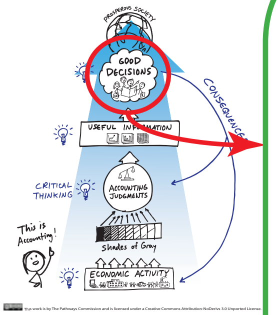
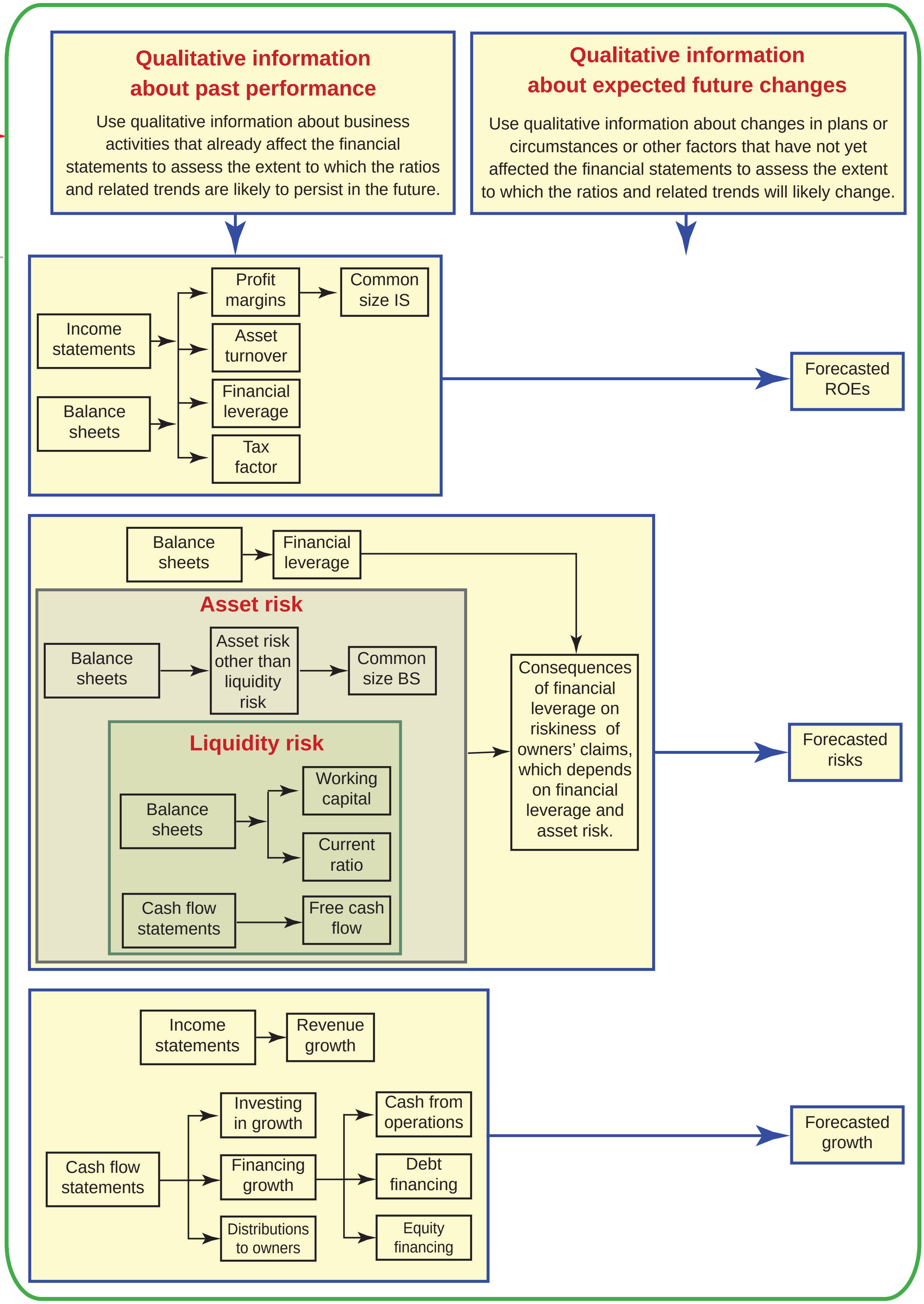
Analysis Consideration Map





Applying Analysis Consideration Map to Toulmin Model of Argumentation

Integration of Quantitative Information of Present Position and Past Performance with Qualitative Information About Underlying Economic Activity and Future Plans

Qualitative Information

Why Pepsi Has The Edge

While Coca-Cola has vowed to rebuild sales in the United States and focus on international sales, Pepsi has taken a different and smarter track. The change within Pepsi started back in 2006 with the hiring of Indra Nooyi as CEO.

A former management consultant, Nooyi understood the changing consumer with the shift from sugary soft drinks to healthy drinks and snacks. This fact is quite obvious due to the vast numbers of alternative and often health oriented drinks found at nearly every retail outlet. The new CEO refocused Pepsi on water, teas, juices and sport drinks. The company plans on expanding its nutritional business from $10 billion to $30 billion by 2020. It is relying on using its Gatorade, Quaker Oats, and Tropicana divisions, plus the newly formed Global Nutrition Group to follow the trend away from sugary sodas to healthier snacks and drinks.

