EXERCISES

is.hun.afp.040 Analyzing information to assess companies' future prospects

(Analysis Mini-Case Series)

This exercise has an open-ended question that allows for several good alternative responses. While there aren't correct responses to the question, some are definitely better than others. Generally, responses are better to the extent they identify and fully vet arguments, counterarguments, and rebuttals, include appropriate qualifiers, and provide insights regarding the way you assessed the relative merits of the arguments, counterarguments and rebuttals. See The Toulmin Model of Argumentation as a reference.

Additionally, responses must cite sources and use quotation marks when copying word for word. Admittedly, this is overkill here because you can only use the provided information. However, citing here is good practice for situations where there are fewer or no restrictions on the admissible information. Still, you needn't cite the provided tabular data.

Usage

This exercise helps you learn how to use accounting information.

Introduction

Financial analysts and others use financial models to derive their own assessments of the values of companies' shares, which generally differ from the prices at which the shares are currently traded in stock markets. To the extent these assessed values are significantly higher than the current share prices and investors have confidence in these assessments, they are motivated to buy the companies' shares, and to the extent the assessed values are significantly lower than the current share prices, they are motivated to sell shares.

While several models are used in practice, since the 1960s there has been widespread agreement in academia that the "discounted cash flow" model is the best conceptually and it is used widely in practice. You will learn about this model in finance courses. For now all you need to know is the assessed values depend on forecasts of future cash flows to shareholders (dividends or capital gains). A few years ago, a new model emerged: It converts the forecasted terms in the discounted cash flow model into four factors that are closely related to concepts we have studied in the course:

1. **Book value of owners' equity**: The current book value of owners' equity.
2. **ROEs**: The expected return on equity (ROE) for each future period.
3. **Growth rates**: The expected growth rate of owners' equity for each future period, which depends on several factors including the expected growth rates of revenues and the expected distributions to owners and contributions from them.
4. **Risks:** The expected cost of capital at each future period – the interest rates the company is expected to pay on issued debt and its expected future share prices (the higher the share price, the fewer the number of shares the company has to issue to raise the same amount of capital). The cost of both sources of capital depends on investors' perceptions about the risks the company faces.

Both of the models discussed above are relatively sophisticated mathematical formulas that allow investors to quantify their qualitative assessments of companies' future prospects into valuations. Our focus here is on these qualitative assessments of the two companies' future prospects. More specifically, based on the provided information and concepts studied thus far in the course, you are to qualitatively assess the two companies' expected ROEs, growth rates, and risks. To this end, you should base these assessments on the extent to which you conclude: (1) past performance (based on plans already being executed and reflected in the financial statements) will persist and (2) new plans (not yet reflected in the financials) will succeed.

Required

In this question, you will explore **Coke's** and **Pepsi's** future ROEs, growth rates, and risks.

Based solely on concepts covered thus far in the course and the provided background information and tabular data, which company, Coke or Pepsi, appears to have the better future prospects at the most recent balance sheet dates, taking into consideration expected future return-on-equity (ROE), growth rates, and risks?

- Respond to this question by completing Parts I-III.

  Note: If you conclude one company doesn't dominate the other on all three factors (ROEs, growth rates and risk): (1) In your opening remarks, identify the company that has the best prospects for each of the factors; and (2) incorporate the companies' relative strengths into your arguments, counterarguments, and the confidence you attribute to your claim

- Use the **Analysis Consideration Map - Phase 2** (on page 18) to help you develop a response that integrates the qualitative and quantitate background information.

Background Information

Excerpts from Coke's 2013 10K Annual Report

"The Coca-Cola Company is the world's largest beverage company. We own or license and market more than 500 nonalcoholic beverage brands, primarily sparkling beverages but also a variety of still beverages such as waters, enhanced waters, juices and juice drinks, ready-to-drink teas and coffees, and energy and sports drinks. We own and market four of the world's top five nonalcoholic sparkling beverage brands: Coca-Cola, Diet Coke, Fanta and Sprite. Finished beverage products bearing our trademarks, sold in the United States since 1886, are now sold in more than 200 countries.

We make our branded beverage products available to consumers throughout the world through our network of Company-owned or -controlled bottling and distribution operations as well as independent bottling partners, distributors, wholesalers and retailers — the world's largest beverage distribution system. Beverages bearing trademarks owned by or licensed to us account for 1.9 billion of the approximately 57 billion beverage servings of all types consumed worldwide every day."

Coke's 2013 10K, page 1

"Competitive factors impacting our business include, but are not limited to, pricing, advertising, sales promotion programs, product innovation, increased efficiency in production techniques, the introduction of new packaging, new vending and dispensing equipment, and brand and trademark development and protection.

Our competitive strengths include leading brands with high levels of consumer acceptance; a worldwide network of bottlers and distributors of Company products; sophisticated marketing capabilities; and a talented group of dedicated associates. Our competitive challenges include strong competition in all geographic regions and, in many countries, a concentrated retail sector with powerful buyers able to freely choose among Company products, products of competitive beverage suppliers and individual retailers' own store or private label beverage brands."

Coke's 2013 10K, page 8

"We earn revenues, pay expenses, own assets and incur liabilities in countries using currencies other than the U.S. dollar, including the euro, the Japanese yen, the Brazilian real and the Mexican peso. In 2013, we used 80 functional currencies in addition to the U.S. dollar and derived $27.0 billion of net operating revenues from operations outside the United States. Because our consolidated financial statements are presented in U.S. dollars, we must translate revenues, income and expenses, as well as assets and liabilities, into U.S. dollars at exchange rates in effect during or at the end of each reporting period. Therefore, increases or decreases in the value of the U.S. dollar against other major currencies affect our net operating revenues, operating income and the value of balance sheet items denominated in foreign currencies. In addition, unexpected and dramatic devaluations of currencies in developing or emerging markets could negatively affect the value of our earnings from, and of the assets located in, those markets. Because of the geographic diversity of our operations, weaknesses in some currencies might be offset by strengths in others over time. We also use derivative financial instruments to further reduce our net exposure to currency exchange rate fluctuations. However, we cannot assure you that fluctuations in foreign currency exchange rates, particularly the strengthening of the U.S. dollar against major currencies or the currencies of large developing countries, would not materially affect our financial results."

