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Pepsico's Cost Of Capital

Introduction

PepsiCo, a multinational company dealing in food and beverages now utilizes strong and efficient financial control to support its performance and viability. The “PepsiCo’s Cost of Capital” case looks at how PepsiCo implements its cost of capital in the assessment of their financial decisions. It is used in investment, mergers, acquisitions and shareholder returns decisions making processes.

Importance

The cost of capital involves the cost that a firm has to incorporate in order to please its shareholders. For PepsiCo this is critical success factor to evaluate potential projects with respect to financial goals. This paper aims at uncovering how PepsiCo arrives at this number, and how the balance of equity and debt financing comes into play.

Methodology

A detailed process is adopted by PepsiCo in the computation of their cost of capital. The equity cost of capital relates to the assessment of expected return on stock with the aid of the capital asset pricing model (CAPM). On the same note, the cost of debt is arrived at from ratings of its current and new borrowings, and interest rates thereon.

Conclusion

This and PepsiCo's approach to calculating and utilizing the cost of capital shows that overall financial discipline is the key to corporate successes. In the case solution featured on thecasesolutions.com, there is information on how a global giant manager deploy financial instruments for performance improvement.

Resource

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