

PEPSICO INC

Form 10-Q

July 07, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 11, 2016 (24 weeks)

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-1183

PepsiCo, Inc.

(Exact Name of Registrant as Specified in its Charter)

North Carolina

(State or Other Jurisdiction of
Incorporation or Organization)

13-1584302

(I.R.S. Employer
Identification No.)

700 Anderson Hill Road, Purchase, New York
(Address of Principal Executive Offices)

10577
(Zip Code)

914-253-2000

(Registrant's
Telephone
Number,
Including
Area Code)

N/A

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Accelerated filer

Large
accelerated
filer

Non-accelerated
filer

(Do
not
check
if smaller reporting company

a
smaller
reporting
company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

Number of shares of Common Stock outstanding as of June 29, 2016 was 1,439,157,837.

Table of Contents

PepsiCo, Inc. and Subsidiaries

Table of Contents

	Page No.
Part I Financial Information	
Item 1. Condensed Consolidated Financial Statements	<u>3</u>
<u>Condensed Consolidated Statement of Income –</u>	
<u>12 and 24 Weeks Ended June 11, 2016 and June 13, 2015</u>	<u>3</u>
<u>Condensed Consolidated Statement of Comprehensive Income –</u>	
<u>12 and 24 Weeks Ended June 11, 2016 and June 13, 2015</u>	<u>4</u>
<u>Condensed Consolidated Statement of Cash Flows –</u>	
<u>24 Weeks Ended June 11, 2016 and June 13, 2015</u>	<u>5</u>
<u>Condensed Consolidated Balance Sheet –</u>	
<u>June 11, 2016 and December 26, 2015</u>	<u>6</u>
<u>Condensed Consolidated Statement of Equity –</u>	
<u>24 Weeks Ended June 11, 2016 and June 13, 2015</u>	<u>7</u>
<u>Notes to the Condensed Consolidated Financial Statements</u>	<u>8</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>25</u>
Report of Independent Registered Public Accounting Firm	<u>48</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>49</u>
Item 4. <u>Controls and Procedures</u>	<u>49</u>
Part II Other Information	
Item 1. <u>Legal Proceedings</u>	<u>50</u>
Item 1A. <u>Risk Factors</u>	<u>50</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>51</u>
Item 6. <u>Exhibits</u>	<u>52</u>

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements.

Condensed Consolidated Statement of Income

PepsiCo, Inc. and Subsidiaries

(in millions except per share amounts, unaudited)

	12 Weeks Ended		24 Weeks Ended	
	6/11/2016	6/13/2015	6/11/2016	6/13/2015
Net Revenue	\$15,395	\$15,923	\$27,257	\$28,140
Cost of sales	6,830	7,251	11,981	12,754
Gross profit	8,565	8,672	15,276	15,386
Selling, general and administrative expenses	5,584	5,753	10,662	10,654
Amortization of intangible assets	17	19	31	35
Operating Profit	2,964	2,900	4,583	4,697
Interest expense	(255)	(217)	(501)	(428)
Interest income and other	22	14	36	29
Income before income taxes	2,731	2,697	4,118	4,298
Provision for income taxes	718	703	1,160	1,073
Net income	2,013	1,994	2,958	3,225
Less: Net income attributable to noncontrolling interests	8	14	22	24
Net Income Attributable to PepsiCo	\$2,005	\$1,980	\$2,936	\$3,201
Net Income Attributable to PepsiCo per Common Share				
Basic	\$1.39	\$1.34	\$2.03	\$2.16
Diluted	\$1.38	\$1.33	\$2.01	\$2.14
Weighted-average common shares outstanding				
Basic	1,443	1,476	1,445	1,480
Diluted	1,456	1,491	1,458	1,497
Cash dividends declared per common share	\$0.7525	\$0.7025	\$1.455	\$1.3575

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

Condensed Consolidated Statement of Comprehensive Income
PepsiCo, Inc. and Subsidiaries
(in millions, unaudited)