Coke's 2013 10K, page 13

Excerpts from Pepsi's 2013 10K Annual Report

"We are a leading global food and beverage company with brands that are respected household names throughout the world. Through our operations, authorized bottlers, contract manufacturers and other third parties, we make, market, sell and distribute a wide variety of convenient and enjoyable foods and beverages, serving customers and consumers in more than 200 countries and territories."

Pepsi's 2013 10K, page 2

"Our businesses operate in highly competitive markets. Our beverage, snack and food brands compete against global, regional, local and private label manufacturers and other value competitors. In many countries in which we do business, The Coca-Cola Company is our primary beverage competitor. Other food and beverage competitors include, but are not limited to, ConAgra Foods, Inc., DPSG, Kellogg Company, Kraft Foods Group, Inc., Mondelēz International, Inc., Monster Beverage Corporation, Nestlé S.A., Red Bull GmbH and Snyder's-Lance, Inc. In many markets, we also compete against numerous regional and local companies.

Many of our snack and food brands hold significant leadership positions in the snack and food industry worldwide. However, The Coca-Cola Company has significant carbonated soft drink (CSD) share advantage in many markets outside the United States."

Pepsi's 2013 10K, page 6

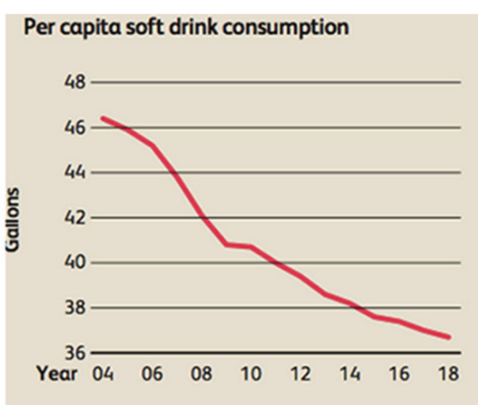
Excerpts from March 24, 2014 Street Authority Article

"But truth be told, Coca-Cola has won the cola war. Coke controls 42% of the total carbonated soft drink market, compared with Pepsi's 30%, according to Beverage Digest.

Coke Has Won -- But Does It Matter For Investors?

Despite Coke's clear victory, I expect this will have little relevance going forward for investors.

Due to changing tastes and a healthier consumer, both cola brands have been in decline. Research firm IbisWorld has forecast that per-capita soda consumption's downward trend will continue with no end in sight. No matter how much money is spent on clever marketing, the overwhelming secular trend against sugary, calorie-filled carbonated beverages cannot be reversed.



(IbisWorld)

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 habits, as customers look to switch to snacks using healthier ingredients such as high-protein foods, vegetables, and legumes. Crackers such as saltines, graham crackers, and breadsticks, with relatively less cholesterol and calorie amounts, are expected to remain the highest selling salty snack segment in the long term. Sales for the cracker segment are expected to rise by 33% to $9.3 billion by 2018.

Growth in the cracker segment might not mean growth for Frito-Lay. Unlike the stronghold in potato chips and tortilla chips, Frito-Lay has only a small presence in crackers, with brands such as Cracker Jack. This segment is dominated by Mondelez and Kellogg's, while Frito-Lay's offerings don't even figure in the ten top selling cracker brands. With shifting consumer choices, and preference to the cracker category, the proportion of this segment in the overall salty snack market could grow. As Frito-Lay only accounts for a small share in crackers, higher growth of this segment as compared to potato and tortilla chips, could drag down the company's share in the U.S. salty snack market going forward."

"Frito-Lay Dominates U.S. Salty Snacks, But Rising Cracker Sales Could Stall Growth", Trefis Team,Forbes, June 27, 2014

Excerpts from February 2, 2014 Seeking Alpha Article

"One could easily point to Pepsi's diversification into snack foods as the primary difference between the two companies; however, I would argue that Pepsi's embrace of snack foods is a symptom of Coke's reign over the non-alcoholic beverage industry. ...

I find the long-term debt load of Coke versus Pepsi a distinct advantage for the former company. Both entities are striving mightily to enter foreign markets, particularly India and China. Therefore, it is reasonable to assume Coke will use their stronger financial position to establish their brand at Pepsi's expense. In effect, Coke will start the race ahead of their rival, and it is doubtful, considering the history of the two companies, that Pepsi will be able to close the gap. ...

Most difficulties associated with growth in North America and Europe are related to health concerns surrounding beverages containing large quantities of sugar and/or artificial sweeteners. This problem looms large for beverage companies in that consumers in the younger demographic ranges are the most likely to steer away from diet drinks. However, by developing products using more acceptable sweeteners, Coke hopes to provide alternatives to sugar laden beverages and artificially sweetened diet soft drinks.

Both Pepsi and Coke have made progress in developing stevia based sweeteners, and one must assume that acceptable products will be offered in the near future.

Coke successfully marketed Coca-Cola Life in Argentina. Coca-Cola Life uses sugar and zero calorie stevia, a natural product, for sweeteners. There is considerable buzz concerning the new product and speculation that it will be introduced into the North American market."

"Coke versus Pepsi: WHere the Real Difference Lies", Chuck Walston, Seeking Alpha, February 2, 2014

Excerpts from February 18, 2014 conference call Coke's Executives had with Analysts

Shortly after the end of fiscal 2013, Coke held an on-line conference call with financial analysts and others to discuss its fiscal 2013: performance for the fourth quarter (Q4); performance for the entire year; financial position at the end of the year; and future plans and strategies, including those not yet reflected in the company's financial statements. The following quotes are from a transcript of this conference call. They include statements by the company's executives followed by questions from analysts and related responses.

Muhtar Kent - The Coca-Cola Co - Chairman & CEO

"With 2013 behind us, I am now looking forward to joining forces with our global system associates as we work to restore momentum to our Business in 2014. 2013 was clearly marked by ongoing persistent macroeconomic challenges and our Business was not immune to these pressures. Nevertheless, we delivered sound financial results and we grew global value share in nonalcoholic ready-to-drink beverages for a 26th consecutive quarter.

Our worldwide volume grew 1% in the fourth quarter and 2% for the full year. We delivered full-year comparable currency-neutral operating income growth of 6% after excluding the impact of structural changes off of a comparable currency-neutral ex-structural revenue growth of 3% for the full year.

