

# M&A Analysis

Acquirer: PepsiCo Inc

Target: Keurig Dr Pepper Inc



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# Background on Acquirer and Target

## Acquirer – PepsiCo

- Global leader in the food & beverage industry, focused on beverages and convenient snacks/foods.
- Iconic portfolio includes Pepsi, Gatorade, Mountain Dew, Rockstar, Poppi, Aquafina, SodaStream, Fritos, Lay's, Doritos, Cheetos, and Quaker.
- Business model: End-to-end manufacturing, marketing & distribution leveraging direct-store-delivery (DSD), company-owned bottling, and franchise partners; snacks + beverages strategy serving 200+ countries.
- Headquartered in Purchase, New York.
- 2025 net revenue: ~\$94 billion; ~306,000 employees worldwide.
- MV / EV: 212.98B / 255.06B

## Target – Keurig Dr Pepper

- Leading North American non-alcoholic beverage company with a diversified portfolio of >125 brands.
- Key products: Dr Pepper, 7UP, A&W, Canada Dry, Snapple, Bai, Keurig single-serve coffee systems & pods, GHOST energy, Core Hydration.
- Business model: Brand owner with powerful owned direct-store-delivery (DSD) network and partnerships across the U.S. and Canada.
- Headquartered in Burlington, Massachusetts.
- 2025 net revenue: \$16.6 billion; ~30,000 employees.
- MV / EV: 35.06B / 51.21B

# Strategic Rationale for Deal

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## ➤ Why is this a potentially suitable target for A?

- Complements and strengthens PEP's beverage portfolio with market-leading canned soft drinks, dominant single-serve coffee platform, and high-growth functional/energy/hydration brands.
- Builds on existing distribution relationships. PEP already bottles/distributes select KDP products in parts of the U.S.
- Enhances PEP's "Power of One" snacks + beverages model by adding coffee and premium CSD scale while leveraging PEP's global reach and DSD infrastructure.

# Strategic Rationale for Deal

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## ➤ **Are there other targets that were considered?**

- Functional beverage innovators (e.g., prebiotic sodas or energy plays like full acquisition of Celsius, in which PEP already holds a stake) and pure-play coffee or energy companies for targeted growth.
- Smaller, high-growth insurgents were evaluated for speed-to-market in wellness trends.
- KDP stands out for its established scale, diversified non-alcohol portfolio, proven DSD network, and broader strategic fit versus narrower or less synergistic alternatives.

# Strategic Rationale for Deal

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## ➤ Why is it a good time to do this deal?

- Aligns perfectly with KDP's major transformation (JDE Peet's integration and planned 2026 separation into focused pure-plays), creating a strategic window before full independence.
- Beverage industry consolidation accelerating amid premiumization, functional-drink growth, and retailer demand for fewer, stronger partners.
- PepsiCo is optimizing its portfolio under activist focus and seeking accretive growth; KDP's strong 2025 momentum and NA scale position it as an ideal bolt-on at a time of favorable industry tailwinds.

# Strategic Rationale for Deal

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## ➤ Is target likely to be receptive to deal?

- Highly likely: KDP Board and management are focused on maximizing shareholder value through portfolio separation and pure-play creation
- A strategic premium from PEP would accelerate value creation via immediate synergies and global scale versus standalone post-split execution
- Existing distribution ties and complementary (not competitive) portfolios reduce friction and support a collaborative transaction

## ➤ Why does PEP want to acquire KDP?

- Adds high-growth categories: Dr Pepper (#3 US CSD), K-Cup single-serve coffee, and emerging brands (GHOST, Electrolit)
- Meaningful distribution synergies via cold-box placement, foodservice bundling, and Pepsi bottler network access
- Procurement scale in coffee, sweeteners, packaging, and freight drives \$505M–\$780M in run-rate cost synergies

## ➤ What are the key deal parameters?

- Implied offer price of ~\$37.25/share (40.2% premium); 60% stock / 40% cash consideration
- Transaction is modestly dilutive in Year 1 (–0.05%) but accretive by Year 2 (+3.9%) before synergies
- KDP shareholders receive 12.4% pro forma ownership; KDP contributes 21.2% of combined EBITDA

# Synergy Thesis

The synergy pool is meaningful, but the value is earned over time through distribution reach and procurement scale rather than instant overlap cuts.

