11-Jul-2024

PepsiCo, Inc. (PEP)

Q2 2024 Earnings Call

CORPORATE PARTICIPANTS

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

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

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

OTHER PARTICIPANTS

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Bonnie Herzog
Analyst, Goldman Sachs & Co. LLC

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Bryan D. Spillane
Analyst, BofA Securities, Inc.

Kaumil Gajrawala
Analyst, Jefferies LLC

Peter Grom
Analyst, UBS Securities LLC

Filippo Falorni
Analyst, Citigroup Global Markets, Inc.

Robert Moskow
Analyst, TD Cowen

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Chris Carey
Analyst, Wells Fargo Securities LLC

Robert Ottenstein
Analyst, Evercore ISI

Carlos Laboy
Analyst, HSBC Securities (USA), Inc.

Nik Modi
Analyst, RBC Capital Markets LLC

Kevin Grundy
Analyst, Jefferies LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to PepsiCo's 2024 Second Quarter Earnings Question-and-Answer Session. Your lines have been placed on listen-only until it's your turn to ask the 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, Investor Relations. Mr. Pamnani, you may begin.

Ravi Pamnani

Senior Vice President, Investor Relations, PepsiCo, Inc.

Thank you, operator. 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 and updated 2024 guidance.

Forward-looking statements inherently involve risks and uncertainties and only reflect our view as of today, July 11, 2024, 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 second quarter 2024 earnings release and second quarter 2024 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 over to the operator for the first question.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Dara Mohsenian with Morgan Stanley. Your line is open.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC Q

Hey, good morning, guys.

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

Hey, Dara.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC Q

So I just wanted to focus on the implied organic sales growth guidance in the back half of the year of mid-single digits to get to the approximate 4% guidance. You've obviously had a great longer-term track record, Ramon, under your tenure. But in this softer US consumer environment, we've seen low single-digit growth in the last couple of quarters.

So what gives you confidence at the corporate level you can get back there and specifically, I wanted to dial down into Frito-Lay North America, which is presumably a piece of that. Obviously, a pretty soft volume result in Q2. You had taken some initial actions.

So help us understand the incremental actions from here. What gives you confidence you get a volume payback and a top line payback from that and how sort of Frito-Lay North America fits into that implied top line recovery also?

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

That's great, Dara. So I think it's an important area to focus. When we're saying at least 4%, we were talking more about around 5% in our minds. Now we're talking around 4%. So that's the pivot [ph] pivot (00:03:08) we're making. There is an adjustment and it's related to specifically the consumer in the US and we can talk a little bit more.

Now why do we feel good about our guidance? And it cannot be disconnected from our earnings performance because I think the work we've been doing on our productivity and our cost reduction gives us the optionality to reinvest back in Half 2 in a way that we feel much more comfortable about the performance. So a couple of, I would say, elements that give us confidence.

Now one is Quaker, Quaker, you're all familiar with the situation. We're recovering the supply chain by Q4. We'll be in almost 100% supply. And obviously, the business at that point will be growing materially because we're just refilling the shelves in the pipeline. So that should be out of the picture and it will be a positive impact for us.

The second is mathematical, but it's lapping. And we think, obviously, the laps are much better in second half and that has a – gives us confidence that we can get back to a mid-single-digit type of growth in the second half.

The third element is international. International is an area we've been investing for the last few years materially and is delivering for us. So first half of the year, 7%, within that – we will continue that same level of growth in the second half of the year. Pluses and minuses around the world, but the portfolio is diverse enough, scaled enough, profitable enough around multiple parts of the world that we believe that we can deliver.

And then now in the US, there is clearly a consumer that is more challenged and is a consumer that is telling us that in particular parts of our portfolio, they want more value to stay with our brands. That is not for all the consumers. It's some consumers, that is not for all the portfolio, it's some parts of the portfolio, and we have been working different tactics to give the consumer what they want and we see that is working and that's why we feel comfortable about, given the oxygen that we have in the P&L, that we'll be able to deploy in a very targeted way, thinking long-term about the category, making sure that it has good ROI, that we'll be able to turn around the – especially what you were referring, the food business to positive volume, and with that, a higher level of net revenue.

So that's how we're thinking about the second half. Again, we have [ph] green shots (00:05:51) with some of the activities we've been executing and July 4th has been very strong for us and we feel good about the business.

Now, the North America beverage business is also to be highlighted. It's a business that we said over time we want to stay with – deliver profitable growth, make sure we compete well in the category, but at the same time, improve our margins. We think we're executing the playbook well.

Actually, we've been accelerating the profitable growth delivery of the business and it should continue in the second half. We're investing in advertising and marketing even more in the platforms that are growing and that's what overall you put it all together, we feel good about the second half of the year and the momentum that we'll start 2025 with that.

Operator: Thank you. One moment for our next question. Next question comes from Bonnie Herzog with Goldman Sachs. Your line is open.

Bonnie Herzog
Analyst, Goldman Sachs & Co. LLC

Q

All right. Thank you. Good morning, everyone. I actually had a question on PBNA, Ramon. I know you just touched on it a bit, but I'd be curious to hear if you're satisfied with some of the progress you might be making to reinvigorate the business and maybe what green shoots you are seeing within PBNA.

And then, I guess I'm hoping for some color on the initiatives you highlighted in terms of the disciplined commercial investments. Should we assume this will also mean a potential step-up in promos for PBNA and do you maybe see a need for some brand repositioning? Are there structural opportunities? Essentially what will be the drivers to reaccelerate growth at PBNA? Thanks.

