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PepsiCo, Inc. (PEP)

Q1 2025 Earnings Call

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Robert Moskow
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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to PepsiCo's 2025 First Quarter Earnings Question-and-Answer Session. Your lines have been placed on listen-only until it's your turn to ask a question. Today's call is being recorded and will be archived at www.PepsiCo.com.

It is now my pleasure to introduce Mr. Ravi Pamnani, Senior Vice President of Investor Relations. Mr. Pamnani, you may begin.

Ravi Pamnani

Senior Vice President, Investor Relations, PepsiCo, Inc.

Thank you, Kevin, and good morning, everyone. I hope everyone has had a chance this morning to review our press release and prepared remarks, both of which are available on our website.

Before we begin, please take note of our cautionary statement. We may make forward-looking statements on today's call, including about our business plans, updated 2025 guidance, and outlook. Forward-looking statements inherently involve risks and uncertainties and only reflect our view as of today, April 24, 2025, and we are under no obligation to update.

When discussing our results, we refer to non-GAAP measures, which exclude certain items from reported results. Please refer to our first quarter 2025 earnings release and first quarter 2025 Form 10-Q, available on PepsiCo.com, for definitions and reconciliations of non-GAAP measures and additional information regarding our results, including a discussion of factors that could cause actual results to materially differ from forward-looking statements.

Joining me today are PepsiCo's Chairman and CEO, Ramon Laguarta, and PepsiCo's Executive Vice President and CFO, Jamie Caulfield. We ask that you please limit yourself to one question.

And with that, I will turn it back over to the operator for the first question.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Bonnie Herzog with Goldman Sachs. Your line is open.

Bonnie Herzog
Analyst, Goldman Sachs & Co. LLC

Q

Hi, good morning.

Ramon L. Laguarta
Chairman & Chief Executive Officer, PepsiCo, Inc.

A

Good morning.

James T. Caulfield
Chief Financial Officer & Executive Vice President, PepsiCo, Inc.

A

Good morning.

Bonnie Herzog
Analyst, Goldman Sachs & Co. LLC

Q

I have a question on Frito. Last quarter, you emphasized your step-up investments with a particular focus on improved price/pack architecture and then also an emphasis on the sizable away-from-home opportunity. So, Ramon, I'd be curious to hear how some of those investments are paying off and then if you're making any changes to your strategy, especially given the pressured consumer environment. For instance, do you now see a need to increase your investments to ultimately return Frito back to growth? Thank you.

Ramon L. Laguarta
Chairman & Chief Executive Officer, PepsiCo, Inc.

A

Thank you, Bonnie. So I think it's – we're executing the playbook that we talked late last year, early this year. And the playbook has multiple legs. One is, as you said, granular good return on invested value investments. The second is portfolio transformation. And the third is operational excellence in a broader way, execution and cost. So we're executing the three pillars with a sense of urgency at Frito.

And we're starting to see the returns on some of the value and new price points investments that we're making. It's still early in the rollout of the strategy. But if you think about our dual size strategy in single serve, so below $2, above $2, where we have executed that strategy, we're seeing a meaningful improvement in units, especially when we attach the – kind of the below $2 to meal deals. And that is especially in convenience stores.

We're also seeing the – when you take multipacks, and multipack is a big – has been a big growth segment of the business for the last few years. We're seeing the 10 count assortment. We've increased that assortment as an entry at a much lower price point for consumers. That's also delivering good returns.

So, we're optimistic that as we execute the playbook, the full playbook, including take-home eventually later in the year that that's going to keep consumers in the category. And it's going to increase the frequency of consumption of those consumers, which, at the end, is what we're trying to do with new price/pack. At the same time, we're working hard at portfolio transformation, and that is a key pillar, offering consumers more options where consumers want to go. And basically, here is more permissibility, more functionality in our snacks.

And we're also working on improving the operational excellence of Frito, both in terms of rightsizing the cost and improving the fill rates and improving the granular execution in go-to-market. Frito went through an SAP implementation. It just finished. And like any big system implementation, there has been some learnings for the organization. I think in the coming months, that will be behind us. And it will clearly have an impact on improved service levels and better visibility to execution.