**\$505m-\$780m**

Run-rate synergy  
*Year 5 hybrid scenario*

**\$1.6-\$2.95bn**

One-time costs  
*Years 1-4 integration spend*

**\$2-\$3bn**

Net synergy NPV  
*Meaningful, not transformative*

## Revenue Levers

- Cold-box and shelf density for Dr Pepper, Snapple, GHOST, Electrolit
- Foodservice bundling with Pepsi snacks + beverages
- Channel access via Pepsi bottling in 200+ markets

## Cost Levers

- Procurement savings in coffee, sweeteners, packaging, freight
- Better route density and manufacturing utilization
- Corporate overhead leverage, brand autonomy preserved

**Why it matters:** ~60% of the synergy pool is cost-driven and achievable within 3 years. Revenue upside requires 5+ years and carries more variance—it depends on PEP's distribution willingness and retailer buy-in.

**TLDR;** The cost case supports deal economics, but the strategic story is that KDP already brings operating density before synergy credit.

# Revenue and Cost Synergies

## Revenue Synergies

- International expansion for KDP brands through Pepsi bottlers in 200+ markets
- Cross-category bundles in grocery, convenience, and foodservice channels
- Faster innovation in RTD coffee, hydration, and energy categories

**Benefit:** Better shelf productivity and stronger retailer leverage

## Key Risk

Most of the upside depends on execution timing. Distribution integration is a 5–7 year problem.

## Cost Synergies

- Scale buying across inputs, packaging, and transportation
- Shared route density and plant loading where footprints overlap
- Leaner SG&A and support functions over time

**Benefit:** A financeable deal without heroic revenue assumptions

## Synergy Realization Timeline

### Years 1–2: Quick Wins

Procurement consolidation, corporate overhead reduction, shared back-office. ~\$200–\$300M achievable.

### → Years 3–4: Scale-Up

Route density gains, manufacturing plant rationalization, initial international expansion. Integration costs peak.

### → Year 5+: Full Run-Rate

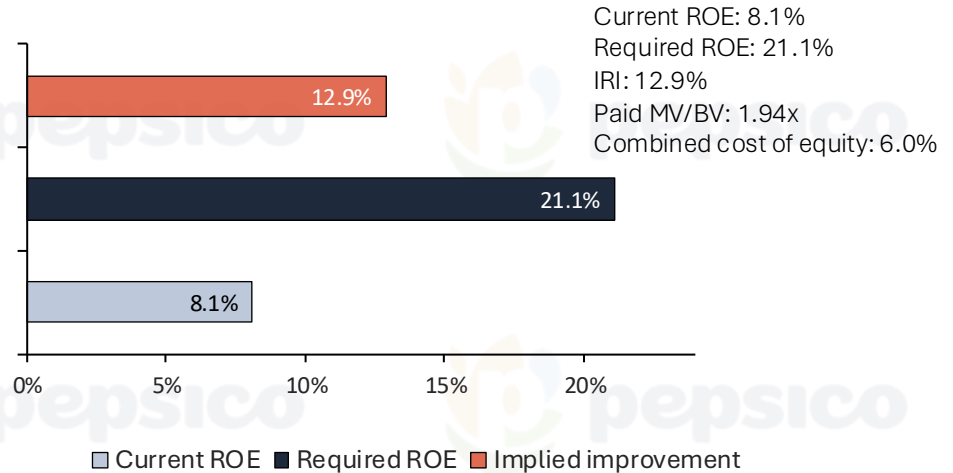
Full revenue synergy realization, cross-selling at scale, distribution fully integrated. Run-rate target: \$505–\$780M.

# Execution Hurdle

Can PEP generate enough ROE improvement to justify the acquisition premium paid for KDP?