To be sure, Coca-Cola has been on a buying frenzy to ramp up its healthy offerings with brands, such as VitaminWater and Odwalla. While this shift is a huge positive, soda remains 75% of Coca-Cola's global sales.

On the other hand, Pepsi's snack division makes up about 50% of the company's sales volume. Soda is just 25% of the company's U.S. sales compared to 60% of Coca Cola's. What this all means for investors is that Pepsi is better prepared to handle the unstoppable trend away from its flagship product than Coca-Cola."

"Coke versus Pepsi: By the Numbers", Street Authoirty, March 24, 2014

Excerpts from November 6, 2013 Motley Fool Article

"Both companies enjoy tremendous brand power differentiating their products from smaller competitors: Coke's portfolio features 16 billion-dollar brands including Coca-Cola, Diet Coke, Fanta, Sprite, Coca-Cola Zero, VitaminWater, Powerade, and Minute Maid, among others. Pepsi owns more than 22 brands generating more than $1 billion in sales, including famous names like Pepsi, 7UP, Gatorade, Lays, Doritos, and Cheetos.

Also, both Coke and Pepsi are facing similar challenges: stagnant volume growth in developed countries due to market saturation and the trend toward healthier nutritional habits. Not surprisingly, both companies are going through parallel roads in finding a solution to their challenges: product innovation and a focus on healthier alternatives in developed countries while at the same time capitalizing on volume growth opportunities in emerging markets."

"Better Buy: Coca Cola versus Pepsi", Andrés Cardenal, November 6, 2013

Excerpts from Harvard School of Public Health Article (not dated)

- "People who consume sugary drinks regularly—1 to 2 cans a day or more—have a 26% greater risk of developing type 2 diabetes than people who rarely have such drinks.
- A study that followed 40,000 men for two decades found that those who averaged one can of a sugary beverage per day had a 20% higher risk of having a heart attack or dying from a heart attack than men who rarely consumed sugary drinks. A related study in women found a similar sugary beverage–heart disease link.
- A 22-year-long study of 80,000 women found that those who consumed a can a day of sugary drink had a 75% higher risk of gout than women who rarely had such drinks. Researchers found a similarly elevated risk in men.
- Dr. Frank Hu, Professor of Nutrition and Epidemiology at Harvard School of Public Health, recently made a strong case that there is sufficient scientific evidence that decreasing sugar-sweetened beverage consumption will reduce the prevalence of obesity and obesity-related diseases."

"Soft Drinks and Disease", Harvard School of Public Health: The Nutrition Source

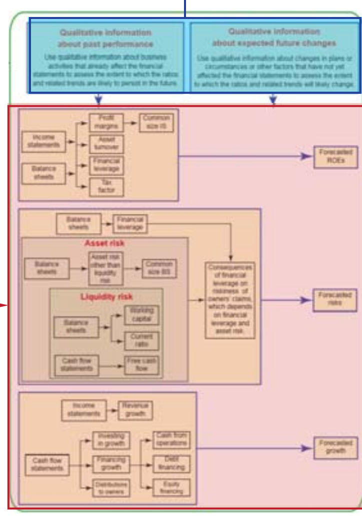
Excerpts from June 27, 2014 Forbes Article

"The cracker segment is now the largest salty snack division, constituting almost one-fourths of the net sales in 2013. Back in 2011, potato chips was the largest segment of the U.S. savory snacks market with a 36% share, but its share has since fallen. This is mainly due to shifting consumer trends and healthier snacking

STEP-2 Integration with Qualitative Analysis

- Identify qualitative evidence that would affect the persistence of future ROEs, risks, and growth for each company.
- Evaluate each companies' future prospects by combining Step-1 historical information with qualitative information.
- Create six arguments (2 companies x 3 factors: ROE, risks, growth).
- Select the company with the best overall future prospects, taking into account the relative strengths of the arguments:
  - Superior expected future ROEs
  - Lower expected future risks
  - Superior expected future growth
- Create a well-organized report that concisely and persuasively presents your qualified claim for the best overall company, opening remarks, arguments, and counterarguments (arguments for the company not selected) substantiated with evidence, facts and/or logic.

Quantitative Information



STEP-1 Quantitative Analysis

- **ROEs**
  - Identify ROE patterns and outliers over time for each company.
  - Analyze differences in ROEs in terms of DuPont Model measures.
  - Analyze differences in profit margins in terms of common size income statements.
  - Investigate significant differences discovered above with disclosures on companies' balance sheets and income statements.
- **Risks**
  - Identify financial leverage patterns and outliers over time (based on book and estimated market values).
  - Analyze common-size balance sheets to identify significant assets and liabilities.
  - Analyze related asset and liquidity risks, including broader macroeconomic risks and risks specific to the company.
  - Investigate significant differences discovered above with disclosures on companies' balance sheets.
- **Growth**
  - Identify revenue growth patterns and outliers over time for each company.
  - Analyze differences in growth in terms of revenue components (e.g., geographic regions, business segments, products versus services).
  - Analyze investment patterns over time and effects on growth.
  - Analyze distributions to owners over time and effects on growth.

For simplicity, the above quantitative analysis only considers balance sheets and income statements. Include cash flow statements and other information as available for your analysis.