



PEPSICO

Credit Risk Management

Driving Cash Flow: Strategies Across Diverse Scenarios, A Practitioner's Journey

Adapting Approaches for Business as Usual, High-Risk Accounts, and
Terms Change Requests

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Session Objectives



Optimizing cash flow in a business-as-usual environment

- Strategies for addressing terms outliers
- Tools for optimizing collections and credit risk management
- Key metrics for monitoring success



Exploring strategies for managing high-risk accounts

- Identifying credit risk within your portfolio
- Strategies to mitigate risk
- Communication avenues



Considerations for responses to customer terms change requests

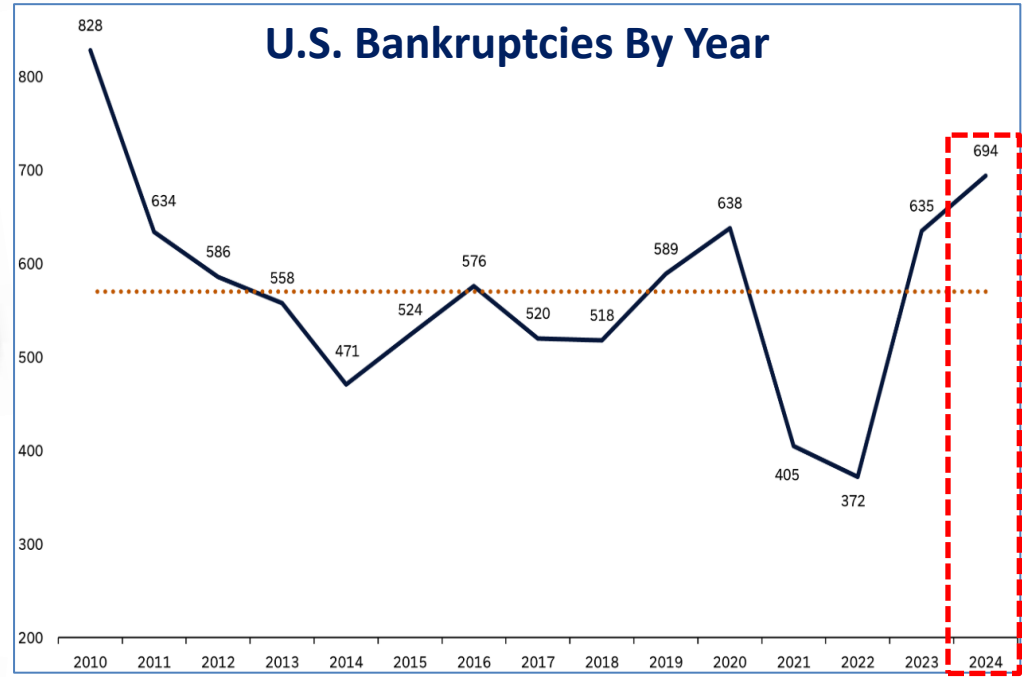
- Scoping the impact to your business and your counterparty's
- Considerations for how to move forward
- Negotiation best practices

2024 Was An Eventful Year...

U.S. CORPORATE BANKRUPTCIES SOAR TO 14-YEAR HIGH IN 2024

HURRICANE HELENE: ONE OF THE DEADLIEST STORMS IN RECENT HISTORY

TRUMP SURVIVES ASSASSINATION ATTEMPT



STORMY SEAS FOR RETAILERS

BALTIMORE KEY BRIDGE COLLAPSES AFTER SHIP COLLISION

CASUAL RESTAURANT BANKRUPTCIES ACCELERATE AS CUSTOMERS RETREAT

Source: LPL Research, S&P Global Market Intelligence, Bloomberg, New York Times, KPMG, The Washington Post, The Guardian, CNN