Assumptions	Base case
Target MV/BV	1.496x
Premium (%)	30.0%
Target MV/BV (inc. premium)	1.945x
Investment horizon (n)	5
Combined COE (%)	6.3%
Target ROE (%)	8.1%

## Hurdle metrics



## What the IRI tells us

### Significant Gap Exists

KDP's current ROE of 8.1% must reach 21.1% within 5 years to justify the 1.95x MV/BV paid.

### Achievability Uncertain

Cost synergies (\$505–780M run-rate) and margin expansion are likely insufficient. A targeted 21% ROE requires revenue growth and asset gains that are not guaranteed.

### Challenging Conditions for PEP

PEP must realize both cost discipline and revenue acceleration to create value. A lower premium/longer horizon may reduce the hurdle, but the 30% base-case premium

# Valuation Methodology

## ➤ Discounted Cash Flows

**Implied Share Price**

**\$37.25**

**Valuation Date:**

**12/31/2025**

### Key Assumptions:

Beta =

**0.566**

WACC =

**6.77%**

Cost of Debt =

**4.28%**

Debt / Capitalization =

**32.07%**

Cost of Equity =

**7.94%**

Equity / Capitalization =

**67.93%**

EBITDA Exit Multiple =

**14.0x**

Terminal Value =

**\$78,604**

Enterprise Value =

**\$65,888**

PV of Terminal Value =

**\$53,071**

Adj. Enterprise Value =

**\$68,080**

FCF Perpetuity Growth =

**2.08%**

PV of TV as % of EV =

**80.5%**

2025 EV/EBITDA =

**14.8x**

Sales CAGR (2025 – 2031) =

**3.22%**

Statutory Tax Rate =

**25%**

Forecast Horizon =

**2026 – 2031**

Steady State =

**2032**

# Valuation Methodology

## ➤ Comparable Companies

Company	Equity Value (\$m)	Enterprise Value (\$m)	Enterprise Value /			LTM	Total	Price /
			LTM Sales	LTM EBITDA	LTM EBIT	EBITDA Margin	Debt / EBITDA	LTM EPS
Coca Cola	301,981.3	341,031.3	7.1x	22.4x	24.8x	32%	3.1x	23.0x
PepsiCo	196,478.9	240,488.9	2.6x	15.2x	20.9x	17%	3.4x	23.9x
Monster	75,571.8	73,549.7	8.9x	29.0x	30.4x	31%	0.0x	39.5x
Celsius	11,631.5	13,680.8	5.4x	77.9x	97.0x	7%	3.9x	26.0x*
Primo	6,106.9	11,455.2	1.7x	11.0x	26.6x	16%	5.5x	14.7x**
Coca-Cola Consol	10,203.6	12,711.6	1.8x	7.2x	8.1x	16%	1.6x	22.5x
Molson Coors	9,294.0	14,894.0	1.3x	6.4x	10.8x	21%	2.7x	8.6x
Vita Coco	3,085.8	2,888.8	4.7x	29.5x	35.0x	15%	0.0x	44.5x
AB InBev	115,079.9	186,839.9	3.1x	8.8x	11.8x	34%	3.4x	18.6x
Min			1.7x	6.4x	8.1x	7%	0.0x	8.6x
Max			8.9x	77.9x	97.0x	32%	5.5x	44.5x
Median			5.4x	15.2x	24.8x	17%	3.1x	23.0x
Mean			5.1x	23.1x	29.5x	20%	2.6x	24.6x
Adj. Mean (excl. min and max)			5.0x	17.6x	22.9x	21%	2.6x	24.0x