	12 Weeks Ended 6/11/2016		24 Weeks Ended 6/11/2016			
	Pre-tax amounts	Tax amounts	After-tax amounts	Pre-tax amounts	Tax amounts	After-tax amounts
Net income			\$ 2,013			\$ 2,958
Other comprehensive income						
Currency translation adjustment	\$ 760	\$ —	760	\$ 540	\$ —	540
Cash flow hedges:						
Reclassification of net gains to net income	(8)	2	(6)	(29)	7	(22)
Net derivative losses	(32)	8	(24)	(32)	7	(25)
Pension and retiree medical:						
Reclassification of net losses to net income	46	(14)	32	83	(26)	57
Remeasurement of net liabilities and translation	(11)	4	(7)	4	(44)	(40)
Unrealized gains/(losses) on securities	3	(2)	1	(9)	5	(4)
Total other comprehensive income	\$ 758	\$ (2)	756	\$ 557	\$ (51)	506
Comprehensive income			2,769			3,464
Comprehensive income attributable to noncontrolling interests			(8)			(22)
Comprehensive Income Attributable to PepsiCo			\$ 2,761			\$ 3,442
	12 Weeks Ended 6/13/2015		24 Weeks Ended 6/13/2015			
	Pre-tax amounts	Tax amounts	After-tax amounts	Pre-tax amounts	Tax amounts	After-tax amounts
Net income			\$ 1,994			\$ 3,225
Other comprehensive income/(loss)						
Currency translation adjustment	\$ 474	\$ —	474	\$ (507)	\$ —	(507)
Cash flow hedges:						
Reclassification of net (gains)/losses to net income	(97)	33	(64)	82	(37)	45
Net derivative gains/(losses)	48	(20)	28	(107)	44	(63)
Pension and retiree medical:						
Reclassification of net losses to net income	58	(18)	40	109	(35)	74
Remeasurement of net liabilities and translation	(16)	5	(11)	15	(2)	13
Unrealized (losses)/gains on securities	(7)	4	(3)	9	(4)	5
Total other comprehensive income/(loss)	\$ 460	\$ 4	464	\$ (399)	\$ (34)	(433)
Comprehensive income			2,458			2,792
Comprehensive income attributable to noncontrolling interests			(13)			(23)
Comprehensive Income Attributable to PepsiCo			\$ 2,445			\$ 2,769

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

Condensed Consolidated Statement of Cash Flows
PepsiCo, Inc. and Subsidiaries
(in millions, unaudited)

	24 Weeks Ended	
	6/11/2016	6/13/2015
Operating Activities		
Net income	\$2,958	\$ 3,225
Depreciation and amortization	1,044	1,075
Share-based compensation expense	123	144
Restructuring and impairment charges	79	61
Cash payments for restructuring charges	(67)	(107)
Charge related to the transaction with Tingyi (Cayman Islands) Holding Corp. (Tingyi)	373	—
Excess tax benefits from share-based payment arrangements	(84)	(78)
Pension and retiree medical plan expenses	124	215
Pension and retiree medical plan contributions	(155)	(117)
Deferred income taxes and other tax charges and credits	119	42
Change in assets and liabilities:		
Accounts and notes receivable	(1,049)	(1,309)
Inventories	(755)	(862)
Prepaid expenses and other current assets	(202)	(264)
Accounts payable and other current liabilities	(73)	197
Income taxes payable	704	648
Other, net	(218)	(109)
Net Cash Provided by Operating Activities	2,921	2,761
Investing Activities		
Capital spending	(919)	(832)
Sales of property, plant and equipment	47	26
Acquisitions and investments in noncontrolled affiliates	(4)	(16)
Divestitures	75	74
Short-term investments, by original maturity:		
More than three months - purchases	(4,604)	(1,675)
More than three months - maturities	3,786	2,269
Three months or less, net	10	(1)
Other investing, net	1	(3)
Net Cash Used for Investing Activities	(1,608)	(158)
Financing Activities		
Proceeds from issuances of long-term debt	2,532	2,487
Payments of long-term debt	(3,083)	(2,054)
Short-term borrowings, by original maturity:		
More than three months - proceeds	35	12
More than three months - payments	(11)	(5)
Three months or less, net	2,795	2,240
Cash dividends paid	(2,060)	(1,973)
Share repurchases - common	(1,329)	(2,130)
Share repurchases - preferred	(2)	(2)
Proceeds from exercises of stock options	293	250

Edgar Filing: PEPSICO INC - Form 10-Q

Excess tax benefits from share-based payment arrangements	84	78
Other financing	(4)	(2)
Net Cash Used for Financing Activities	(750)	(1,099)
Effect of exchange rate changes on cash and cash equivalents	(13)	(76)
Net Increase in Cash and Cash Equivalents	550	1,428
Cash and Cash Equivalents, Beginning of Year	9,096	6,134
Cash and Cash Equivalents, End of Period	\$9,646	\$ 7,562

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

Condensed Consolidated Balance Sheet
PepsiCo, Inc. and Subsidiaries
(in millions except per share amounts)

