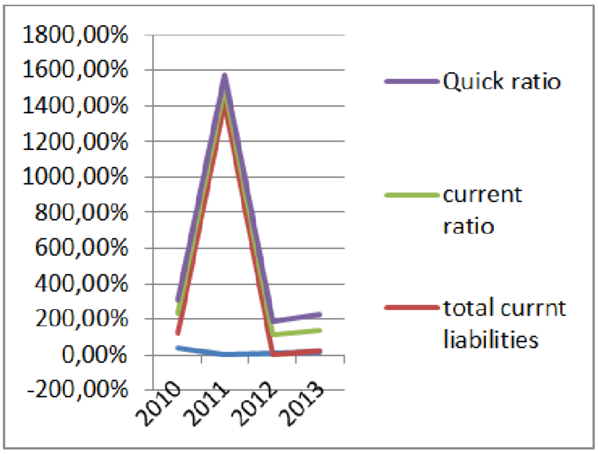
## GRAPHIC REPRESENTATION OF RATIOS



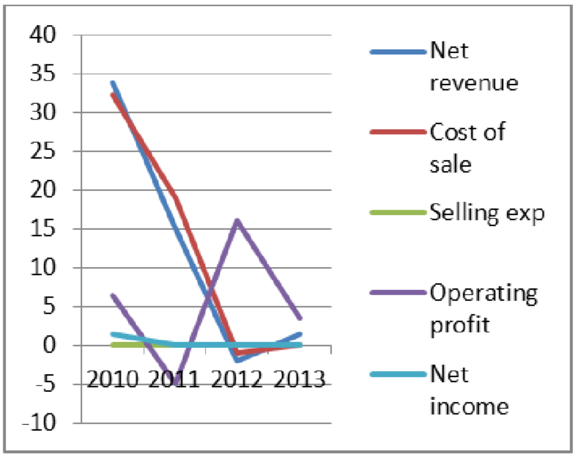

(a)



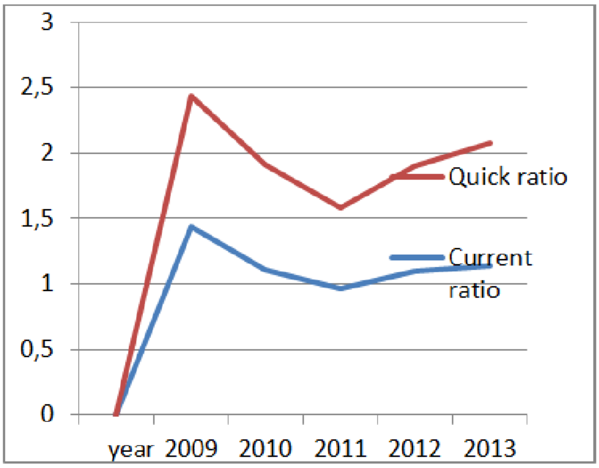

(b)



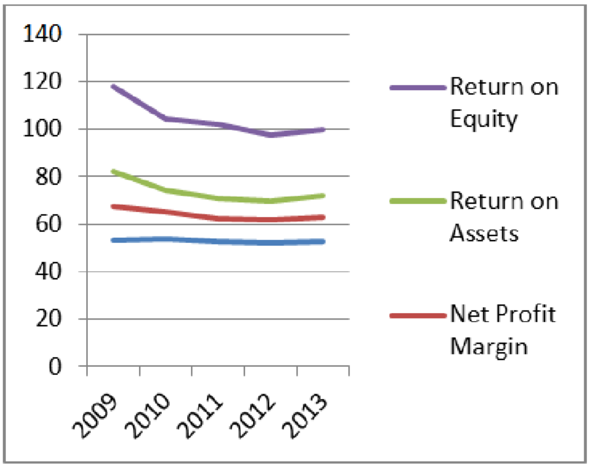

(c)