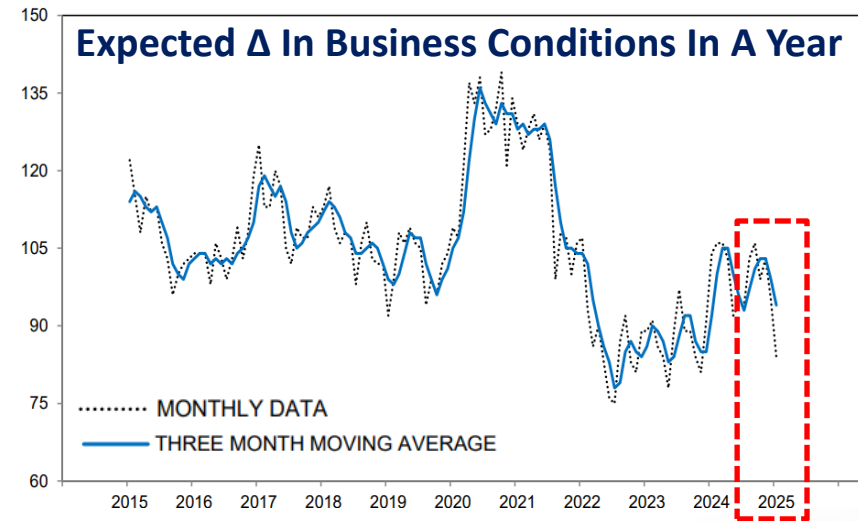
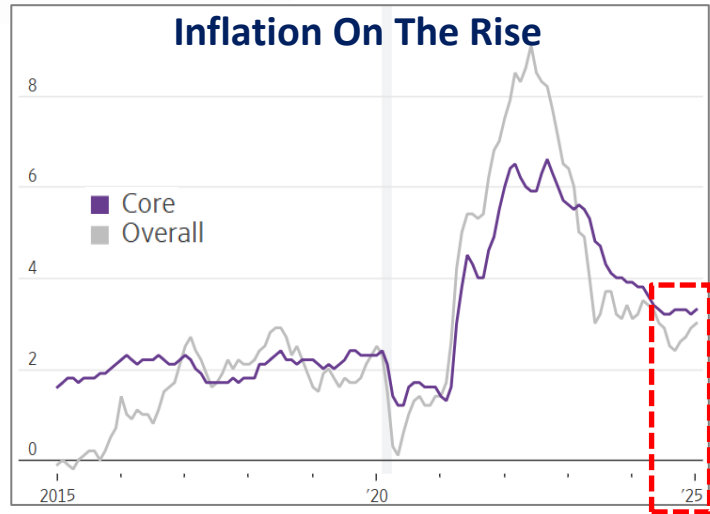
...2025 Is Bringing Its Own Uncertainty

EXTREME WEATHER EXPECTED TO CAUSE FOOD PRICE VOLATILITY IN 2025...

