PEPSICO INC
Form 10-Q
July 23, 2014
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended June 14, 2014 (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 X 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 X 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.

Large accelerated filer X	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	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 X

Number of shares of Common Stock outstanding as of July 16, 2014 was 1,506,789,240.

Table of Contents

PepsiCo, Inc. and Subsidiaries

Table of Contents

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	
	6/14/14	6/15/13	6/14/14	6/15/13
Net Revenue	$16,894	$16,807	$29,517	$29,388
Cost of sales	7,778	7,898	13,525	13,732
Selling, general and administrative expenses	6,198	6,013	11,246	11,079
Amortization of intangible assets	22	27	43	50
Operating Profit	2,896	2,869	4,703	4,527
Interest expense	(209)	(208)	(410)	(422)
Interest income and other	18	18	28	45
Income before income taxes	2,705	2,679	4,321	4,150
Provision for income taxes	718	654	1,107	1,040
Net income	1,987	2,025	3,214	3,110
Less: Net income attributable to noncontrolling interests	9	15	20	25
Net Income Attributable to PepsiCo	$1,978	$2,010	$3,194	$3,085
Net Income Attributable to PepsiCo per Common Share				
Basic	$1.30	$1.30	$2.10	$1.99
Diluted	$1.29	$1.28	$2.08	$1.97
Weighted-average common shares outstanding				
Basic	1,515	1,548	1,519	1,546
Diluted	1,532	1,567	1,536	1,565
Cash dividends declared per common share	$0.655	$0.5675	$1.2225	$1.105

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 6/14/14			24 Weeks Ended 6/14/14		
	Pre-tax amounts	Tax amounts	After-tax amounts	Pre-tax amounts	Tax amounts	After-tax amounts
Net income			$1,987			$3,214
Other Comprehensive Income/(Loss)						
Currency translation adjustment	$460	$—	460	$(414)	$—	(414)
Cash flow hedges:						
Reclassification of net losses to net income	11	(5)	6	21	(9)	12
Net derivative losses	(41)	12	(29)	(25)	7	(18)
Pension and retiree medical:						
Reclassification of net losses to net income	53	(17)	36	101	(33)	68
Remeasurement of net liabilities and translation	(13)	4	(9)	(10)	3	(7)
Unrealized (losses)/gains on securities	(7)	3	(4)	11	(6)	5
Total Other Comprehensive Income/(Loss)	$463	$(3)	460	$(316)	$(38)	(354)
Comprehensive income			2,447			2,860
Comprehensive income attributable to noncontrolling interests			(10)			(20)
Comprehensive Income Attributable to PepsiCo			$2,437			$2,840

	12 Weeks Ended 6/15/13			24 Weeks Ended 6/15/13		
	Pre-tax amounts	Tax amounts	After-tax amounts	Pre-tax amounts	Tax amounts	After-tax amounts
Net income			$2,025			$3,110
Other Comprehensive Loss						
Currency translation adjustment	$(718)	$—	(718)	$(953)	$—	(953)
Cash flow hedges:						
Reclassification of net (gains)/losses to net income	(8)	2	(6)	51	(19)	32
Net derivative gains/(losses)	5	(1)	4	(18)	16	(2)
Pension and retiree medical:						
Reclassification of net losses to net income	84	(27)	57	163	(54)	109
Remeasurement of net liabilities and translation	2	(1)	1	45	(13)	32
Unrealized gains on securities	20	(10)	10	19	(10)	9
Other	(1)	(16)	(17)	(1)	(16)	(17)
Total Other Comprehensive Loss	$(616)	$(53)	(669)	$(694)	$(96)	(790)
Comprehensive income			1,356			2,320
Comprehensive income attributable to noncontrolling interests			(14)			(23)
Comprehensive Income Attributable to PepsiCo			$1,342			$2,297

See accompanying notes to the condensed consolidated financial statements.