	(Unaudited)	
	6/11/2016	12/26/2015
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 9,646	\$ 9,096
Short-term investments	3,733	2,913
Accounts and notes receivable, less allowance: 6/16 - \$146 and 12/15 - \$130	7,495	6,437
Inventories:		
Raw materials	1,512	1,312
Work-in-process	325	161
Finished goods	1,650	1,247
	3,487	2,720
Prepaid expenses and other current assets	1,517	1,865
Total Current Assets	25,878	23,031
Property, plant and equipment	36,229	35,747
Accumulated depreciation	(20,010)	(19,430)
	16,219	16,317
Amortizable Intangible Assets, net	1,274	1,270
Goodwill	14,398	14,177
Other nonamortizable intangible assets	12,073	11,811
Nonamortizable Intangible Assets	26,471	25,988
Investments in Noncontrolled Affiliates	2,002	2,311
Other Assets	867	750
Total Assets	\$ 72,711	\$ 69,667
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term obligations	\$ 4,774	\$ 4,071
Accounts payable and other current liabilities	13,685	13,507
Total Current Liabilities	18,459	17,578
Long-Term Debt Obligations	30,847	29,213
Other Liabilities	5,873	5,887
Deferred Income Taxes	5,156	4,959
Total Liabilities	60,335	57,637
Commitments and contingencies		
Preferred Stock, no par value	41	41
Repurchased Preferred Stock	(188)	(186)
PepsiCo Common Shareholders' Equity		
Common stock, par value 1 ² / ₃ ¢ per share (authorized 3,600 shares, issued, net of repurchased common stock at par value: 1,441 and 1,448 shares, respectively)	24	24
Capital in excess of par value	3,940	4,076
Retained earnings	51,295	50,472
Accumulated other comprehensive loss	(12,813)	(13,319)

Edgar Filing: PEPSICO INC - Form 10-Q

Repurchased common stock, in excess of par value (425 and 418 shares, respectively)	(30,051)	(29,185)
Total PepsiCo Common Shareholders' Equity	12,395	12,068
Noncontrolling interests	128	107
Total Equity	12,376	12,030
Total Liabilities and Equity	\$ 72,711	\$ 69,667

See accompanying notes to the condensed consolidated financial statements.

6

Table of Contents

Condensed Consolidated Statement of Equity
PepsiCo, Inc. and Subsidiaries
(in millions, unaudited)

	24 Weeks Ended			
	6/11/2016		6/13/2015	
	Shares	Amount	Shares	Amount
Preferred Stock	0.8	\$41	0.8	\$41
Repurchased Preferred Stock				
Balance, beginning of year	(0.7)	(186)	(0.7)	(181)
Redemptions	—	(2)	—	(2)
Balance, end of period	(0.7)	(188)	(0.7)	(183)
Common Stock				
Balance, beginning of year	1,448	24	1,488	25
Repurchased common stock	(7)	—	(16)	—
Balance, end of period	1,441	24	1,472	25
Capital in Excess of Par Value				
Balance, beginning of year		4,076		4,115
Share-based compensation expense		125		145
Stock option exercises, RSUs, PSUs and PEPunits converted ^(a)		(155)		(170)
Withholding tax on RSUs, PSUs and PEPunits converted		(102)		(112)
Other		(4)		(5)
Balance, end of period		3,940		3,973
Retained Earnings				
Balance, beginning of year		50,472		49,092
Net income attributable to PepsiCo		2,936		3,201
Cash dividends declared – common		(2,113)		(2,025)
Balance, end of period		51,295		50,268
Accumulated Other Comprehensive Loss				
Balance, beginning of year		(13,319)		(10,669)
Other comprehensive income/(loss) attributable to PepsiCo		506		(432)
Balance, end of period		(12,813)		(11,101)
Repurchased Common Stock				
Balance, beginning of year	(418)	(29,185)	(378)	(24,985)
Share repurchases	(14)	(1,369)	(23)	(2,180)
Stock option exercises, RSUs, PSUs and PEPunits converted	7	501	7	470
Other	—	2	—	4
Balance, end of period	(425)	(30,051)	(394)	(26,691)
Total PepsiCo Common Shareholders' Equity		12,395		16,474
Noncontrolling Interests				
Balance, beginning of year		107		110
Net income attributable to noncontrolling interests		22		24
Currency translation adjustment		—		(1)
Other, net		(1)		(1)
Balance, end of period		128		132
Total Equity		\$12,376		\$16,464

(a) Includes total tax benefits of \$56 million in 2016 and \$52 million in 2015.
See accompanying notes to the condensed consolidated financial statements.