WHAT TRUMP'S RETURN MEANS FOR U.S.-CHINA RELATIONS

U.S. CONSUMER CONFIDENCE DETERIORATES FURTHER IN JANUARY

STOCKS DIP AMID CONCERNS OVER TARIFFS AND CONSUMER BELT-TIGHTENING



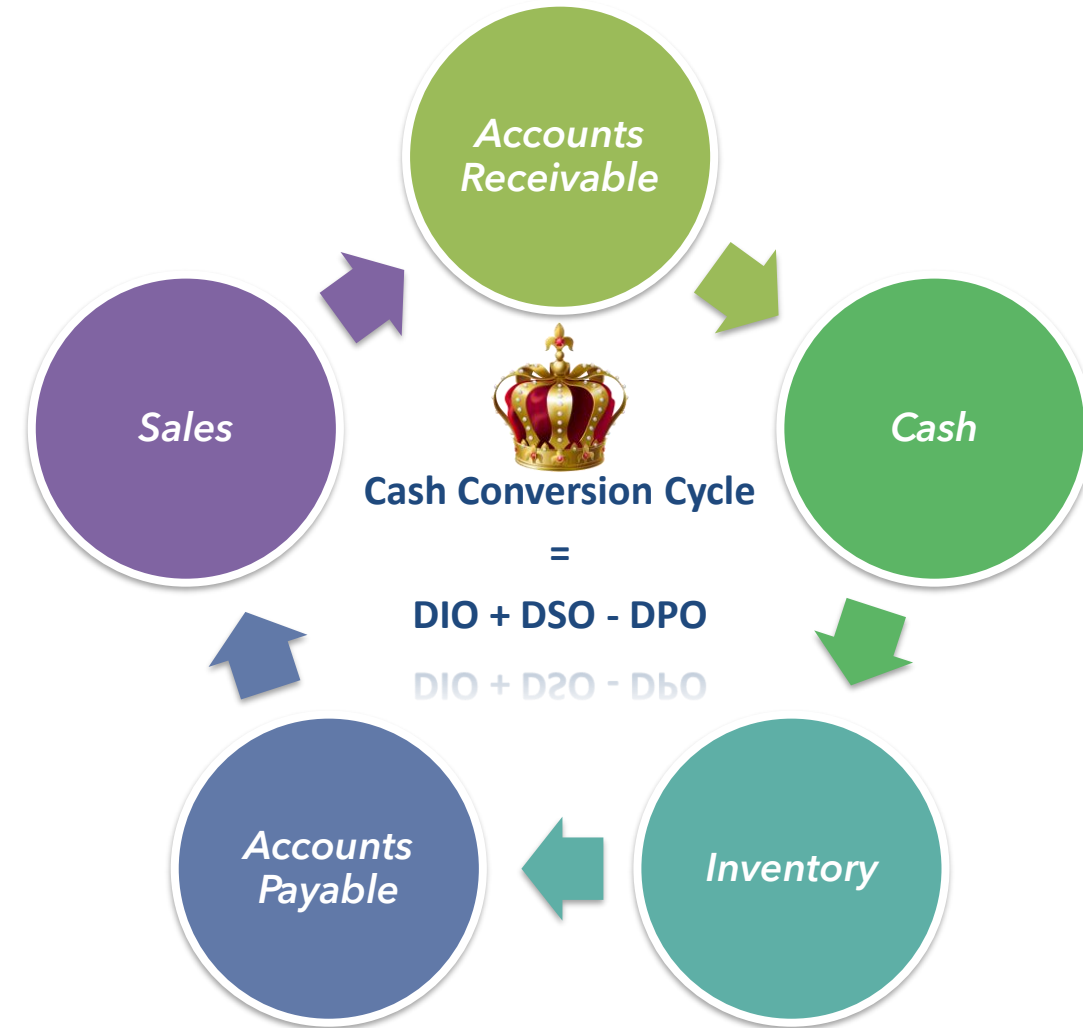
LANDLORDS FACE A \$1.5T COMMERCIAL REAL ESTATE MATURITY WALL

DOES UNCERTAINTY HARM THE ECONOMY? BUSINESS LEADERS ARE ABOUT TO FIND OUT

U.S. AND RUSSIAN OFFICIALS DISCUSS HOW TO END UKRAINE WAR

Cash (Flow) Is King!

- **Cash flow is the lifeblood of your business** as it enables your organization to:
 - Cover operational expenses
 - Invest in growth opportunities
 - Manage debt obligations
 - Weather economic downturns / shifting consumer demand
- Conversely, delayed collections and hidden credit risk negatively impact your business:
 - Elevated bad debt
 - Reduced recoveries in bankruptcy scenarios
 - Surprises



Scenario 1 – Business-As-Usual, Driving Cash Flow

Strategic Actions

Clear performance metrics for baseline teams related to timely collections / DSO

Robust and frequent scorecards to assess success

Entire organization must have cash flow objectives, including Sales

Create friendly competition across A/R personnel

Work cross-functionally to determine a “give / get”



Tactics To Support

Use of automation tools

Take mail float out of equation

Consistent billing / invoicing

Set up self service portal

Maintain strong customer relationships

Clear terms, including recourse for non-payment



Scenario 2 – Managing High-Risk Accounts



Identifying High Risk Accounts

- **Financial statement analysis**
- Terms outliers and progressive slowing trend
- Third party credit reporting
- **“Weaving the macro into the micro”**



Deciding To Reduce Exposure

- **Timing is critical**
- **Balancing top line with at-risk A/R**
- Managing customer relationships



Strategies For Mitigating Risk / Reducing Bad Debt

- **Reduce payment terms**
- **Require a security deposit**
- **Build payables (funding) balance**
- Obtain a letter of credit / guaranty
- Credit insurance