So that is the full playbook. And we are – we will keep investing. And we'll keep making sure that that business continues to grow for the long term. And that's the perspective that we're putting on the business all the time.

Operator: Thank you. One moment for our next question. Our next question comes from Steve Powers with Deutsche Bank. Your line is open.

Steve Powers
Analyst, Deutsche Bank Securities, Inc. Q

Great. Good morning.

Ramon L. Laguarta
Chairman & Chief Executive Officer, PepsiCo, Inc. A

Good morning.

Steve Powers
Analyst, Deutsche Bank Securities, Inc. Q

I was hoping that you could maybe just decompose, in a bit more detail, just the drivers of the reduced full-year earnings outlook. With organic growth not really changing in the aggregate, the implication is that the vast majority of that, if not all of that, is really the tariffs. If that's right, just kind of the pockets of tariff friction that you're encountering and plans long-term to offset it, assuming they stick around. But then also, if there's other things in there, if there are incremental investments, just sort of the relative bridge between prior full-year outlook and today? Thank you.

James T. Caulfield
Chief Financial Officer & Executive Vice President, PepsiCo, Inc. A

Hey, Steve, it's Jamie. The rationale behind the guidance adjustment that we announced today is really driven by three things in a number of ways that are a little bit related to one another. The first is tariffs. So that is new news since we gave our initial guidance at the beginning of the year. So we've factored in what we know about tariffs today and we factored in mitigation plans, which we continue to work. Some of those we'll be able to execute more quickly. Some of those will take more time to execute.

The second is just the heightened macro and consumer uncertainty. I'm sure you saw the consumer confidence index. That's really nose-dived. So relative to where we were three months ago, we probably aren't feeling as good about the consumer now as we were a few months ago.

And then third, and this is also related to the consumer picture, is Frito's subdued performance. And we've got clear plans to continue to turn the business around, but that'll take a little while, too.

Now on the top line guidance, you saw Q1 versus our low single-digit guide for the year. We put up 1%, as we called out in the prepared remarks, because our International quarter is only two months for the first quarter. If we included the third month in the first quarter, we would have grown 2%. So we're solidly in the band of top line guidance that we gave back at the beginning of the year.

Operator: Thank you. One moment for our next question. Our next question comes from Filippo Falorni with Citi. Your line is open.

Filippo Falorni
Analyst, Citigroup Global Markets, Inc.

Q

Hey, good morning, everyone. I was wondering if you could talk a bit about the expectation for the International business going forward. Clearly, a solid 5% growth in the quarter. You mentioned also including the March, total company would have been 2% organic. So are you expecting an acceleration from here? Any color you could provide would be great. Thank you.

Ramon L. Laguarta
Chairman & Chief Executive Officer, PepsiCo, Inc.

A

Yes. Good morning, Filippo. Listen, the International business continues to be the – kind of the largest growth engine for the company, and we continue to invest in that business. As you well said, we started the year at a good pace. If you take March, even faster.

We see the International business continuing those trends during the balance of the year. There are markets that we're seeing a bit of a slowdown in the consumer, namely China. China is a market where we've seen the consumer hurting a little bit. We're seeing Mexico, in a way, impacted by what happens in the US. And I think those two markets will continue to be connected in consumer sentiment and probably consumer disposable income as well.

We're seeing Europe navigating quite well. The first signs that we have in Europe are positive. We're seeing India in a good place. We're seeing Brazil in a good place. So overall, the portfolio of markets where we have the highest percentage of business are in a positive place, And we see the International business continuing to contribute to our growth at that mid-single-digit; some markets, obviously, high single-digit in the balance of the year.

Operator: Thank you. One moment for our next question. Our next question comes from Dara Mohsenian with Morgan Stanley. Your line is open.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

Hey, good morning,

Ramon L. Laguarta
Chairman & Chief Executive Officer, PepsiCo, Inc.

A

Hi, Dara.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

So just wanted to follow up on Bonnie's question. The magnitude and durability of the volume weakness in Frito in North America continues to disappoint. So it was helpful to hear about all the fixes you're putting in place here today, as well as at CAGNY. Just wanted to get your perspective on if, at some point, you think we might need a more substantial level of reinvestment behind FLNA to turn around trends in that business, some type of more dramatic step-up in investment.