And we delivered full-year comparable currency-neutral EPS [earnings per share] growth of 8%, in line with our long-term growth targets. This performance underscores our ability to generate sound financial results even in a challenging environment."

Note: Currency-neutral revenue and operating income growth are non-GAAP (Generally Accepted Accounting Principles) measures that Coke reports to analysts to express what revenues and operating income would have been if there had not been currency fluctuations. Proponents of these measures argue that in the long run these fluctuations offset each other, especially for companies like Coke that operate in 200 countries.

"Our tea volume grew 11% for the full year, with solid performance across our entire tea portfolio. Juice and juice drinks grew 5% for the full year, with strong performance by Minute Maid, Simply, Del Valle, Minute Maid Pulpy, Rani, and Innocent. We are proud of our robust portfolio of leading juice and juice drink brands.

Sports drinks grew 2% for the full year, with Powerade continuing its solid and consistent growth performance. Packaged water grew 5% for the full year as we focused on growing our premium water brands and on expanding our PlantBottle and Eco-Flex packaging.

While 2013 was an unusual and challenging year, it has certainly not deterred us from our commitment to our 2020 Vision. Many economies around the world remain volatile in 2013, developed markets are slowly starting to recover from this turbulent time, and consumer expenditures remain moderated.

Emerging markets face a substantial challenges as they dealt with fluctuating currencies and other structural issues. However, we remain optimistic and excited about the future of our Business and brands in emerging markets. After all, per capita consumption for our brands remains relatively low in most emerging countries. ...

2013 was a challenging year in North America and I'm not satisfied with our overall performance. Nevertheless, we gained volume and value share while generating positive price mix of 1% across our portfolio and positive price mix of 2% for our sparkling brands. However, our volume was even versus prior year and operating income fell short of our targets.

Sparkling beverage volume fell 2%, largely due to softer Diet Coke volume. We have implemented a multi-faceted approach to address category headwinds and the various misperceptions that fuel them. This effort is targeting both obesity and ingredient concerns and increased aggressive sweetener innovation, transparent consumer communications, continued packaging evolution, and new partnerships with credible third parties around the world who will use meaningful facts to defend and protect the sparkling category.

While we work to nurture our sparkling business back to growth, our still beverage business continues to perform well. Still beverages grew 5% for the full year, as our diverse portfolio of still beverage brands continues to outperform the competition. Thanks to continuous innovation and to growing brands like Powerade, Simply, Gold Peak, and Smartwater, the fourth quarter marked the 15th consecutive quarter in which our still beverage portfolio gained or maintained volume and value share in North America.

As we approach the mid-point of our 2020 Vision, we remain fully committed to taking the necessary bold actions to realize our vision. One such action is our recently-announced global partnership with Green Mountain Coffee Roasters. This partnership is a real game-changing innovation in the nonalcoholic beverage category.

Consumers are demanding more beverage variety, functionality, and convenience, and we believe Green Mountain is the perfect strategic partner to collaborate with and to capitalize on the many transformative opportunities we see available in the marketplace. Importantly for The Coca-Cola Company, with this exciting partnership, we're leveraging new technology to create a transformative platform for consumers to enjoy our great brands through new consumption occasions and new channels. By combining Coca-Cola's brand leadership and global footprint with Green Mountain's cutting-edge technology and innovation capabilities, together we will capitalize on the many exciting opportunities in the single-serve pod-based segment of the cold beverage industry, as well as explore other future opportunities to collaborate on the entire Keurig platform."

Note: "In February 2014, The Coca-Cola Company purchased a 10% stake in the company [Green Mountain], valued at $1.25 billion, with an option to increase their stake to 16%, which was exercised in May 2014. The partnership is part of Coca-Cola's support of a new cold beverage system being developed by Keurig that will allow customers to make Coca-Cola brand beverages at home."

Wikipedia

Bryan Spillane - BofA Merrill Lynch - Analyst

"... if we think about 2014 there's a lot of moving parts, with exchange rates and some of the volatility in emerging markets. Gary, could you talk a little bit about how we should think about currency-neutral and also maybe neutral of the effects of structural change?

Are you still looking at a currency-neutral on-algorithm year in operating profits? And also just some of the other major drivers behind volume that might influence that cost of goods sold inflation, price mix, country mix, that sort of thing? That would be helpful?"

Gary Fayard - The Coca-Cola Co - CFO

"When you're the industry leader, you have to believe in rational pricing and we believe we should get pricing for our brands because our brands are worth it and we would expect to have positive price mix this year to go with the volume that we will have this year. When you look at commodities, they're fairly benign from what we're seeing for 2014 so not a big deal.

Now let's say currency, among the worst we've seen in years. There's not a whole lot you can do about it when all the emerging market currencies melt down as they did earlier at the end of December, early January. With that said, let me be very clear. Ours is a growth business, is a business model that is built on growth, and we know that we cannot save our way to prosperity.

We will have productivity, but that productivity will be reinvested for growth. While we are reinvesting for growth in our marketing, ..., in addition, while we're increasing the marketing, we will also have a goal and it is the goal for this year of hitting our long-term growth models this year. So we're going to significantly increase our marketing but at the same time the goal is we will hit long-term growth model this year."

John Faucher - JPMorgan Chase & Co. - Analyst

"... responding to Gary's question about ramping up the marketing, ... there's a sense out there in the market that given the headwinds for the category, that adding more marketing could be pushing on a string, so to speak. So what is it that you're seeing that says these headwinds that you are facing can be offset with higher marketing? Thanks."

Muhtar Kent - The Coca-Cola Co - Chairman & CEO

"John, I'll just tell you very simply that the Coca-Cola way is to grow our way to success. We invest for growth together with our bottling partners and we have the greatest system in the world.

We have a tremendous amount of experience to say that good marketing, good selling works for our Business. And it will work for our business. We have numerous cases to prove that.

We're going to continue to build on our marketing in both quantity and quality. This is a global increase in marketing.

In every country that we operate in, large or small, we know it works. When we invest in marketing, our global partners invest in feet-on-the-street, in more coolers, in more trucks, in more [lines], and that's what we see happening. That's what we will see, we believe, happening to our Business as we restore steady momentum in through 2014 and beyond."