4

Table of Contents

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

	24 Weeks Ended	
	6/14/14	6/15/13
Operating Activities		
Net income	$3,214	$3,110
Depreciation and amortization	1,162	1,185
Stock-based compensation expense	140	149
Cash payments for merger and integration charges	—	(17)
Restructuring and impairment charges	190	30
Cash payments for restructuring charges	(112)	(74)
Cash payments for restructuring and other charges related to the transaction with Tingyi (Cayman Islands) Holding Corp. (Tingyi)	—	(18)
Non-cash foreign exchange loss related to Venezuela devaluation	—	111
Excess tax benefits from share-based payment arrangements	(64)	(83)
Pension and retiree medical plan expenses	243	306
Pension and retiree medical plan contributions	(155)	(180)
Deferred income taxes and other tax charges and credits	35	(189)
Change in accounts and notes receivable	(1,554)	(1,088)
Change in inventories	(822)	(659)
Change in prepaid expenses and other current assets	(152)	(241)
Change in accounts payable and other current liabilities	120	400
Change in income taxes payable	636	543
Other, net	(209)	(270)
Net Cash Provided by Operating Activities	2,672	3,015
Investing Activities		
Capital spending	(921)	(911)
Sales of property, plant and equipment	42	30
Cash payments related to the transaction with Tingyi	—	(3)
Acquisitions and investments in noncontrolled affiliates	(31)	(59)
Divestitures	123	174
Short-term investments, by original maturity		
More than three months – purchases	(3,498)	—
Three months or less, net	118	(4)
Other investing	5	(13)
Net Cash Used for Investing Activities	(4,162)	(786)

(Continued on following page)

Table of Contents

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

	24 Weeks Ended	
	6/14/14	6/15/13
Financing Activities		
Proceeds from issuances of long-term debt	$3,364	$2,491
Payments of long-term debt	(1,655)	(1,945)
Short-term borrowings, by original maturity		
More than three months – proceeds	1	6
More than three months – payments	(9)	(481)
Three months or less, net	1,556	1,228
Cash dividends paid	(1,752)	(1,677)
Share repurchases – common	(2,199)	(1,028)
Share repurchases – preferred	(3)	(4)
Proceeds from exercises of stock options	381	823
Excess tax benefits from share-based payment arrangements	64	83
Acquisition of noncontrolling interests	—	(20)
Other financing	(3)	(3)
Net Cash Used for Financing Activities	(255)	(527)
Effect of exchange rate changes on cash and cash equivalents	(23)	(206)
Net (Decrease)/Increase in Cash and Cash Equivalents	(1,768)	1,496
Cash and Cash Equivalents, Beginning of Year	9,375	6,297
Cash and Cash Equivalents, End of Period	$7,607	$7,793

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

Condensed Consolidated Balance Sheet
PepsiCo, Inc. and Subsidiaries
(in millions)

	(Unaudited) 6/14/14	12/28/13
Assets		
Current Assets		
Cash and cash equivalents	$7,607	$9,375
Short-term investments	3,692	303
Accounts and notes receivable, less allowance: 6/14 - $156 and 12/13 - $145	8,470	6,954
Inventories		
Raw materials	1,965	1,732
Work-in-process	341	168
Finished goods	1,888	1,509
	4,194	3,409
Prepaid expenses and other current assets	1,832	2,162
Total Current Assets	25,795	22,203
Property, Plant and Equipment	37,376	36,961
Accumulated Depreciation	(19,202)	(18,386)
	18,174	18,575
Amortizable Intangible Assets, net	1,585	1,638
Goodwill	16,457	16,613
Other Nonamortizable Intangible Assets	14,205	14,401
Nonamortizable Intangible Assets	30,662	31,014
Investments in Noncontrolled Affiliates	1,902	1,841
Other Assets	2,315	2,207
Total Assets	$80,433	$77,478

(Continued on following page)