\*Adjusted to Trailing P/E, originally 183.0x

\*\* Adjusted to Trailing P/E, originally 102.2x

\*\*\*Trailing P/E = (Adjusted Non-GAAP Diluted EPS) / Last Close Price

# Valuation Methodology

## ➤ Precedent Transactions

Acquirer	Target	Date Announced	Deal Status	Purchase Consideration	SDC Deal Value (\$m)
Conagra Brands Inc	Pinnacle Foods Inc	27-Jun-18	Completed	Mix Cash/Stock	8,150.2
General Mills Inc	Blue Buffalo Pet Products Inc	23-Feb-18	Completed	100% Cash	7,926.9
Tyson Foods Inc	Hillshire Brands Co	29-May-14	Completed	100% Cash	7,726.8
Campbell Soup Co	Snyder's-Lance Inc	18-Dec-17	Completed	100% Cash	4,964.3
ConAgra Foods Inc	Ralcorp Holdings Inc	27-Nov-12	Completed	100% Cash	4,981.3
Tyson Foods Inc	AdvancePierre Foods Hldg Inc	25-Apr-17	Completed	Mix Cash/Stock	4,264.4
PepsiCo Inc	Pepsi Bottling Group Inc	20-Apr-09	Completed	Mix Cash/Stock	5,421.6

## Deal Screening Criteria

Variable Name	Variable Label	Value	Number of Companies
tinc	Target Industry Sector (Code)	Food and Kindred Products	313
da	Date Announced	2007 - 2022	77
pctown	Percent of Shares Owned after Transaction	100	58
tpubc	Target Public Status (Code)	Public	18
val	Deal Value (\$ Mil)	> 1000	13
anatc	Acquiror Nation	United States	10

# Valuation Methodology

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## ➤ Analysis Issues

### ■ Discounted Cash Flows

- No issues with building any part of the model, but a lot of time spent scrutinizing the assumptions driving the model to avoid overly optimistic outputs or exponential earnings/FCF.