Dara Mohsenian - Morgan Stanley - Analyst

"Muhtar, post the investment in Green Mountain, I was just hoping to get an update on how important a role acquisitions might play in meeting your 2020 Vision goals. You mentioned the focus on partnerships earlier in the call -- I was hoping you could elaborate there? And if acquisitions are a greater priority here given some of the difficult macro conditions and a somewhat favorable environment with your healthy balance sheet and still low rates here?"

Muhtar Kent - The Coca-Cola Co - Chairman & CEO

"Yes. Nothing different than before. So no change.

We're obviously very excited with our new opportunities for consumption as will be brought to us by the partnership with Green Mountain over time. The key is to fuel the power of partnerships.

The Coca-Cola Company and system is an incredible integration of power of partnerships in every respect. And therefore, this is yet another one. So think about -- if you look at household consumption, in particular the Western markets, there's a tremendous opportunity to gain incremental consumption occasions for our brands through these kind of partnerships.

This is what the Green Mountain partnership is all about. When you look at how beverages are consumed at home and when you look at trends in the next 10 years, people are going to spend more time at home.

They're going to work more from home. Home is going to be an even more important place for people, for consumers. And we need to be present there with different technologies, different packaging, different ways to serve our brands, and that's why this is important and partnerships like these are going to be important for us over time going forward."

Excerpts from February 13, 2014 conference call Pepsi's Executives had with analysts

Shortly after the end of fiscal 2013, Pepsi held an on-line conference call with financial analysts and others to discuss its fiscal 2013: performance for the fourth quarter (Q4); performance for the entire year; financial position at the end of the year; and future plans and strategies, including those not yet reflected in the company's financial statements. The following quotes are from a transcript of this conference call. They include statements by the company's executives followed by questions from analysts and related responses.

Indra Nooyi - PepsiCo, Inc. - Chairman and CEO

"As we close out 2013 and look ahead to 2014 and beyond, we have a few key themes we'd like to share with you.

Through a multi-year process, we've largely transformed PepsiCo for sustained performance. We are executing on our plan to deliver on our stated goals. This execution has enabled us to deliver, and in many cases exceed, all of our financial goals in 2013.

Our portfolio is complementary, our geographic and product portfolio positions us well for sustainable growth. We believe that our portfolio, as currently constructed, positions us to maximize value creation. As a result, we are not making significant structural changes, including to North American beverages.

We are extending our $1-billion annual productivity savings target through 2019. Our 2014 guidance is in line with our long-term financial targets, and the actions that we are taking to execute our strategy provide us further confidence in the long-term durability of these targets.

Consistent with our commitment to disciplined capital allocation, we are increasing our cash returns to shareholders by 35% in 2014; significantly stepping up both our dividends and share repurchases to a total of $8.7 billion, while maintaining appropriate capital investment in the Business.

Finally, and most importantly, our recently completed Org Health survey tells us that our associates are motivated, engaged, and positive about being part of, and the future of, PepsiCo.

Let me walk you through each of these themes. As you know, over the past few years, we've had to address a number of macro trends that have reshaped and will continue to shape our industry. We made the required investments and changes to preemptively transform ourselves to capitalize on the opportunities these shifts presented, and to position the Company for long-term growth and value creation.

First, we expanded our presence in faster growing developing and emerging markets in response to a shift in the sources of global growth. Second, we continued to balance our portfolio of offerings to include more nutrition and healthy offerings, while increasing the permissibility of our social snacks and beverages by reducing calories and sodium in key products to address consumers' growing concerns with health and wellness.

Third, we stepped up investment in R&D, digital capabilities, and food quality and safety in acknowledgment that social media is an ever-increasing powerful force, there's greater availability of more sophisticated tools and product formulations, and food safety and security are now greatly enhanced by more tools providing ingredient traceability. Fourth, we invested to enhance the equity of our 22 billion-dollar brands, which together, account for more than 70% of our total revenue. We also upgraded our revenue management skills to give us the ability to take pricing.

Fifth, we built a culture of productivity into the Company to deal with the reality of a volatile and inflationary commodity environment. Sixth, we've designed sustainability into our operations in response to growing environmental consciousness. Lastly, on the talent front, we upgraded our skills through selective hiring in several new and emerging areas, and we completely revamped our talent management processes and training curriculum with a view to equipping our people with skills needed to perform better in a volatile environment.

Through these transformative actions, we have fundamentally changed the profile of the Company. Our product profile has grown from fun-for-you to a more balanced offering of good-for-you, better-for-you, and fun-for-you products.

Geographically, we've shifted PepsiCo to a Company with a more balanced global footprint. And our culture has shifted from a decentralized one with businesses operating completely independently, to what we refer to as connected autonomy; a model that combines the best of an entrepreneurial ownership culture with the benefits of global scale and coordination. As a result, PepsiCo today is positioned to deliver, over the long term, top-tier financial performance and value creation for our shareholders. ...

Turning now to our portfolio. It is evenly distributed across snacks and beverages; both of which are attractive global categories. Within these categories sits a highly attractive portfolio of nutritious products, including brands like Quaker in grains, Tropicana Naked in fruits and vegetables, and Gatorade in sports nutrition. Our geographic footprint is very well balanced, with 35% of our net revenue in high-growth developing and emerging markets, and about two-thirds in stable, highly profitable, developed markets.

Our portfolios are also truly better together, or what we refer to as, the Power of One. Our entire portfolio is focused on taste and convenience. Our products are purchased together and consumed together. Our presence in beverages supports our snacks growth.

And the heft of our portfolio positions us as the largest food and beverage business in many of our key markets, and this makes us a key partner to retailers and food service customers. We realize $800 million to $1 billion in annual savings by operating our Business as one.

Our priorities for managing this portfolio are very clear. In developed-market snacks, where we have an incredibly strong business that combines high market shares and high margins, we intend to defend and grow our share of salty snacks. We want to grow organically [meaning through growth of existing businesses rather than growth through acquisitions]into the broader macro snack space, and this will leverage our core salty snack foundation's capabilities to capture a broader range of dayparts and occasions. We want to leverage our beverage business to increase our snack presence in the large, profitable food service business.

In developed-market beverages, it's a huge category where we have good competitive positions in many markets. Here, we intend to sensibly defend our LRB share [Liquid Refreshment Beverages], and improve margins and returns with an intense focus on unlocking productivity, especially in North America. We are focused on achieving product disruption and differentiation through science-based R&D, especially in the area of sweetener innovation.