Table of Contents

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

	(Unaudited) 6/14/14	12/28/13
Liabilities and Equity		
Current Liabilities		
Short-term obligations	$7,242	$5,306
Accounts payable and other current liabilities	12,986	12,533
Total Current Liabilities	20,228	17,839
Long-Term Debt Obligations	25,606	24,333
Other Liabilities	4,927	4,931
Deferred Income Taxes	6,072	5,986
Total Liabilities	56,833	53,089
Commitments and Contingencies		
Preferred Stock, no par value	41	41
Repurchased Preferred Stock	(174)	(171)
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: 1,511 and 1,529 shares, respectively)	25	25
Capital in excess of par value	3,978	4,095
Retained earnings	47,748	46,420
Accumulated other comprehensive loss	(5,481)	(5,127)
Repurchased common stock, in excess of par value (355 and 337 shares, respectively)	(22,666)	(21,004)
Total PepsiCo Common Shareholders' Equity	23,604	24,409
Noncontrolling interests	129	110
Total Equity	23,600	24,389
Total Liabilities and Equity	$80,433	$77,478

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

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

	24 Weeks Ended			
	6/14/14		6/15/13	
	Shares	Amount	Shares	Amount
Preferred Stock	0.8	$41	0.8	$41
Repurchased Preferred Stock				
Balance, beginning of year	(0.6)	(171)	(0.6)	(164)
Redemptions	—	(3)	—	(4)
Balance, end of period	(0.6)	(174)	(0.6)	(168)
Common Stock				
Balance, beginning of year	1,529	25	1,544	26
Repurchased common stock	(18)	—	3	—
Balance, end of period	1,511	25	1,547	26
Capital in Excess of Par Value				
Balance, beginning of year		4,095		4,178
Stock-based compensation expense		140		149
Stock option exercises and restricted stock units (RSUs) converted (a)		(193)		(249)
Withholding tax on RSUs converted		(80)		(70)
Other		16		(13)
Balance, end of period		3,978		3,995
Retained Earnings				
Balance, beginning of year		46,420		43,158
Net income attributable to PepsiCo		3,194		3,085
Cash dividends declared – common		(1,855)		(1,710)
Cash dividends declared – RSUs		(11)		(10)
Balance, end of period		47,748		44,523
Accumulated Other Comprehensive Loss				
Balance, beginning of year		(5,127)		(5,487)
Currency translation adjustment		(414)		(951)
Cash flow hedges, net of tax:				
Reclassification of net losses to net income		12		32
Net derivative losses		(18)		(2)
Pension and retiree medical, net of tax:				
Reclassification of net losses to net income		68		109
Remeasurement of net liabilities and translation		(7)		32
Unrealized gains on securities, net of tax		5		9
Other		—		(17)
Balance, end of period		(5,481)		(6,275)
Repurchased Common Stock				
Balance, beginning of year	(337)	(21,004)	(322)	(19,458)
Share repurchases	(27)	(2,262)	(15)	(1,123)
Stock option exercises	7	441	15	962
Other	2	159	3	136
Balance, end of period	(355)	(22,666)	(319)	(19,483)

Total PepsiCo Common Shareholders’ Equity	23,604	22,786
Noncontrolling Interests		
Balance, beginning of year	110	105
Net income attributable to noncontrolling interests	20	25
Distributions to noncontrolling interests	—	(15)
Currency translation adjustment	—	(2)
Acquisitions and divestitures	—	(7)
Other, net	(1)	—
Balance, end of period	129	106
Total Equity	$23,600	$22,765

(a) Includes total tax benefits of $26 million in 2014 and $31 million in 2013.