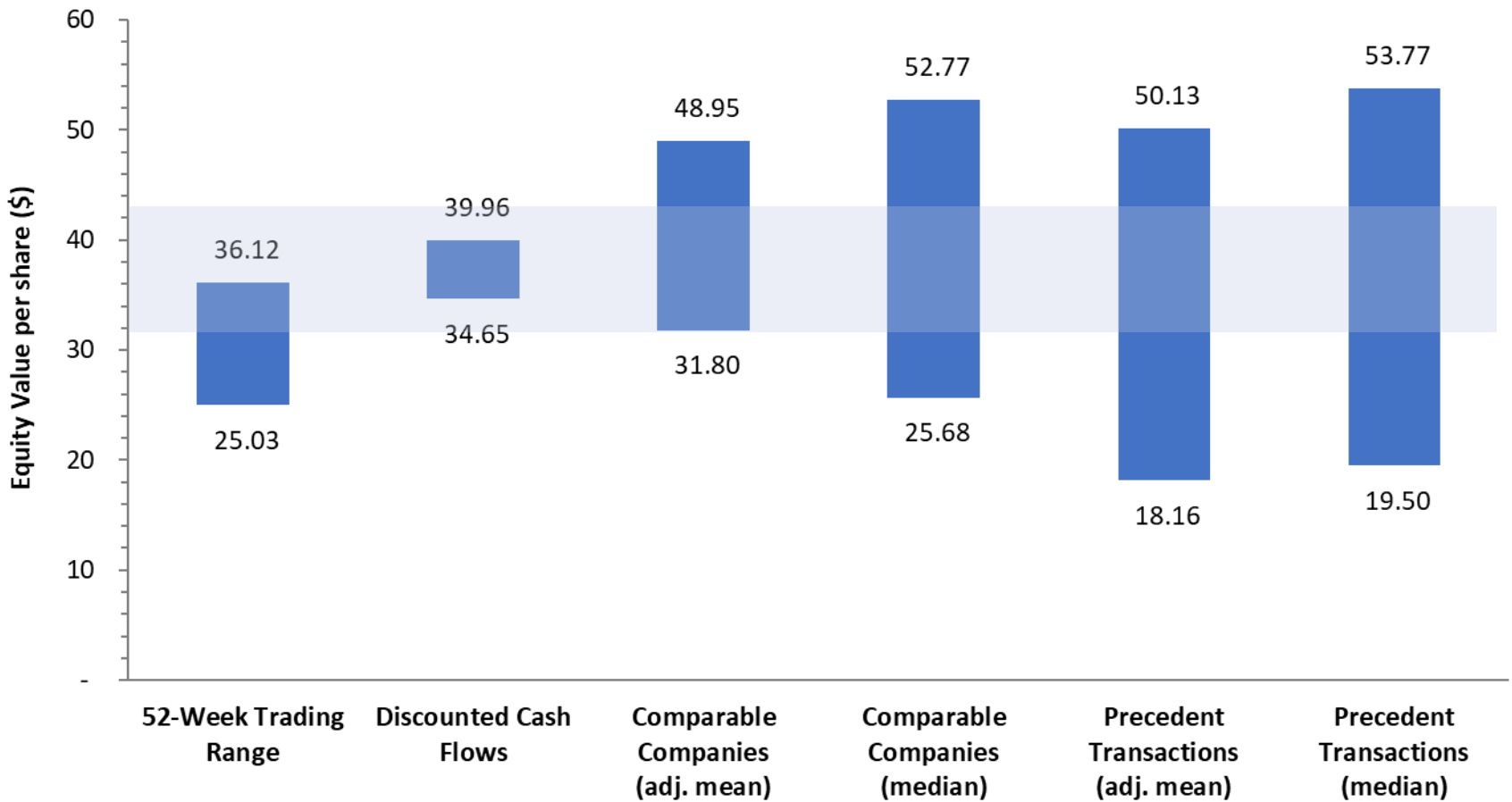
### ■ Comparable Companies

- Very fragmented industry, but the largest companies dominate and have the most complete data; this tended to skew analysis outputs upward. Inclusion of very small companies helped, while not as similar to KDP, helped the analysis come to a more sensible level.
- Had to adjust two companies P/E Ratios to Trailing Adjusted P/E due to original GAAP P/E being excessively high, which was causing an extreme upward skew in the analysis.

### ■ Precedent Transactions

- Lack of significant Beverage company deals with complete data, had to supplement with Food companies.

# Valuation Summary



**Our analysis suggests a valuation range of \$32 to \$43 per share**

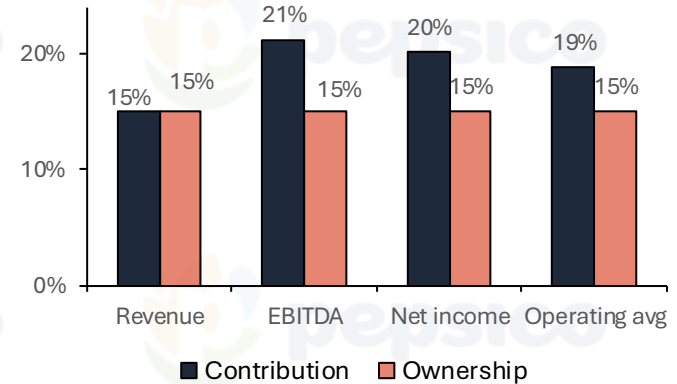
# Contribution Analysis

*KDP contributes more value than it receives*

## Is the Target Pulling Their Weight?

- Revenue contribution: ..... 15.0%
- EBITDA contribution: ..... 21.2%
- Net income contribution: ..... 20.1%
- Operating average: ..... 18.8%
- Base-case ownership: ..... 15.0%

## Contribution vs. Ownership



### Contributions - Comparative Multi-Metric

Metric	PEP	KDP	Combined	KDP Contribution %	KDP Ownership %	Gap
Revenue (\$M)	93,925	16,603	110,528	15.0%	15.0%	0.1%
EBITDA (\$M)	15,543	4,194	19,737	21.2%	15.0%	6.3%
Net income (\$M)	8,240	2,079	10,319	20.1%	15.0%	5.2%
Total assets (\$M)	107,399	55,459	162,858	34.1%	15.0%	19.1%
Total equity (\$M)	20,406	25,516	45,922	55.6%	15.0%	40.6%
Market cap (\$M)	197,410	38,172	235,582	16.2%	15.0%	1.2%

This **3.8 pt** operating gap indicates **PEP** is disproportionately favored in the deal. **KDP**'s contributions to the newly consolidated entity **outside the equity** they will receive.