In our developing and emerging markets, where we have strong salty snack shares in most markets, and leadership of parity system beverage positions in many key markets, we intend to continue to build our [market] share positions, capture our fair share of growing beverage occasions, and selectively pursue tuck-in acquisitions to build out our scale and our geographic footprint. In the nutrition arena, where we are one of the leading players globally in everyday nutrition, we intend to benefit from the high growth of this category, leveraging the presence and scale of our existing businesses. These category/country combinations with their demographic tailwinds and related product diversity give us line of sight to our mid-single-digit organic [non-acquisition] revenue growth goals.

From a category perspective, we expect our global beverage business to grow revenue in the low- to mid-single digits, and global snacks and nutrition to grow revenue in the mid-single digits. From a market perspective, we expect developed markets to grow revenue low- to mid-single digits, and our developing and emerging markets to grow revenue high-single to low-double digits. Based on this growth profile, and because we have full operating businesses in snacks, we expect about two-thirds of our revenue growth will come from snacks. And from a geographic perspective, about two-thirds of our revenue growth to come from developing and emerging markets.

As a result, over time, our business mix will gradually shift to be more heavily weighted towards snacks, and more heavily weighted towards developing and emerging markets than we are today. This revenue growth profile is the foundation of PepsiCo's reliable, long-term growth model.

How does this all translate to future results? From a geographic perspective, each market type plays an important role in our portfolio. Emerging markets are primarily top-line growth drivers, with some potential for margin improvement in the short term. Developing markets drive balanced top-line growth in margin and ROIC [return on invested capital] improvement. Developed markets contribute relatively less to top-line growth, but have very attractive margins and returns, and are prodigious cash flow generators; and this is true of both snacks and beverages.

Holistically, this portfolio provides a platform for balanced growth, margin and return improvement, for sustainable future growth opportunities cementing the durability of our long-term core constant-currency EPS [earnings per share] algorithm, and superior cash returns to shareholders; all of which leads to top-tier total shareholder return."

Hugh Johnston - PepsiCo, Inc. - EVP, CFO

"Thank you, Indra, and good morning, everyone. Let me spend a few minutes discussing our outlook for 2014, which is in line with our long-term objectives. We expect another year of mid-single-digit organic [non-acquisition] revenue growth. We expect operating margin expansion, as top-line growth and productivity should offset negative geographic mix and cost inflation.

Below the division operating profit line, we expect corporate cost efficiency, an approximately 25% core tax rate, and a reduced share count. All-in, we expect core constant-currency EPS growth of 7%. Foreign exchange is expected to impact revenue and core earnings per share by approximately 3% and 4%, respectively, based on current market consensus rates. Taking our 2013 core EPS of $4.37, and applying our guidance, implies a 2014 core EPS of approximately $4.50.

Our outlook appropriately factors in both tailwinds and headwinds. To the positive, we expect to generate over $1 billion of productivity savings in 2014, which will offset operating cost inflation. We feel very good about our innovation agenda, which should enable us to sustain our organic revenue growth rate.

Our share count will benefit from stepped-up share repurchases, although we won't recognize the full benefit of the 2014 repurchases within 2014, as they will be made throughout the year with some of the share count reduction falling into 2015. Our tax rate will be lower, and is estimated to come in for the full year at approximately 25%, which we expect to be able to sustain for the foreseeable future. We will realize a modest benefit from pension expense due to a higher discount rate.

In terms of headwinds, the food and beverage taxes enacted in Mexico will impact both top-line growth and profitability. The rate of our commodity cost inflation will be higher in 2014 than in 2013. Foreign exchange translation and, to a lesser extent, transaction, will be a significant drag on our US dollar results, and we expect continued challenges in demand for colas.

Finally, as you model out the quarters for 2014, please note the following. For the first quarter of 2014, we expect foreign exchange translation to have an approximately 4% impact on net revenue, and 6% impact on core earnings per share, based on current market consensus rates. In addition, we expect structural changes, primarily the re-franchising of beverage operations in Vietnam, to impact first-quarter revenue by approximately 0.5 percentage points."

Dara Mohsenian - Morgan Stanley - Analyst

"Indra, on the NA [North America] beverage side, it sounds like the decision to not pursue structural options is more of a permanent one as opposed to a decision just for now given the current environment, it could change down the road. Is that the right way to think about the decision? Also, can you give us more insight on how you expect to turn around trends in NA beverages going forward in its current state, given you're not making structural changes and we're still seeing weakness here in the market share trends and profitability?"

Indra Nooyi - PepsiCo, Inc. - Chairman and CEO

"... Let me now talk about our decision. We studied North American Beverages and beverages in total in our portfolio exhaustively. We spent a whole year looking at this and there isn't a stone that we didn't turn over. At the end of the day, we concluded that long-term value is maximized with NAB staying in PepsiCo's portfolio.

I think it's very, very important we return to focusing on running the business, minimize the disruption, but more importantly, I think it will help hugely if we could just let our North American Beverage business employees focus on running the business as opposed to worrying about what the future is going to be. I think the study we've done was exhaustive. There isn't a bank or a consultant that we didn't use that had an idea. And at the end of the day, we have to go off and run the business. It's a great business, big, profitable; it generates a lot of cash. Yes, there are segments of that business, large segments of the business, going through a secular change. We have to reinvent it with technology.

We're going to start launching products this year with the Stevia sugar combinations in non-cola products, while we test the cola products with these combinations in some markets of the world. I think we have to allow this transformation to play out, because it's too big a business and too profitable a business, not to allow the transformation to play out. So the long answer to your question is yes, the decision has been made, we're going to go back to operating it."

Note: "Stevia is a sweetener and sugar substitute made from the leaves of the plant species Stevia rebaudiana. Stevia's taste has a slower onset and longer duration than that of sugar, and some of its extracts may have a bitter or licorice-like aftertaste at high concentrations. With its steviol glycoside extracts having up to 300 times the sweetness of sugar, stevia has attracted attention with the rise in demand for low-carbohydrate, low-sugar sweeteners. Because stevia has a negligible effect on blood glucose it is attractive to people on carbohydrate-controlled diets."