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.
Our Condensed Consolidated Balance Sheet as of June 14, 2014, Condensed Consolidated Statements of Income and Comprehensive Income for the 12 and 24 weeks ended June 14, 2014 and June 15, 2013, and the Condensed Consolidated Statements of Cash Flows and Equity for the 24 weeks ended June 14, 2014 and June 15, 2013 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 28, 2013. 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 14, 2014 and June 15, 2013 are not necessarily indicative of the results expected for the full year.
The results of our Venezuelan businesses have been reported under highly inflationary accounting since the beginning of 2010. See further unaudited information in “Our Business Risks,” “Items Affecting Comparability” and “Our Liquidity and Capital Resources” in Management’s Discussion and Analysis of Financial Condition and Results of Operations.
While our North America (United States and Canada) results 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 material 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. This report should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 28, 2013.
Our Divisions
We are organized into four business units, as follows:

1. PepsiCo Americas Foods, which includes Frito-Lay North America (FLNA), Quaker Foods North America (QFNA) and all of our Latin American food and snack businesses (LAF);
2. PepsiCo Americas Beverages (PAB), which includes all of our North American and Latin American beverage businesses;
3. PepsiCo Europe (Europe), which includes all beverage, food and snack businesses in Europe and South Africa; and
4. PepsiCo Asia, Middle East and Africa (AMEA), which includes all beverage, food and snack businesses in AMEA, excluding South Africa.

Table of Contents

Our four business units comprise six reportable segments (also referred to as divisions), as follows:

- FLNA,
- QFNA,
- LAF,
- PAB,
- Europe, and
- AMEA.

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

	12 Weeks Ended		24 Weeks Ended	
	6/14/14	6/15/13	6/14/14	6/15/13
Net Revenue				
FLNA	$3,387	$3,332	$6,606	$6,455
QFNA	564	577	1,198	1,211
LAF	2,122	2,116	3,460	3,483
PAB	5,281	5,260	9,707	9,680
Europe	3,657	3,653	5,618	5,595
AMEA	1,883	1,869	2,928	2,964
	$16,894	$16,807	$29,517	$29,388

	12 Weeks Ended		24 Weeks Ended	
	6/14/14	6/15/13	6/14/14	6/15/13
Operating Profit				
FLNA	$937	$906	$1,799	$1,734
QFNA	139	133	299	313
LAF	323	318	555	534
PAB	868	882	1,297	1,447
Europe	451	425	603	513
AMEA	381	524	575	708
Total division	3,099	3,188	5,128	5,249
Corporate Unallocated				
Mark-to-market net gains/(losses)	31	(39)	65	(55)
Restructuring and impairment charges	(8)	(1)	(5)	(2)
Venezuela currency devaluation	—	—	—	(124)
Other	(226)	(279)	(485)	(541)
	$2,896	$2,869	$4,703	$4,527

Table of Contents

Total assets of each division are as follows:

	Total Assets	
	6/14/14	12/28/13
FLNA	$5,476	$5,308
QFNA	1,017	983
LAF	5,167	4,829
PAB	31,152	30,350
Europe	18,819	18,702
AMEA	6,124	5,754
Total division	67,755	65,926
Corporate [(a)]	12,678	11,552
	$80,433	$77,478

(a) Corporate assets consist principally of cash and cash equivalents, short-term investments, derivative instruments, property, plant and equipment and certain pension and tax assets.

Note 2 - Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued new accounting guidance on revenue recognition, which provides for a single five-step model to be applied to all revenue contracts with customers. The new standard also requires additional financial statement disclosures that will enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows relating to customer contracts. Companies have an option to use either a retrospective approach or cumulative effect adjustment approach to implement the standard. There is no option for early adoption. The provisions of the new guidance will be effective as of the beginning of our 2017 fiscal year. We are currently evaluating the impact of the new guidance on our financial statements and have not yet selected a transition approach to implement the standard.

In July 2013, the FASB issued new accounting guidance that requires an entity to net its liability for unrecognized tax positions against a net operating loss carryforward, a similar tax loss or a tax credit carryforward when settlement in this manner is available under the tax law. The provisions of this new guidance were effective as of the beginning of our 2014 fiscal year and did not have a material impact on our financial statements.

In December 2011, the FASB issued new disclosure requirements that were intended to enhance current disclosures on offsetting financial assets and liabilities. The disclosures required an entity to disclose both gross and net information about derivative instruments accounted for in accordance with the guidance on derivatives and hedging that are eligible for offset on the balance sheet and instruments and transactions subject to an agreement similar to a master netting arrangement. The provisions of the disclosure requirements were effective as of the beginning of our 2014 fiscal year. Accordingly, we included enhanced footnote disclosure in Note 10.