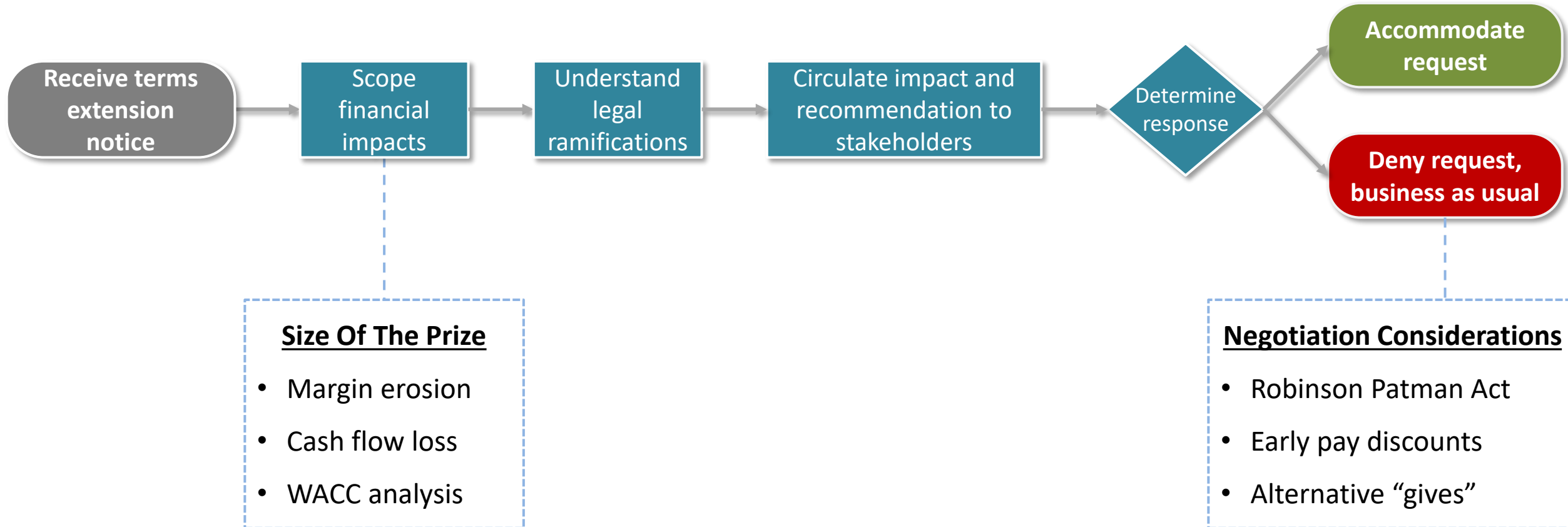


Finishing The Job

- **Set up automated reporting**
- **Consider stopping shipments if payments cease**
- Maintain frequent communication with customer
- Keep key stakeholders updated

Scenario 3 – Addressing Unilateral Customer Terms Changes

Best Practice Process Flow For Quickly Addressing Terms Asks



Tools To Help Action Against Cash Flow And Mitigation Objectives

Robust Reporting

- Cash flow improvement / degradation
- Time to pay trend analysis
- Missed payment outliers
- Develop views for year over year and month over month
- Portfolio risk breakdown

Proactive And Frequent Communication

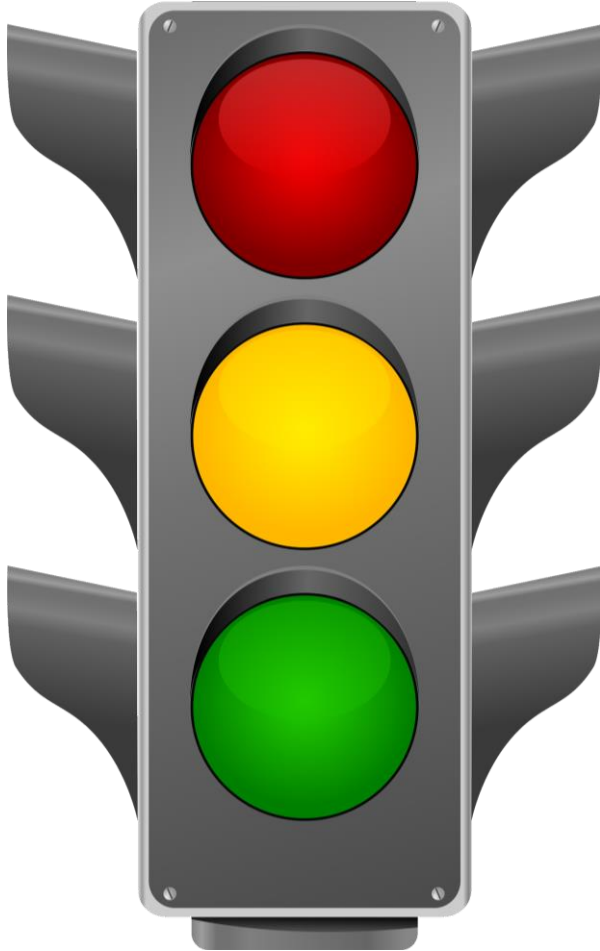
- Automated reminders for business-as-usual customers
- Hypercare for highest risk accounts
 - Predetermined, consistent touch bases
- Informal and formal cross-functional updates
 - Credit committees, close meetings, newsletters