# EPS Accretion/Dilution Analysis

## Effect of Transaction parameters on EPS accretion/dilution (CY + 1)

		Stock %				
		20%	40.0%	60%	80.0%	100%
Premium %	(0.1%)					
	0%	9.6%	9.3%	9.1%	8.8%	8.6%
	10%	7.1%	6.9%	6.7%	6.6%	6.4%
	20%	4.7%	4.5%	<b>4.4%</b>	4.3%	4.2%
	30%	2.2%	2.2%	2.2%	2.1%	2.1%
40%	(0.2%)	(0.1%)	(0.0%)	0.0%	0.1%	

## Effect of Transaction parameters on EPS accretion/dilution (CY + 2)

		Stock %				
		20%	40.0%	60%	80.0%	100%
Premium %	3.9%					
	0%	14.0%	13.5%	13.1%	12.7%	12.3%
	10%	11.5%	11.1%	10.7%	10.4%	10.1%
	20%	9.1%	8.8%	<b>8.4%</b>	8.1%	7.8%
	30%	6.7%	6.4%	6.2%	5.9%	5.7%
40%	4.3%	4.1%	3.9%	3.8%	3.6%	

# Breakeven Synergies Analysis

Effect of Transaction parameters on Breakeven / (Excess) Synergies for Nil Dilution (CY + 1)

		Stock %				
		20%	40.0%	60%	80.0%	100%
Premium %	10.6					
	0%	(1,052.3)	(1,057.2)	(1,062.1)	(1,067.0)	(1,071.9)
	10%	(784.5)	(789.9)	(795.3)	(800.7)	(806.1)
	20%	(516.7)	(522.6)	<b>(528.4)</b>	(534.3)	(540.2)
	30%	(248.9)	(255.2)	(261.6)	(268.0)	(274.3)
40%	19.0	12.1	5.2	(1.6)	(8.5)	

Effect of Transaction parameters on Breakeven / (Excess) Synergies for Nil Dilution (CY + 2)

		Stock %				
		20%	40.0%	60%	80.0%	100%
Premium %	(478.8)					
	0%	(1,560.4)	(1,559.5)	(1,558.6)	(1,557.6)	(1,556.7)
	10%	(1,292.0)	(1,291.0)	(1,290.0)	(1,288.9)	(1,287.9)
	20%	(1,023.6)	(1,022.5)	<b>(1,021.4)</b>	(1,020.2)	(1,019.1)
	30%	(755.2)	(754.0)	(752.8)	(751.5)	(750.3)
40%	(486.8)	(485.5)	(484.2)	(482.9)	(481.5)	

# Recommendation

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- **Would you go ahead with deal? Yes or No?**
  - Yes, given regulatory considerations
- **What price (or price range ) would you offer T?**
  - \$32-\$43 per share
- **What does this price mean in terms of a premium over the prior price 1 day, 1 week and 1 month ago?**
  - 1 Day – 23%-65% Premium; 1 Week – 24%-66% Premium; 1 Month – 16%-56% Premium
- **Would you recommend paying with cash or stock or a mix of the two?**
  - Mix of 60% equity and 40% debt
- **What is the approximate goodwill A would need to recognize (assume zero FV adjustments)?**
  - \$13,281.4

# Potential Transaction Issues

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## ➤ What challenges do you foresee?

- Previous regulatory blocking of Coca-Cola's proposed KDP acquisition in 1986
- Culture of KDP being a 3<sup>rd</sup> major player, distinct brand from Coke and Pepsi
- Current distribution & bottling of Dr. Pepper by Coca-Cola
- Consumer sentiment may wane if they foresee brands being cut due to product cannibalization
- Industry quality could come into question if competition is further reduced