

## NEW RISK ALERT: (PEP)

# Pepsi Warning Suggests Rising Tension With Walmart

New language in latest 10-K may indicate a deterioration in relations as Pepsi courts Walmart rivals & scales its direct-to-consumer initiatives.

*Published February 15, 2021*

*This alert compares the language used in the company's latest filing with the period before. [Research](#) suggests changes in language, particularly in the risk factor section, is a powerful indicator of future performance. Companies that change filing language, according to research, underperform those that don't by 30-50 basis points per month for the following year.*

## Pepsi Explicitly Warns of Walmart Risk

Since it goes without saying that it's not ideal to lose Walmart as a customer, it raised eyebrows when Pepsi made it explicit in its latest annual report. Last year, in its 2019 [10-K](#), the food and beverage company included the following warning:

*"In 2019, sales to Walmart Inc. (Walmart) and its affiliates, including Sam's Club (Sam's), represented approximately 13% of our consolidated net revenue, with sales reported across all of our divisions."*

In its 2020 [10-K](#), Pepsi felt compelled for some reason to add language about the negative consequences of losing Walmart as a customer:

*"In 2020, sales to Walmart Inc. (Walmart) and its affiliates, including Sam's Club (Sam's), represented approximately 14% of our consolidated net revenue, with sales reported across all of our divisions, including concentrate sales to our independent bottlers, which were used in finished goods sold by them to Walmart. **The loss of this customer would have a material adverse effect on our FLNA, QFNA and PBNA divisions.**"*

Since there are no accidents in SEC filings, we searched Pepsi's latest annual for clues that might explain why the company felt it necessary to include what most would agree is an obvious statement. We believe we may have found one in the *Risk Factor* warning investors that the retail landscape is changing.

## Pepsi Courts Hard Discounters at Walmart's Expense

Pepsi appears to be increasingly interested in developing business relationships with hard discounters like Aldi and Lidl. Last year, Pepsi detailed why it's so important and difficult to get traction with these retailers:

*"...growth of hard discounters that are focused on limiting the number of items they sell and selling predominantly private label brands may continue to reduce our ability to sell our products through such retailers."*

In its latest annual report, while once again stressing the importance of developing successful relationships with hard discounters, Pepsi adds it must do so without alienating Walmart:

*"Our business will be adversely affected if we are unable to maintain and develop successful relationships with e-commerce retailers and hard discounters, while also maintaining relationships with our key customers operating in traditional retail channels..."*

Read together, the last two annual reports suggest Walmart also has much to lose. If Pepsi is successful in courting hard discounters, consumers have additional choice. Pepsi also suggests that as hard discounters take share— with or without Pepsi products— price deflation becomes more likely which Pepsi suggests may jeopardize its relationship with Walmart.

## Walmart May Not be Happy With Pepsi's Marketing

The latest annual also hints at the potential that Walmart may not be satisfied with Pepsi's digital marketing efforts:

*"...we fail to find ways to create more powerful digital tools and capabilities for our retail customers to enable them to grow their businesses."*

Separately, if Pepsi successfully scales its direct-to-consumer (DTC) ecommerce initiatives, it will be competing directly with Walmart, which is ramping its own digital commerce initiatives. Though the following warning appears in the last two annual reports, we note it due to Pepsi's apparent increased concern:

*"...we must maintain mutually beneficial relationships with our key customers, including Walmart, to compete effectively. Any inability to resolve a significant dispute with any of our key customers, a change in the business condition (financial or otherwise) of any of our key customers, even if unrelated to us, a significant reduction in sales to any key customer, or the loss of any of our key customers can adversely affect our business."*

## Pepsi Executive Was Once Responsible for Walmart Relationship

If you're skeptical that Pepsi and Walmart might actually end their business relationship you're not alone. Remember though, changes in SEC filing language are intentional. Here's one last bit of information that provides both sides with ammunition.

In 2019, Steven Williams was promoted to the role of CEO of PepsiCo Foods North America. Williams is a 20-year Pepsi veteran. In one of his prior roles, Williams was responsible for managing Pepsi's global relationship with Walmart.

Investors might argue that Williams possesses the right experience to maintain Pepsi's crucial relationship with Walmart. It's also plausible that Williams is in his role, at least in part, because Pepsi is banking on his long-standing Walmart contacts to save the relationship.