Wikipedia

Bill Schmitz - Deutsche Bank - Analyst

"Obviously, 2013 was a terrific year for Frito; both in terms of growth and market share. Can you just give us some indications as to what's coming in 2014? Obviously, a lot of that growth was driven by a terrific step-up, especially North American Marketing spending.

Do you still intend to obviously increase that in 2014? Do you have any interest in home carbonation? Obviously the Green Mountain/Coke partnership was announced and I know Bryan asked about it briefly, but I didn't hear a response."

Indra Nooyi - PepsiCo, Inc. - Chairman and CEO

" ...We'll try to answer both your questions. The first on Frito-Lay North America, you're absolutely right -- Frito-Lay North America had a terrific year. But let's just talk about the Frito journey. From about 2011 to 2012, those years, we revamped Frito-Lay.

We re-looked at the insights model, we tried to understand what was going on in the consumer landscape, how should we think about our product positioning, our brands, which competition to go after? This was a fundamental re-look at everything we did at Frito-Lay. We re-looked at the cost synergies that really took root during that time.

In 2012 we stepped up investment behind this whole model on demand spaces and insights that we'd worked on. We're beginning to see the benefits of that in 2013. You'll see more of that going into 2014, 2015, and 2016, because we have the entire macro snack space that we can go after with our strong salty snack base.

That's our plan, to selectively go after certain demand moments with the salty snack base that we have. The good news is that a lot of that insight work, the demand spaces work, that was done at Frito-Lay, we are now taking to beverages. Since 2013, we've been working at fine tuning the beverages insights engine so it can get to the Frito-Lay North America level. We have great optimism for how this whole North American business is going to think about consumers, brand, innovation, demand growth.

I think the future looks good. Let's now talk about in-home carbonation. The way you should think about this is another distribution channel for carbonated beverages or sparkling beverages. GMCR [Green Mountain Coffee Roasters]is one option. Interestingly, there are multiple technologies out there.

What we've been sorting through, I'd say at least for 12 months, is making sure that we don't lock and load with any technology until the technology is proven out. There's only one technology today that's functioning, but it's based on a system that's very different than what GMCR is thinking about launching. But we have to make sure that we align with partners who we are sure will commercialize the product. So we are working with multiple people. Stay tuned."

Quantitative Tabular Data and Locating Companies' Reported Financial Statements

The quantitative tabular data provided on the next few pages summarizes information from the companies' annual reports and computes related ratios. To facilitate comparison across companies, the tabular data combines related line items and includes some line items in "other". For example, "other current assets" in the tabular data includes all current asset line items reported by the company not presented elsewhere in the tabular data.

You may want to download the companies' actual annual reports for your analysis to determine what the tabular data summarized. To learn how to locate these documents watch Searching and Locating Annual Reports 1.

Importantly, base your response solely on concepts covered thus far in the course and the provided background information and tabular data (summarized from the company's financial statements). You may use the companies' financial statements from their annual report, however, other information in their annual report or elsewhere is beyond the scope of this exercise.

Comparing Balance Sheets and Select Financial Position Ratios

Numbers below are either disclosed on the company's balance sheets with similar captions or they combine numbers with related captions.

	Coca-Cola Company				PepsiCo, Inc.			
	year ended Dec				year ended Dec			
	fiscal 2013	fiscal 2012	fiscal 2011	fiscal 2010	fiscal 2013	fiscal 2012	fiscal 2011	fiscal 2010
Assets	USD Millions $				USD Millions $			
Current assets								
Cash and cash equivalents	10,414	8,442	12,803	8,517	9,375	6,297	4,067	5,943
Receivables	4,873	4,759	4,920	4,430	6,954	7,041	6,912	6,323
Inventories	3,277	3,264	3,092	2,650	3,409	3,581	3,827	3,372
Other current assets	12,740	13,863	4,682	5,982	2,465	1,801	2,635	1,931
Total current assets	**31,304**	**30,328**	**25,497**	**21,579**	**22,203**	**18,720**	**17,441**	**17,569**
Property, plant and equipment net	14,967	14,476	14,939	14,727	18,575	19,136	19,698	19,058
Other non-current assets	43,784	41,370	39,538	36,615	36,700	36,782	35,743	31,526
Total assets	**90,055**	**86,174**	**79,974**	**72,921**	**77,478**	**74,638**	**72,882**	**68,153**
Liabilities								
Current liabilities								
Accounts payable	9,577	8,680	9,009	8,859	12,533	11,903	11,757	10,923
Other current liabilities	18,234	19,141	15,274	9,649	5,306	5,186	6,397	4,969
Total current liabilities	**27,811**	**27,821**	**24,283**	**18,508**	**17,839**	**17,089**	**18,154**	**15,892**
Long-term debt (less current maturities)	19,154	14,736	13,656	14,041	24,333	23,544	20,568	19,999
Other noncurrent liabilities	9,650	10,449	10,114	9,055	10,917	11,606	13,261	10,786
Total liabilities	**56,615**	**53,006**	**48,053**	**41,604**	**53,089**	**52,239**	**51,983**	**46,677**
Stockholders' equity								
Common stock (paid-in capital less treasury stock)	(25,055)	(21,870)	(19,212)	(16,825)	(17,014)	(15,377)	(13,499)	(12,296)
Retained Earnings	61,660	58,045	53,550	49,278	46,420	43,158	40,316	37,090
Accumulated other comprehensive income (loss)	(3,432)	(3,385)	(2,703)	(1,450)	(5,127)	(5,487)	(6,229)	(3,630)
Noncontrolling interests	267	378	286	314	110	105	311	312
Total stockholders' equity	**33,440**	**33,168**	**31,921**	**31,317**	24,389	22,399	20,899	21,476
Total liabilities and shareholders' equity	**90,055**	**86,174**	**79,974**	**72,921**	**77,478**	**74,638**	**72,882**	**68,153**
RATIOS								
Level 1								
Financial leverage (year-end)								
Liabilities/assets	63%	62%	60%	57%	69%	70%	71%	68%
Level 2								
Working capital	3,493	2,507	1,214	3,071	4,364	1,631	(713)	1,677
Current assets - current liabilities								
Current ratio	1.13	1.09	1.05	1.17	1.24	1.10	0.96	1.11
Current assets/ current liabilities								
Level 3								
Common Size Balance Sheet								
Line item/total assets								
Assets								
Cash and cash equivalents	12%	10%	16%	12%	12%	8%	6%	9%
Receivables	5%	6%	6%	6%	9%	9%	9%	9%
Inventories	4%	4%	4%	4%	4%	5%	5%	5%
Other current assets	14%	16%	6%	8%	3%	2%	4%	3%
Total current assets	35%	35%	32%	30%	29%	25%	24%	26%
Property, plant and equipment net	17%	17%	19%	20%	24%	26%	27%	28%
Other non-current assets	49%	48%	49%	50%	47%	49%	49%	46%
Total assets	100%	100%	100%	100%	100%	100%	100%	100%
Liabilities								
Accounts payable	11%	10%	11%	12%	16%	16%	16%	16%
Other current liabilities	20%	22%	19%	13%	7%	7%	9%	7%
Total current liabilities	31%	32%	30%	25%	23%	23%	25%	23%
Long-term debt (less current maturities)	21%	17%	17%	19%	31%	32%	28%	29%
Other noncurrent liabilities	11%	12%	13%	12%	14%	16%	18%	16%
Total liabilities	63%	62%	60%	57%	69%	70%	71%	68%
Stockholders' equity								
Common stock (paid-in capital less treasury stock)	-28%	-25%	-24%	-23%	-22%	-21%	-19%	-18%
Retained Earnings	68%	67%	67%	68%	60%	58%	55%	54%
Accumulated other comprehensive income (loss)	-4%	-4%	-3%	-2%	-7%	-7%	-9%	-5%
Noncontrolling interests	0%	0%	0%	0%	0%	0%	0%	0%
Total stockholders' equity	37%	38%	40%	43%	31%	30%	29%	32%
Total liabilities and shareholders' equity	100%	100%	100%	100%	100%	100%	100%	100%
Market's perception of missed or incorrectly measured BS items								
Market-to-book ratio								
Shares outstanding (issued - treasury)	4,402	4,469	4,526	4,584	1,529	1,544	1,581	1,564
Fiscal year-end price per share (historical quote)	$ 41.31	$ 36.25	$ 34.98	$ 32.88	$ 82.71	$ 68.02	$ 66.35	$ 65.69
Market value of stockholders' equity	181,847	162,001	158,319	150,722	126,464	105,023	104,899	102,739
Book value of stockholders' equity	33,440	33,168	31,921	31,317	24,389	22,399	20,899	21,476
Market-to-book ratio	5.44	4.88	4.96	4.81	5.19	4.69	5.02	4.78