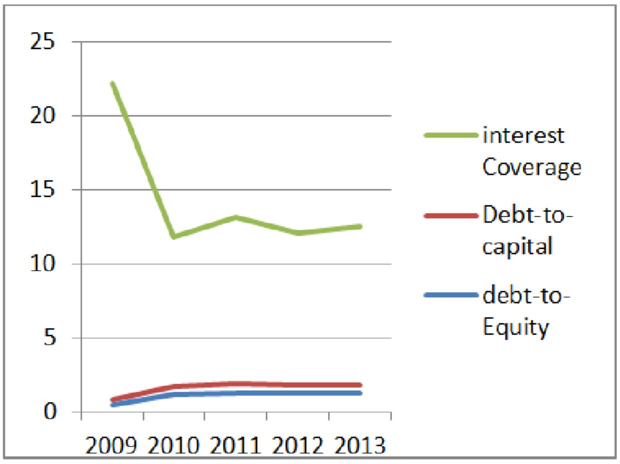

(d)


3
2,5
2
1,5
1
0,5
0
year 2009 2010 2011 2012 2013
Quick ratio
Current ratio

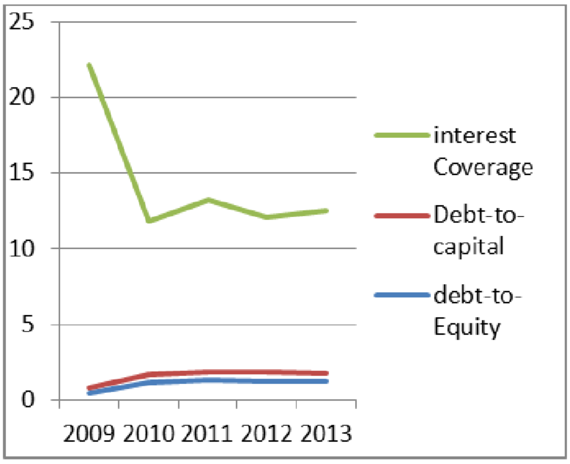
(e)


140
120
100
80
60
40
20
0
2009 2010 2011 2012 2013
Return on Equity
Return on Assets
Net Profit Margin

(f)


25
20
15
10
5
0
2009 2010 2011 2012 2013
interest Coverage
Debt-to-capital
debt-to-Equity

(g)


25
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15
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5
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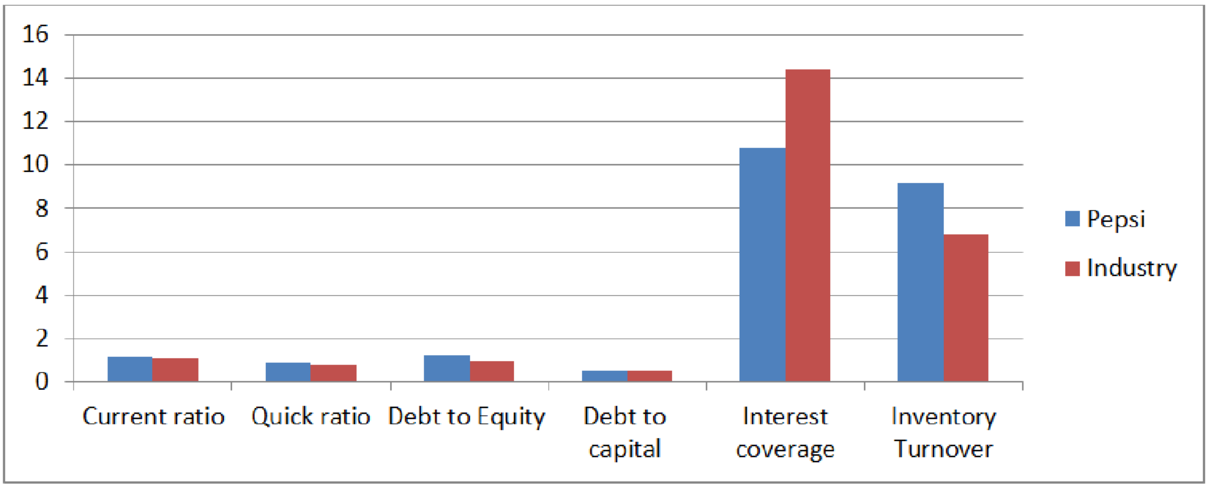
2009 2010 2011 2012 2013
interest Coverage
Debt-to-capital
debt-to-Equity

(g)


16
14
12
10
8
6
4
2
0
Current ratio
Quick ratio
Debt to Equity
Debt to capital
Interest coverage
Inventory Turnover
Pepsi
Industry

(h)

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