And maybe you can split that into just potentially the need to reinvest more on pricing in this consumer environment or investing more behind the business, whether it's frontline spend or marketing. And just how you think about that balance in this consumer environment and if you might need more aggressive plans at some point to turn around trends there. Thanks.

James T. Caulfield
Chief Financial Officer & Executive Vice President, PepsiCo, Inc.

A

Hey, Dara, it's Jamie. Yeah, look, the way we're managing through this is we want to make sure we protect the long-term health of the franchise. We talked about providing value to the consumer. So we're doing that, but we're not going to do it in a way that we damage the long-term health and profitability of the business. We are driving greater levels of productivity to provide the investment that we're making in the business. And that's not only in revenue management tactics, but it's also in stepping up our execution capability. And the other part on productivity is we are looking at how do we – as you saw in the first quarter, quite a bit of fixed cost deleverage. So we're going after costs with even more intentionality.

Ramon L. Laguarta
Chairman & Chief Executive Officer, PepsiCo, Inc.

A

Yeah. I think the three pillars that we talked there, they are equally important. So the value investment is relevant and it impacts our core brands. And I think putting more intelligence behind the investment, making sure that we get the best return. That for every occasion and for every channel, we have the right package versus destroying value by overinvesting in value. I think that is a – an intelligent reinvestment of value is an important one.

Now, it is as critically important for us to make sure that we participate in all the subsegments of the market where the consumers are going. And the consumers love existing spaces, but they're also driving consumption in other spaces where we need to participate very intentionally. And that's what we're doing. There are some moves we're making organically. We obviously have visibility to next year's innovation plan. They are very strong. And we're also making some acquisitions. As you saw between Sabra and Siete, we have now two platforms to drive additional participation in new segments.

And the third pillar is not something that is small. The operational excellence of the business is improving. We now have better data. We have better systems. We have talent stability. COVID was a disruption for the organization. We have better leaders in place. And we've gone through a system implementation that has been, in a way, a little bit complex, as you imagine, a business of that size. That, it's also behind us. So you should think about a multiple vector execution that will drive the performance of the business, value being important and good return on investment in value. It's how we're thinking about our investments in that part of the business.

Operator: Thank you. One moment for our next question. Our next question comes from Andrea Teixeira with JPMorgan. Your line is open.

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Q

Yeah. Good morning. Thank you for taking the question. I wanted to go back, sorry, to Frito North America. As you look at the price ladders, are you seeing more declines in the higher price points or in bigger packs? So in other words, on a comparable basis, and, Ramon, you spoke over the past, I would say, few quarters even about like moving – reaching your multipack reaching $5 billion against like $1 billion business before.

Is that, the 4% decline that we saw, I think, in the 10-Q, correct me if I'm wrong, just on Frito-Lay North America in declining volumes? On average, are you seeing a much deeper decline in those large packs, where consumers may be thinking – may be feeling more pressure because of the cash outlay? And conversely, you're seeing less or smaller declines in the small packs. I mean, I'm trying to gauge where on a mix-neutral basis, are you seeing those movements and how are you reacting to those. Or in other words, are you tapped off that multi-pack at some point, and both of them are declining at similar paces and how to protect that?

Ramon L. Laguarta
Chairman & Chief Executive Officer, PepsiCo, Inc.

A

Yeah. Andrea, revenue management really is becoming more complex as consumers are feeling more challenged with their disposable income. And that, obviously, is different for different levels of income across the American consumer.

Now, what we're seeing is that consumers are giving a lot of value to absolute dollars now. So clearly, entry price points and absolute outlay of money per unit is a very important relevant metric.

And so, we're putting more emphasis on those entry price points and making sure that we're not asking for a large amount of money for participating in our brands. And that is something that we're very – that's why smaller, single-serve, smaller multi-packs, those are all tools for us to keep the consumers in the brand and make sure that the frequency is there as well.

There are different behaviors beginning of the month versus end of the month. So maybe beginning of the month, consumers are looking for more kind of price per kilo, so more quantities at a good value. End of the month, maybe absolute price per unit.