Source: Companies' websites

See accompanying notes in annual reports.

Comparing Income Statements and Select Performance Ratios

Numbers below are either disclosed on the company's statements with similar captions or they combine numbers with related captions.

	Coca-Cola Company				PepsiCo, Inc.			
	year ended Dec				year ended Dec			
	fiscal 2013	**fiscal 2012**	**fiscal 2011**	**fiscal 2010**	**fiscal 2013**	**fiscal 2012**	**fiscal 2011**	**fiscal 2010**
INCOME STATEMENTS	USD Millions $				USD Millions $			
Net revenues	**46,854**	**48,017**	**46,542**	**35,119**	**66,415**	**65,492**	**66,504**	**57,838**
Cost of goods or services sold	18,421	19,053	18,215	12,693	31,243	31,291	31,593	26,575
Gross profit	**28,433**	**28,964**	**28,327**	**22,426**	**35,172**	**34,201**	**34,911**	**31,263**
Other operating income and (expenses)	18,205	18,185	18,154	13,977	25,467	25,089	25,278	22,931
Operating profit	**10,228**	**10,779**	**10,173**	**8,449**	**9,705**	**9,112**	**9,633**	**8,332**
Other income and (expenses)	(1,249)	(1,030)	(1,285)	(5,794)	814	808	799	100
Profit before taxes	**11,477**	**11,809**	**11,458**	**14,243**	**8,891**	**8,304**	**8,834**	**8,232**
Income tax refund and (expense)	(2,851)	(2,723)	(2,812)	(2,384)	(2,104)	(2,090)	(2,372)	(1,894)
Net profit (loss) from continuing operations	**8,626**	**9,086**	**8,646**	**11,859**	**6,787**	**6,214**	**6,462**	**6,338**
SELECTED FINANCIAL DATA								
(controlling and non-controlling)								
Comprehensive Income	**8,576**	**8,513**	**7,329**	**11,154**	**7,145**	**6,951**	**3,928**	**6,489**
Beginning total assets	86,174	79,974	72,921	48,671	74,638	72,882	68,153	39,848
Ending total assets	90,055	86,174	79,974	72,921	77,478	74,638	72,882	68,153
Average total assets	**88,115**	**83,074**	**76,448**	**60,796**	**76,058**	**73,760**	**70,518**	**54,001**
(beginning + ending total assets)/2								
Beginning owner's equity	33,168	31,921	31,317	25,346	22,399	20,899	21,476	17,442
Ending owner's equity	33,440	33,168	31,921	31,317	24,389	22,399	20,899	21,476
Average owners' equity	**33,304**	**32,545**	**31,619**	**28,332**	**23,394**	**21,649**	**21,188**	**19,459**
(beginning + ending owner's equity)/2								
RATIOS								
Level 1: Comprehensive income								
Return-on-equity-Comprehensive Income (ROE-CI)	25.75%	26.16%	23.18%	39.37%	30.54%	32.11%	18.54%	33.35%
CI/average owners' equity								
Level 2: Major categories								
Return-on-equity (ROE)	25.90%	27.92%	27.34%	41.86%	29.01%	28.70%	30.50%	32.57%
net profit/average owner's equity								
Level 3: Significant Subcategories--DuPont Model								
Profit margin ratio	24.50%	24.59%	24.62%	40.56%	13.39%	12.68%	13.28%	14.23%
profit before taxes/revenue								
Asset turnover	0.53	0.58	0.61	0.58	0.87	0.89	0.94	1.07
revenue/average total assets								
Financial leverage	2.65	2.55	2.42	2.15	3.25	3.41	3.33	2.78
average total assets/average owners' equity								
Income tax factor	0.75	0.77	0.75	0.83	0.76	0.75	0.73	0.77
1- (tax expense/pretax income)								
Level 4: Line items								
Common size income statements:	Percent of revenues				Percent of revenues			
Net revenues	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of goods or services sold	39.32%	39.68%	39.14%	36.14%	47.04%	47.78%	47.51%	45.95%
Gross profit margin	60.68%	60.32%	60.86%	63.86%	52.96%	52.22%	52.49%	54.05%
Other operating income and (expenses)	38.85%	37.87%	39.01%	39.80%	38.35%	38.31%	38.01%	39.65%
Operating profit margin	21.83%	22.45%	21.86%	24.06%	14.61%	13.91%	14.48%	14.41%
Other income and (expenses)	-2.67%	-2.15%	-2.76%	-16.50%	1.23%	1.23%	1.20%	0.17%
Profit margin before taxes	24.50%	24.59%	24.62%	40.56%	13.39%	12.68%	13.28%	14.23%
Income tax expense	-6.08%	-5.67%	-6.04%	-6.79%	-3.17%	-3.19%	-3.57%	-3.27%
Net profit margin (loss)	18.41%	18.92%	18.58%	33.77%	10.22%	9.49%	9.72%	10.96%
Revenue growth	-2.42%	3.17%	32.53%		1.41%	-1.52%	14.98%	
(current year-prior year)/prior year								

