



PepsiCo 1Q profit rises 5 percent on international growth

LAUREN SHEPHERD
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PepsiCo Inc., the world's second-largest soft drink maker, said Thursday a big rise in international revenue helped offset higher commodity costs and boost its first-quarter profit by 5 percent.

For the quarter ended March 22, net income jumped to \$1.15 billion, or 70 cents per share, from \$1.10 billion, or 65 cents per share, in the prior-year quarter.

The result matched analysts' profit estimates, according to a poll by Thomson Financial.

The company also affirmed its 2008 profit guidance of at least \$3.72 per share - about 1 cent per share shy of analysts' predictions - but added commodity costs will likely rise more than it initially expected.

PepsiCo said it is now expecting commodity inflation of 9 percent to 10 percent in 2008. Earlier this year, the company predicted 6 percent inflation.

On a conference call with investors, Chief Financial Officer Richard Goodman said the company had expected commodity costs to decline this year, but instead grain prices spiked in the first quarter.

"We were assuming it would reverse," he said. "Clearly that didn't happen."

Chief Executive Indra K. Nooyi added that the company needed some time to adjust its pricing models to an inflationary environment.

"It's taken us a quarter or two to catch up," she said.

Nooyi said the company will raise prices on much of its portfolio to try to offset the costs.

Goldman Sachs analyst Judy E. Hong said in a note to investors she is concerned that a price hike "could have negative implications for volume growth."

Other analysts were less concerned, saying PepsiCo's strong brands and large scale should help the company handle the commodity inflation.

"Everyone is going to have to deal with this problem," said Polen Capital Management analyst Damon Ficklin. "I think Pepsi is in good shape to manage through it."

Most food and beverage companies have raised retail prices as part of a struggle to combat far higher commodity costs, which have started eating into margins and profits across the sector.

Goodman said the company has been affected by higher prices for cooking oil, oats, wheat, corn and energy.

Corn and wheat both reached record-high levels in the past year due to overseas demand, bad weather and supply issues. Corn has also skyrocketed due to demand for the alternative fuel ethanol, which is made with the grain.

So far, Purchase, N.Y.-based PepsiCo has been able to grow its profit despite the higher costs, mainly due to its international business.

Revenue overall climbed 13 percent to \$8.33 billion from \$7.35 billion. The revenue beat analysts' predictions of \$7.97 billion.

Revenue in the international division grew the most, rising 27 percent. Volume, or the number of products sold directly or indirectly to consumers, grew 11 percent in the beverage unit and 15 percent in the snacks business.

Volume was particularly strong in China, South Africa, the Middle East and India.

The Americas Beverages unit did not fare as well, with revenue growing 6 percent and volume declining slightly.

The company said carbonated soft drinks volume fell 3 percent. PepsiCo, like most soft drink makers, has seen consumers move away from carbonated soft drinks to non-carbonated options like water and juices.

Non-carbonated drinks volume was even with the prior year. New Gatorade drinks, including a lower-calorie version called "G2," offset volume declines in juices and the company's Aquafina water business.

In the Americas Foods division, which includes Frito Lay, Quaker Oats and the Latin America Foods business, revenue rose 13 percent, largely due to higher prices. Volume rose 3 percent, helped by sales of Lays, Cheetos and cereals like Quaker Oatmeal.

PepsiCo it expects volume growth of 3 percent to 5 percent in 2008 and high-single-digit revenue growth.

The company said some of that growth will come from the company's \$1.4 billion acquisition of Russia's biggest juice company, JSC Lebedyansky.

That deal is expected to close in the third quarter.

Shares fell \$1.19 to close at \$68.