

Week 8 discussion 1

I examined PepsiCo to determine how it should address its free cash flow, either through distributions to shareholders or repurchasing of stock.

PepsiCo's cash-generating capability and financial condition, together with its revolving credit facilities and other available methods of debt financing will be adequate to meet its operating, investing and financing needs. However, there can be no assurance that volatility in the global capital and credit markets will not impair its ability to access these markets on terms commercially acceptable.

Cash provided from operating activities is somewhat impacted by seasonality. Working capital needs are impacted by weekly sales, which are generally highest in the third quarter due to seasonal and holiday-related sales patterns, and generally lowest in the first quarter. On a continuing basis, it considers various transactions to increase shareholder value and enhance its business results, including acquisitions, divestitures, joint ventures and share repurchases. These transactions may result in future cash proceeds or payments.

During 2010, net cash provided by operating activities was \$8.4 billion, compared to net cash provided of \$6.8 billion in the prior year. The increase over the prior year primarily reflects the incremental operating results from its acquisitions of PBG and PAS, as well as favorable working capital comparisons to the prior year.

PepsiCo anticipates net capital spending in 2011 of about \$3.7 billion, which includes about \$150 million of capital spending related to the integration of PBG and PAS, as well as capital spending related to our acquisition of WBD.

PepsiCo focuses on management operating cash flow as a key element in achieving maximum shareholder value, and it is the primary measure it uses to monitor cash flow performance. However, it is not a measure provided by accounting principles generally accepted in the U.S. Therefore, this measure is not, and should not be viewed as, a substitute for U.S. GAAP cash flow measures. Since net capital spending is essential to its product innovation initiatives and maintaining its operational capabilities, it believes that it is a recurring and necessary use of cash. As such, PepsiCo believes investors should also consider net capital spending when evaluating its cash from operating activities. PepsiCo wants its investors to consider its management operating cash flow results.