Source: Companies' websites
See accompanying notes in the annual reports.

Coke's Net Revenues by Segment: 2013 versus 2012

"Structural changes generally refers to acquisitions or dispositions of bottling, distribution or canning operations and consolidation or deconsolidation of bottling, distribution or canning entities for accounting purposes." (Page 43, Coke 2013 10K)

	Annual Net Revenues		Percent Change: 2013 versus 2012				
	2013	2012	Volume	Structural change	Price, product, and geographic mix	Currency fluctuations	Total
Consolidated	$46,854	$48,017	2%	-3%	1%	-2%	-2%
Eurasia & Africa	2,763	2,697	7%		2%	-7%	2%
Europe	5,334	5,123	-1%		5%		4%
Latin America	4,939	4,831	1%	-1%	10%	-8%	2%
North America	21,590	21,680		-1%	1%		0%
Pacific	5,869	6,308	5%	-2%	-4%	-6%	-7%
Bottling Investments	7,676	8,895	4%	-18%	1%	-1%	-14%
Corporate	154	127					
Eliminations (sales across segments)	(1,471)	(1,644)					

Coke's 2013 10K, pages 47 and 132

Pepsi's Net Revenues by Segment: 2013 versus 2012

	Annual Net Revenues		Percent Change: 2013 versus 2012				
	2013	2012	Volume	Effective net pricing	Foreign exchange translations	Acquisitions and divestitures	Total
Consolidated	$66,415	$65,492		4%	-2%	-1%	1%
Frito Lay North America	14,126	13,574	3%	2%			4%
Quaker Foods North America	2,612	2,636	1%	-1%			0%
Latin America Food	8,350	7,780	2%	11%	-6%		7%
PepsiCo Americas Beverages	21,068	21,408	-4%	3%	-1%		-2%
PepsiCo Europe	13,752	13,441	1%	3%	-1%		2%
PepsiCo Asia, Middle East, and Africa	6,507	6,653	5%	7%	-4%	-10%	-2%

Pepsi's 2013 10K, page 54

Write your response to Parts I - III in the Microsoft Word template posted with the exercise materials, complying with the word limits stated therein.

Part I: Your qualified claim and opening remarks

Fill in the blank with either Coke or Pepsi:

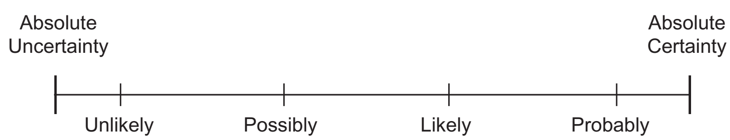
_______________________________ appears to have the better future prospects at the most recent balance sheet dates, taking into consideration expected future ROEs, growth rates, and risks.

Qualifiers:

Put an X at the spot on the scale below that indicates the likelihood your claim is correct, given the available information and concepts covered thus far.

After completing Parts II and III, put an X at the spot on the scale below that indicates the likelihood your claim is correct, given the available information and concepts covered thus far. Your response should depend on the strength of your arguments, counterarguments, and rebuttals to counterarguments. For example, when you conclude your arguments and counterarguments are equally strong, your X will be near the middle of the scale. By contrast, when you conclude your arguments are very strong and there are no viable counterarguments, your X will be near the right end of the scale.

Given these directions, your response should ignore the possibility that other relevant information exists that could change your arguments, counterarguments, or rebuttals, and thus the confidence you have in your claim.



The Toulmin Method of Argumentation: The Second Triad, Keith Green
http://www.youtube.com/watch?v=-gRaC_vZiD8

Opening remarks:

Assume you are presenting your analysis to an audience and you have decided that your opening remarks will present your qualified claim and briefly preview the way you assess the relative strengths of your arguments, counterarguments, and rebuttals without explicitly stating them.

For example, you might state "Based on my analysis of available information, I have concluded that XX Company likely had the better future prospects at the most recent balance sheet dates, taking into consideration expected future ROEs, growth rates, and risks. I will present three supporting arguments for this claim, two of which are very compelling. I will also present two counterarguments. I will thoroughly refute one of these but I can't provide a reasonable rebuttal for the other, which has sufficient merit for me to qualify my claim as likely rather than probable."

Part II: Your arguments

Provide no more than three arguments in support of your claim in the space provided below, numbered and arranged according to your assessment of their strength (from strongest to weakest).

Consistent with The Toulmin Model, each argument should provide evidence, a warrant, and possibly backing for the warrant. You need not identify the components. For example, you needn't state here is my evidence and here is its warrant. However, both must be present for each argument and while the warrant can be implied, the evidence and backing must be explicit. Keep in mind that the quality of your response depends more on the strength of the arguments you present rather than the number of arguments. For example, one exceptional argument may be all you need.

Part III: Your counterarguments and rebuttals

Provide no more than three counterarguments to your claim, numbered and arranged according to your assessment of their challenge to the claim (from strongest to weakest). If possible provide rebuttals immediately below each counterargument.

Analysis Consideration Map - Phase 2