Table of Contents

Notes to the Condensed Consolidated Financial Statements

Note 1 - Basis of Presentation and Our Divisions

Basis of Presentation

When used in this report, the terms “we,” “us,” “our,” “PepsiCo” and the “Company” mean PepsiCo, Inc. and its consolidated subsidiaries, collectively.

Our Condensed Consolidated Balance Sheet as of June 11, 2016 and Condensed Consolidated Statements of Income and Comprehensive Income for the 12 and 24 weeks ended June 11, 2016 and June 13, 2015, and the Condensed Consolidated Statements of Cash Flows and Equity for the 24 weeks ended June 11, 2016 and June 13, 2015 have not been audited. These statements have been prepared on a basis that is substantially consistent with the accounting principles applied in our Annual Report on Form 10-K for the fiscal year ended December 26, 2015. This report should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 26, 2015. In our opinion, these financial statements include all normal and recurring adjustments necessary for a fair presentation. The results for the 12 and 24 weeks ended June 11, 2016 are not necessarily indicative of the results expected for the full year.

Effective as of the end of the third quarter of 2015, we did not meet the accounting criteria for control over our wholly-owned Venezuelan subsidiaries and we no longer had significant influence over our beverage joint venture with our franchise bottler in Venezuela, and therefore we deconsolidated our Venezuelan subsidiaries from our consolidated financial statements and began accounting for our investments in our wholly-owned Venezuelan subsidiaries and our joint venture using the cost method of accounting. See further unaudited information in “Our Business Risks” in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

While our financial results in the United States and Canada (North America) are reported on a 12-week basis, most of our international operations report on a monthly calendar basis for which the months of March, April and May are reflected in our second quarter results.

Our significant interim accounting policies include the recognition of a pro rata share of certain estimated annual sales incentives and certain advertising and marketing costs in proportion to revenue or volume, as applicable, and the recognition of income taxes using an estimated annual effective tax rate. Raw materials, direct labor and plant overhead, as well as purchasing and receiving costs, costs directly related to production planning, inspection costs and raw materials handling facilities, are included in cost of sales. The costs of moving, storing and delivering finished product are included in selling, general and administrative expenses.

The following information is unaudited. Tabular dollars are in millions, except per share amounts. All per share amounts reflect common per share amounts, assume dilution unless otherwise noted, and are based on unrounded amounts. Reclassifications were made to the prior year’s amounts to conform to the current year presentation, including the presentation of certain functional support costs associated with the manufacturing and production of our products within cost of sales. These costs were previously included in selling, general and administrative expenses. In the 12 and 24 weeks ended June 13, 2015, these reclassifications resulted in an increase in cost of sales of \$84 million and \$145 million, respectively, with a corresponding reduction to gross profit and selling, general and administrative expenses in the same periods. These reclassifications reflect changes in how we are classifying costs of certain support functions as a result of ongoing productivity and efficiency initiatives. These reclassifications had no impact on our consolidated net revenue, operating profit, net interest expense, provision for income taxes, net income or earnings per share.

Table of Contents

Our Divisions

We are organized into six reportable segments (also referred to as divisions), as follows:

- 1) Frito-Lay North America (FLNA);
- 2) Quaker Foods North America (QFNA);
- 3) North America Beverages (NAB), which includes all of our beverage businesses in North America;
- 4) Latin America, which includes all of our beverage, food and snack businesses in Latin America;
- 5) Europe Sub-Saharan Africa (ESSA), which includes all of our beverage, food and snack businesses in Europe and Sub-Saharan Africa; and
- 6) Asia, Middle East and North Africa (AMENA), which includes all of our beverage, food and snack businesses in Asia, Middle East and North Africa.

Net revenue and operating profit of each division are as follows:

	12 Weeks Ended		24 Weeks Ended	
Net Revenue	6/11/2016/13/2015		6/11/2016/13/2015	
FLNA	\$3,564	\$ 3,452	\$6,982	\$ 6,771
QFNA	561	546	1,178	1,185
NAB	5,145	5,113	9,506	9,411
Latin America ^(a)	1,717	2,224	2,759	3,638
ESSA	2,660	2,813	4,019	4,309
AMENA	1,748	1,775	2,813	2,826
Total division	\$15,395	\$ 15,923	\$27,257	\$ 28,140
	12 Weeks Ended		24 Weeks Ended	
Operating Profit	6/11/2016/13/2015		6/11/2016/13/2015	
FLNA	\$1,083	\$ 1,007	\$2,101	\$ 1,927
QFNA ^(b)	146	132	312	231
NAB	881	833	1,366	1,286
Latin America ^(a)	242	355	417	574
ESSA	337	350	404	462
AMENA ^(c)	383	373		