And again, very complex how that works per occasion and per cohort, but those are where, I think, the intelligence, the data, the tools that we have now in the hands of our people can help us get the best return on the investment.

Now, there is a channel that is convenience stores that is impacted. There's less traffic in the channel and our participation in that channel is very relevant, both in beverages and in snacks. So how do we help our partners in the convenience store business to have traffic, but also have higher [ph] incidence (18:06) is a very important part of our operating plan.

And that's why I was referring to meal deals. I was referring to some specific offers that we'll have in that channel because that is an important part of our business. And it's impacting our single-serve performance.

Operator: Thank you. One moment for our next question. Our next question comes from Lauren Lieberman with Barclays. Your line is open.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

Great. Thanks. Good morning. I was hoping you could talk a little bit around how the business can deal with some of the new legislation around ingredients and colors.

And sort of I know you've got lots of technology and lots of technology in different markets around the world. But is the outlook currently built in some of the incremental costs you'll need to be absorbing to manage through this? And also just any perspective on SNAP, I know there's just a lot out there, but anything you can offer on sensitivity of the business or exposure of the business with regard to SNAP? Thanks.

Ramon L. Laguarta
Chairman & Chief Executive Officer, PepsiCo, Inc.
A

That's great. Two good questions and very, very relevant. We've been leading the transformation of the industry now for a long time on sodium reduction, sugar reduction and better fats.

And we already have a portfolio when we talk about the US and the food business, a 60-plus percent of our business today doesn't have any artificial colors. So we're well undergoing that transition. And for example, brands like Lay's will be out of artificial colors by the end of this year, the same with Tostitos, so some of our big brands. So we're well underway.

Ideally, obviously, we stand by the science and we – where products are very safe and there's nothing to worry about this, but we understand that there's going to be probably a consumer demand for more natural ingredients, and we're going to be accelerating that transition.

Ideally, we can do this in a very pragmatic orchestrated way as an industry and not create unnecessary panic or chaos. But we'll lead that transition. And in the next couple of years, we'll have migrated all the portfolio into natural colors or at least provide the consumer with natural color options. And, obviously, every consumer will have the opportunity to choose what they prefer. So that's the journey we're undergoing.

In terms of SNAP, again, there's a lot of conversation in different states, and we're seeing that some of our categories could be exposed to some restrictions. I think this will have a very limited impact in the business as we are calculating today. And we'll need to see how the eventual legislation gets implemented. It's still a lot of unknowns on how this is going to be happening.

Operator: Thank you. One moment for our next question. Our next question comes from Bryan Spillane with BofA. Your line is open.

Bryan D. Spillane
Analyst, Bank of America Securities
Q

Hey. Thanks, operator. Good morning, everyone. So, Ramon, maybe just to step back, the last few years, some of the messaging, I think, if I've heard it correctly from you, has been as you're looking at the business over the next few years, right, more of the growth sourced from International and you've done a lot, right? The company has done a lot to build and begin to scale more international, more countries contributing growth. So I know some of this has maybe been forced by the external environment. But when we look at the top line and the 2%, if we had three full months of International, it just seems like from a revenue perspective, your International contribution kind of puts you in a position to maintain the longer-term growth objectives even with what would be, I guess, a natural slowing of Frito in North America.

So one, is that kind of the right way to think about this? And then, second, if that's true, are we scaled enough to be able to drive profit growth alongside revenue growth if it's a more International-heavy revenue model, I guess, over the next few years? So I guess what I'm basically asking is, are we at a point now where International can really contribute more if Frito is going to kind of naturally slow to a more modest growth over time?

Ramon L. Laguarta
Chairman & Chief Executive Officer, PepsiCo, Inc.

A

I mean, this is a great question, Bryan, and it's probably for a long conversation. I think International will continue to be a growth and profit key driver for the company for the long term. And it's – I mean, if you look at the population inside, outside of the company – outside of the US and how developed our per caps are internationally versus in the US, you could see right away that, that is the growth. And fortunately, we're now at a stage in the growth development of the company where that business is accretive to the company.