Note 3 - Restructuring, Impairment and Integration Charges

2014 Multi-Year Productivity Plan

The multi-year productivity plan we publicly announced on February 13, 2014 (2014 Productivity Plan) includes the next generation of productivity initiatives that we believe will strengthen our food, snack and beverage businesses by accelerating our investment in manufacturing automation; further optimizing our global manufacturing footprint, including closing certain manufacturing facilities; re-engineering our go-to-market systems in developed markets; expanding shared services; and implementing simplified organization

Table of Contents

structures to drive efficiency. The 2014 Productivity Plan is in addition to the productivity plan we began implementing in 2012 and is expected to continue the benefits of that plan.

In the 12 weeks ended June 14, 2014, we incurred restructuring and impairment charges of $77 million ($55 million after-tax or $0.04 per share) in conjunction with the 2014 Productivity Plan. In the 24 weeks ended June 14, 2014, we incurred restructuring and impairment charges of $173 million ($128 million after-tax or $0.08 per share) in conjunction with the 2014 Productivity Plan. All of these net charges were recorded in selling, general and administrative expenses. The majority of the restructuring accrual at June 14, 2014 is expected to be paid by the end of 2014.

A summary of our 2014 Productivity Plan charges is as follows:

	12 Weeks Ended 6/14/14	24 Weeks Ended 6/14/14
FLNA	$12	$24
QFNA	—	2
LAF	5	6
PAB	33	115
Europe	13	15
AMEA	7	9
Corporate	7	2
	$77	$173

A summary of our 2014 Productivity Plan activity in 2014 is as follows:

	Severance and Other Employee Costs	Asset Impairments	Other Costs	Total
Liability as of December 28, 2013	$30	$—	$1	$31
2014 restructuring charges	66	52	55	173
Cash payments	(16)	—	(53)	(69)
Non-cash charges	(6)	(52)	—	(58)
Liability as of June 14, 2014	$74	$—	$3	$77

2012 Multi-Year Productivity Plan

The multi-year productivity plan we publicly announced on February 9, 2012 (2012 Productivity Plan) includes actions in every aspect of our business that we believe will strengthen our complementary food, snack and beverage businesses by leveraging new technologies and processes across PepsiCo's operations, go-to-market and information systems; heightening the focus on best practice sharing across the globe; consolidating manufacturing, warehouse and sales facilities; and implementing simplified organization structures, with wider spans of control and fewer layers of management. The 2012 Productivity Plan continues to enhance PepsiCo's cost-competitiveness and provide a source of funding for future brand-building and innovation initiatives.

In the 12 weeks ended June 14, 2014, we incurred restructuring and impairment charges of $15 million ($14 million after-tax or $0.01 per share) in conjunction with our 2012 Productivity Plan. In the 24 weeks ended June 14, 2014, we incurred restructuring and impairment charges of $17 million ($17 million after-tax or $0.01 per share) in conjunction with our 2012 Productivity Plan. All of these net charges were recorded in selling, general and administrative expenses. Substantially all of the restructuring accrual at June 14, 2014 is expected to be paid by the end of 2014.

Table of Contents

In the 12 weeks ended June 15, 2013, we incurred restructuring and impairment charges of $19 million ($15 million after-tax or $0.01 per share) in conjunction with the 2012 Productivity Plan. In the 24 weeks ended June 15, 2013, we incurred restructuring and impairment charges of $30 million ($23 million after-tax or $0.01 per share) in conjunction with the 2012 Productivity Plan. All of these net charges were recorded in selling, general and administrative expenses.

A summary of our 2012 Productivity Plan charges is as follows:

	12 Weeks Ended		24 Weeks Ended	
	6/14/14	6/15/13	6/14/14	6/15/13