Third Party Credit Services And Relationships

- Integrate with A/R portfolio to enable customized and automatic notifications
- Know the calculations behind third party credit scores
- Maintain strong relationships with peers and network



Credit Scoring Is The Foundation Of Successful Risk Management



Benefits of credit scoring

- Provides assurance of ability to pay
- Valuable insight for internal business partners
- Helps to optimize timing of credit actions – minimize bad debt, maximize margin

Best practices

- Simplify your model
- Automate where possible
- Develop a way to incorporate non-financial trends
- Incorporate results into setting Bad Debt Reserves
- Allows for new reporting
- Partner with Sales / Legal to obtain private company financials

Business-As-Usual – Tracking Success

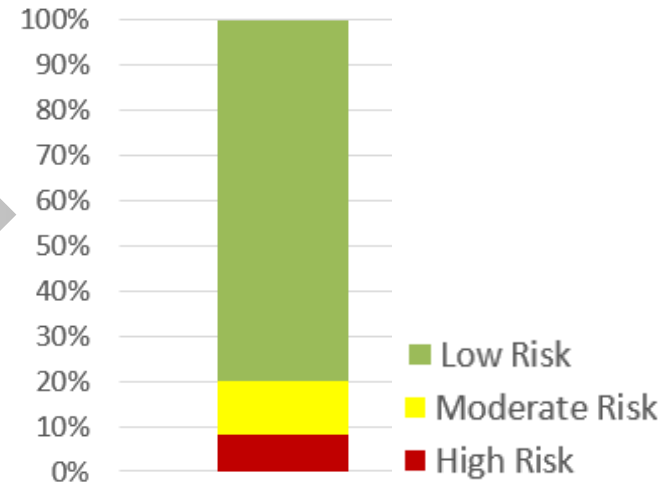


Business-As-Usual

- **Collection effectiveness index (CEI)**
- DSO / DCSO
- % current
- % aged in various buckets
- Accounts receivables turnover
- **% portfolio scored**
- Manage in tandem with organizational strategic goals

$$\frac{\text{Beginning A/R} + \text{Credit Sales/N} - \text{Ending A/R}}{\text{Beginning A/R} + \text{Current Sales/N} - \text{Ending current A/R}} \times 100$$

*N = Period (days or months)



High Risk Accounts – Tracking Success



High Risk Accounts

- High risk subset DSO / DCSO
- **Dollars mitigated via credit action**
- % past due
- Write off percentage
- Dollars recovered via collections or bankruptcy
- **Breakeven analysis**
- Fee revenue

Starting A/R	\$1,000
Reducing Terms 67%	(\$670)
Ending A/R	\$330
Bankruptcy Recovery	\$200
Total Mitigation	\$870

	Volume Penalty				
	10%	20%	30%	40%	50%
20%	30.8	15.4	10.3	7.7	6.2
25%	24.7	12.3	8.2	6.2	4.9
30%	20.6	10.3	6.9	5.1	4.1
35%	17.6	8.8	5.9	4.4	3.5
40%	15.4	7.7	5.1	3.9	3.1
45%	13.7	6.9	4.6	3.4	2.7

Blended Margin Impact

Extended Terms Requests – Tracking Success



Terms Discussions

- DSO / DCSO impact
- **Impact to / preservation of cash flow**
- **WACC analysis**
- Profitability analysis if discount terms are an option
- Alternative terms outliers to target to offset any cash flow loss

Current Terms	60
Proposed Terms	90
Δ Days	30
Avg. Sales Per Day	\$20
Cash Flow Loss	(\$600)
WACC	7.2%
Cost Of Cash Flow	(\$43)

Risk is inevitable, but wise and properly-implemented mitigation strategies turn uncertainty into opportunity



Thank You!

Questions



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