So two elements: high growth, high right to succeed in those markets, in the majority of those markets, both in beverages and in snacks and foods and accretive business. So that part, and we'll continue to invest. We're investing in capacity. We're investing in talent. We're investing in go-to-market. We're investing in portfolio in the brands and that will continue.

Now, what I disagree with you is in the fact that the US business cannot grow at a faster speed than it is growing today. I think, I have – I think the US business, both beverages and foods, will continue to grow at a very good rate in the US.

And when you think about the overall opportunity, both from the better execution to evolving the portfolio to move it into new channels like away-from-home, we have tremendous opportunities to take our brands into new spaces, leverage the capability of our business.

And now that we have an operating model that will be more integrated in the US, that will give us more resources. We'll be less duplicated in some areas and synergize in other areas where we can drive growth in new service models, direct-to-consumer, direct-to-B2B, whatever we choose to play.

So I think the US, we see it as a growth driver. We see it as a source of funding for the rest of the world, but also a growth opportunity for the company, way above where we are today.

I think we are today in a parenthesis given by all the consumer dynamics and some other dynamics that are happening in the US, but that will go through, we'll have a more relevant portfolio. We'll be in the relevant channels. We'll have the right price points and the consumer will be in a better place eventually in the US.

So we see the two components of growth. Obviously, International, we will grab that opportunity with the right investments, the right talent, the right brand strategies and challenge strategies, but the US is a great opportunity for us, and that we think we have the right to win. And we have the fundamentals of brands and market presence to capture that opportunity as well.

Operator: Thank you. One moment for our next question. Our next question comes from Michael Lavery with Piper Sandler. Your line is open.

Michael S. Lavery
Analyst, Piper Sandler & Co.

Q

Thank you. Good morning. I just wanted to unpack the guidance change a little bit further. You touched on the three pieces, the tariffs, the macro uncertainty and the Frito North America weakness.

But the second and third are – have a top line component and you've held the revenue outlook constant. Is it just because of the impact is modest enough to be in the wiggle room of low single digits or is it an offset from International? I guess how do we think about the top line piece that's wrapped into that.

And then, just on the tariff piece, is your outlook based on current estimates? And I guess, just simply, would we be right to assume that if, for example, the 90-day pause gets extended or if there's any changes there, it could certainly drive some upside if you get a little relief out of that?

James T. Caulfield
Chief Financial Officer & Executive Vice President, PepsiCo, Inc.

A

Okay. So I think there were two questions in there. The first, Michael, yeah, the momentum in International is one of the key underpinnings of the guidance that we reiterated on the top line.

And, as I mentioned, you look at the first quarter, sort of normalize it for our accounting calendar thing, and we're right in the middle of that low single-digit guidance.

On tariffs, we're not going to get too much into piecemeal analysis. We based our guidance on what we observe today. We've run various scenarios of what could happen. And I think based on what we know today, that's what we factored into the guidance.

Operator: Thank you. One moment for our next question. Our next question comes from Kaumil Gajrawala with Jefferies. Your line is open.

Kaumil Gajrawala
Analyst, Jefferies LLC

Q

Hey, guys. It's bring your kid to work day at Jefferies. So if you don't mind, my daughter, [ph] Melana (28:00), is going to ask the question.

Ramon L. Laguarta
Chairman & Chief Executive Officer, PepsiCo, Inc.

A

Perfect.

Kaumil Gajrawala
Analyst, Jefferies LLC

Q

Go ahead.

Q

What do you think about the launch of GLP-1 oral medications coming to market next year?

Ramon L. Laguarta
Chairman & Chief Executive Officer, PepsiCo, Inc.

A

Yeah. Listen...

Kaumil Gajrawala
Analyst, Jefferies LLC

Q

That was entirely her own.

Ramon L. Laguarta
Chairman & Chief Executive Officer, PepsiCo, Inc.

A

Yes. That's good. And I think it's relevant and it's – again, I would, Kaumil, and I don't know your daughter's name, but, obviously, we've been transforming the portfolio. And we'll continue to give the consumer offerings that help them in any sort of dietary preferences that they have. So whether they're in a GLP-1 situation or they are not, we will keep providing them. What we're seeing with GLP-1 consumers is, again, they're driving more consumption on protein space, on fiber, on hydration. I think we're well positioned for both fiber and hydration solutions and we will increase the availability of products in those two areas.

I think we're a bit less well positioned in protein and that we're innovating. Our teams are working on innovation for – against protein, both on the beverage and the food business. And you will see some late this year, early next year. And that's the space that I think we can capture more incremental value.

Now, the other thing we're seeing in GLP consumers is that they're keeping our brands in their repertoire, probably in a smaller portion. So they're going for – and that's the way they are actually eating across most of their choices. They're eating less quantity. So our offerings in small portions and whether it's in multipack or some other options that we provide, keeps our brands in their repertoire and it's still relevant.

So again, portfolio transformation, portion control, and the right offerings for those consumers will make sure that our brands stay relevant to those consumers. And I don't know whether that – the current participation, I think, is about an 8% – 7%, 8%, and there's obviously still a lot of trial and error from consumers in that space, but I think it's going to be relevant in the future and something that every food company is thinking about. And we're obviously thinking about it and reacting.

Operator: Thank you. One moment for our next question. Our next question comes from Robert Ottenstein with Evercore ISI. Your line is open.

Q

Yeah, hi. This is [ph] Greg (30:53) on for Robert. We have two questions on the PBNA business. I guess, first, if you could talk about kind of the rationale behind the acquisition of poppi and what you're planning to do with the brand. And then, second of all, if you could talk about the drivers for PBNA margins, kind of how you're thinking about that segment and the setup and kind of any new thoughts on where you see the margin goal being over the medium term? Thank you.

Ramon L. Laguarta
Chairman & Chief Executive Officer, PepsiCo, Inc.

A

Yes. Listen, we're feeling good about our Beverage business in North America. And we made choices a few years ago. We're executing those choices. And I think we're executing quite well. And I need to thank the team for their focus and their good execution of the playbook.

Now, one of the key pillars was improving the margin of the business. And you can see this in a multiyear trend that we keep improving. Q1 was a good step in the right direction. And there's opportunity still to become a better operating business and keep driving better excellence out of everything of our value chain from making, moving and selling, so good, good progress there.

We're also very optimistic about our brands. And if you think about our soft drink business, CSD business, Pepsi is growing faster than in the last few years. Pepsi actually is starting to gain share of carbonated soft drinks and it's been the focus on Zero Sugar. It's been the focus on Pepsi and food and all the activation of the brand in that space that is giving us very good results.

We're also happy with Gatorade. Gatorade is also a business that is starting to regain share in the sports drink category. If you add to that Propel and the functional hydration, that space where clearly we are leaders, and we keep driving better performance.

Now our powders and tablets, our enhancer business is also gaining share. So that is, again, a multi-prong strategy that is starting to deliver for us. So we feel good about it.

There are areas where we need to keep improving, right? So if you think about Mountain Dew, we've been working on it for a while. There's a big re-launch of the brand in a few weeks.

We feel optimistic as well about Baja Blast being a good addition to the portfolio that will drive structural demand for the brand. So we're feeling good about both the operating metrics improvement. We're feeling good about some of the brands.

And we're feeling good about some of the inorganic moves that we're making. Again, this is all subject to regulatory approval. So when things are approved, then I think we can talk more about poppi and how we're planning to integrate that into the business.

Operator: Thank you. One moment for our next question. Our next question comes from Peter Grom with UBS. Your line is open.

Peter Grom
Analyst, UBS Securities LLC

Q

Thanks, operator. Good morning, everyone. Ramon, I wanted to follow up on your commentary there around beverages and just the commentary around the portfolio.

But can you maybe just give us an update on energy drinks? I think it's one of the few categories that has seen some sequential improvement year-to-date from a category perspective. Celsius has seen some improved performance as well.

And then just when you think about your partnership with Celsius, they obviously have brought on a new brand [ph] in the lobby news (34:44). So can you just talk about your willingness to kind of bring that brand on through your distribution network? Thanks.

Ramon L. Laguarta
Chairman & Chief Executive Officer, PepsiCo, Inc.

A

Yeah. Listen, we feel good about energy, and we feel good about the strategy and the partnerships that we have in this space. We're having conversations with Celsius, obviously, after they acquired new brands and still, I would say, early discussions about how we can find ways to participate or not in this new acquisition. It's still too early to make any kind of public comment on this.

Operator: Thank you. One moment for our next question. Our next question comes from Chris Carey with Wells Fargo Securities. Your line is open.

Chris Carey
Analyst, Wells Fargo Securities LLC

Q

Hi. Good morning, everyone. I did want to follow up on a question around PBNA, specifically on the Pepsi brand. It gained market share in the quarter, as highlighted in the prepared remarks, which is certainly encouraging. Do you think that this is the start of something that can be a bit more durable? What are your expectations for the brand from here?

And then if we take a step back, it's a little bit like Bryan's question, but more toward North America and specifically on beverages. Your peers have delivered pretty dynamic results in their North American beverage business in recent years. Certainly, you've been active in the environment as well. But has your thought process on this business changed over time?

I will tell you my personal view is that it feels like there's a lot of focus on margins from the investment community, and less so from growth. Certainly, that wouldn't be your starting point with your pillars of profitable growth. But maybe just as you canvas this North America beverage environment, over the past few years, has that evolved your thinking on what this business is capable of going through the medium term? Thanks so much.

Ramon L. Laguarta
Chairman & Chief Executive Officer, PepsiCo, Inc.

A

Yes. Listen, it's a very good question. And I would refer back to my previous answer. We're feeling very good about the progress that we're making. And these large businesses is about clear focus, clear trade-offs, clear areas of where you want to improve the business. And over time, you execute. And we're feeling good about both the operational excellence. So the margin improvement is not only margin improvement. It's in operational excellence. It's in operating improvement metrics across make, move and sell and that's where the business is focused. So it is a long-term improvement in capabilities, in infrastructure, in data and technology. And all that is being rolled out to make the business more capable and more granular and more intelligent.

Now on the brands as well, we have – obviously, we have been investing regularly and consistently in our brands, with focus on Pepsi and Gatorade. And those two brands are starting to gain share. We feel good about the positioning. We feel good about the advertising. We feel good about the portfolio. If you think about Pepsi Zero, it's a great addition to the portfolio and it's performing very well.

If you think about Gatorade, rapid hydration is a big consumer space that we're participating with Gatorlyte. Gatorade Zero as well has been a good addition to the portfolio, a very, very large scale part of the business now. And we're investing in powders and tablets because we see the consumer moving there. And we're now going to have new infrastructure, new assets that help us increase our offerings and add more functionality to that part of the portfolio.

I think there are still opportunities on the brand. Some of them will be organic. Some of that would be inorganically or through partnerships, as you mentioned, with Celsius on the energy space, with Starbucks on the coffee space. And we have also, I think, a pretty good development of the tea category ahead of us with our partnership with Unilever. So again, through a partnership, organic or inorganic, I think the portfolio, we have very good strategic intentions of where we want to take the portfolio, where the consumer is going, and we feel good about the progress we're making.

This is not going to be an overnight. We knew that. This is going to be a year after year progress. But the way the business is performing, the way we're building the talent, the way we're building step-by-step, the capabilities of the business make us feel very good about this business long-term.

Operator: Thank you. One moment for our next question. Our next question comes from Kevin Grundy with BNP Paribas. Your line is open.

Kevin Grundy
Analyst, BNP Paribas Securities Corp.

Q

Great. Thanks. Morning, everyone. Question for Ramon, just on the decision to recast your segment results, but really from a strategic perspective. So as you're aware, it's not uncommon for such moves to be a precursor to more impactful strategic considerations from company's board, particularly when the stock has been under pressure.

So I wouldn't expect you to front-run anything, of course, on a call like this today, but perhaps provide context, one, for the decision to recast your segment results. And then, two, what you believe investors may under-appreciate about the story of PepsiCo that perhaps becomes more evident with the company's new financial segment reporting? So thank you for that.

Ramon L. Laguarta
Chairman & Chief Executive Officer, PepsiCo, Inc.

A

Yeah. Kevin, I think we have a new – as you would think about maximizing the growth of the company in the future, we think there is an opportunity to both provide more focus in some parts of the business, either beverages or foods or operating model, COBO or FOBO in our International business.

So that's has been the majority of the recast. And so it provides a separation of the FOBO business, International versus the operating units where we control from the manufacturing all the way to the selling.

And so this is a very simple way for our International business, which is very scaled today, to have a bit more focus on the value we provide to our partners in the FOBO business and the operating infrastructure around our company-owned businesses and how we apply technology and how we provide services to our operating units. So it's more on the let's make sure that we're well positioned for the long-term growth of our International business and nothing else.

Now on the North America business, Quaker has been part of the food business now for a couple of years. So we're just recognizing something that is the way we're thinking about the business and running the business. And then the beverage business continues to be separate.

Now what we're adding in North America, it's a North America integration opportunity, both from running the business more efficiently in the short term, but, most importantly, about how we can grow the business in a different way in the future, especially as we look at common infrastructure for some of some of our supply chain or some of our go-to-market models for particular channels where we can – I think the scale could give more value than the separation.

And that's how you should be thinking about why we've made some of these changes. The North America one is not under-reporting. It's more on the operating. The international one is the reporting and the operating both.

Operator: Thank you. One moment for our next question. Our next question comes from Robert Moskow with TD Cowen. Your line is open.

Robert Moskow
Analyst, TD Cowen

Q

Thanks. Kaumil's daughter took my first question. But fortunately, I have a backup here. So last year, you characterized potato chips and other kind of unflavored chip products as being more commoditized, and that was where you wanted to be more forward on your promotional activity.

And there's not much talk about that this year. So, Ramon, I wanted to know, do you feel like in terms of your value actions, you need to be more active on that part of the portfolio or do you feel like you've got it where you need to be?

Ramon L. Laguarta
Chairman & Chief Executive Officer, PepsiCo, Inc.

A

I think the – I mean, the strategic intent remains the same. In areas where we have less consumer differentiation, we need to probably be a bit more intentional in our revenue management initiatives. In areas where we are more differentiated, we can probably be also more intentional, but in the other direction, right, in terms of capturing more value from consumers where our products provide more uniqueness and they obviously consider consumers will give us more recognition for that value.

So nothing has changed. We're not talking the details because, obviously, we're not going so much into that space. But in the work the teams are doing, we have – we understand where we provide value. And value, it's in the product. It's in the brand. It's in the experience. It's in multiple elements of value. And then obviously, where we have less differentiation or we provide less value, we need to have – we can afford less gap versus competitors in terms of pricing.

So I mean the principle, the strategic principles of our pricing versus our value remain the same. Actually, I think we've gotten better at understanding really our value and the drivers of value and how then our pricing needs to reflect those elements, in particular occasions or particular brands. I think the organization has become more nuanced, more granular, more intelligent in what is a critical element of our profitability and our growth.

Operator: Thank you. One moment for our next question. Our last question comes from Charlie Higgs with Redburn Atlantic. Your line is open.

Charlie Higgs
Analyst, Redburn (Europe) Ltd.

Q

Hi, Ramon, Jamie. Hope you're both well. I just wanted to dig into the organic sales growth guidance, please. I think you're now including high inflation economies in that. Can I just confirm and what you're building in for the rest of the year as a contribution from these high inflation economies? Thank you.

James T. Caulfield
Chief Financial Officer & Executive Vice President, PepsiCo, Inc.

A

So yeah, I'll confirm that we do include it. And frankly, that was to put us on a comparable basis with many of our close-in peers. It's not going to be a significant part of the revenue generation for the year. And it wasn't a significant contributor in the first quarter.

Ravi Pamnani
Senior Vice President, Investor Relations, PepsiCo, Inc.

A

Yeah, Charlie, it's Ravi. It's immaterial and there's no impact on earnings either, just to make sure we clarify that – benefit or earnings, nothing.

Ramon L. Laguarta
Chairman & Chief Executive Officer, PepsiCo, Inc.

Great. Okay. I think this is the last question, and we close the call right now. Thank you very much for your participation. And, obviously, thank you very much, especially for the trust you have in ourselves and in PepsiCo for your investment. Thank you.

Operator: Ladies and gentlemen, this does conclude today's presentation. You may now disconnect, and have a wonderful day.