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

A

Yeah, it's good. Bonnie, I'll give you a couple of data points that I think are relevant. Gatorade, for example, has been gaining share this year, year-to-date meaningfully, it's accelerating. That's a core part of our portfolio and a very profitable part of our portfolio. So that's one data point. We've been investing in Gatorade, not so much on, as you were saying, promos and discount, but more on innovation, execution and branding and that's paying back. The same with Propel. So all that functional hydration space, I think it's a focus for us. It's always been a focus, but now I think that part of the portfolio is working well. I think some of the G2DSD challenges that we had last year are behind us. I don't think we're all the way to perfection there, but much better service levels in this early part of the summer, which obviously that's when the category peaks and where we have to be ready for perfection.

So that part is clear. If you think about the other brand we've been talking for some time, Mountain Dew, Mountain Dew is on growth now. It's back to growth. I think we made the strategic decision to have multiple flavors driving the brand and made Baja a structural part of the portfolio versus just an LTO. That's driving consumers into the brand, incremental consumers, and again, better levels of execution. So just some examples. All the Zero part of the portfolio is booming.

If you think about consumer trends, clearly we know where they're going. We know that internationally we know that it's going to eventually happen here in the US. So Zero, not only on colas, not only on soft drinks, but also on Gatorade, on teas, on coffees, we're seeing that consumers are going.

And then the last part is our foodservice business is becoming stronger and we are being better at where the profitability is, which is on the fragmented restaurant, local restaurant where consumers have a lot of interaction every day. And that part of the portfolio we've been investing. We are getting additional distribution. We know we're becoming a better execution company in that particular channel and we're feeling good about that.

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 so much. Ramon, I wanted to go back to Frito, if I may, because you commented on some consumers and being more value to stay with our brands. But one thing we've been doing a lot in trying to parse through the data that's available to us, and it looks like it's the category, the salty snack category as a whole is really pressured. It's not just your brands. I know given your share, they're sort of one and the same, but it looks like there's a broader category issue.

Again, some of the data we've looked at, it feels like the category is not proving terribly responsive to promotion. So I just was hoping you could comment on that, if that is or isn't consistent with what you're seeing and how what you're going to be doing will be different. Because again, what we've seen so far, it doesn't look like there's a lot of response and it feels like the category is proving more discretionary. So just love your thoughts on that. Thanks.

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

Yeah. I think – we feel that the issue is an issue of value, it's not an issue of anything else. And we have a lot of data, obviously. Now, how do you address that value gap versus what consumers want to do I think is where the knowhow will come and the sweet spot for us is not to promote, but it's to promote to who needs it in their products that need it versus a blanket approach to promotion. So that's where we're investing a lot of time. I think we're much more capable from the insights and diagnostic point of view, and also from our ability to execute more granularly all these interventions, be it digital, be it with particular channels or customers.

To give you an example, we feel that the unsalted part of our portfolio, right, if you think about potato chips or tortilla chips, that needs some value reset and value intervention for some consumers. When we think about flavor potato chips or other parts of our portfolio, no, consumers are staying in the category, are staying in our brands and they're buying with pretty high frequency, as in the past.

There are other parts of the portfolio that are growing, growing very fast, especially the permissible part of, what we call, permissible portfolio, positive choices. This is a – when you think about brands like SunChips, PopCorners, Smartfood or the Simply range, Off The Eaten Path, those brands are growing. And there it's not about value. There, I think it's more about and the way we're going to approach it is more marketing, investment, awareness, execution, availability. So there's different tools that we'll be using to drive the category growth.

To your point on is it the category, is it PepsiCo brands? I think given even our massive participation in the category through many multiple brands, I think it's our responsibility to manage this category for the long term, providing value to consumers in different ways and continue to have the savory snacks category, growing above food structurally, as we have done in the past.

Now there is nothing in terms of consumer long-term trends that tells us that that's not possible. I think it's a small adjustment in value and in execution and in investment in new – innovation areas that will drive it and we'll feel very strong about our ability to do that, not in the long term, but actually in the short term, in Q3 and Q4 and that's why our guidance reflects a little bit that inflection, because we're already testing and executing some of these levers and we see the returns it has in volume and net revenue.

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, BofA Securities, Inc.
Q

Hey, thanks, Operator. Good morning. Ramon. Good morning, Jamie.

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

Hi Bryan.

Bryan D. Spillane
Analyst, BofA Securities, Inc.
Q

Just wanted to circle back on Frito. And I guess stepping back, you were able to sort of reset the margins and fund it with just deep – drilling deeper into some of the reservoirs of productivity, other places in the organization. So I guess just if you can comment on two things related to that.

One, given that you're tapping more productivity this year, does it – how does that affect next year? Does that affect maybe not having as much productivity to flow through? Or is that reservoir very deep?

And then the second is, as we're thinking about Frito margins stepping back in the back half of the year, should we be thinking about that now as the new base to maybe grow off of gradually? Or is that a major stepdown and then you'd expect Frito have another maybe step change up in the future?

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

A

Yeah. So Bryan, let me tell you – I mean, I think we've talked about this in the past. We're managing total PepsiCo operating margin. And as you've seen, we keep improving the margin. This quarter was almost 100bps of operating margin improvement and it's been consistent for the last few years.

We feel good about our productivity pipeline, it's not tactical. It's super strategic and it's multiyear and it's based on automation, it's based on digitalization, simplification of the company, standardization, different service models to the business. So there is a whole portfolio of productivity ideas that are multiyear in nature and we don't think that we will slow down our productivity in the coming years.

Now as you think about our overall margin, International has continued to grow its margin. PBNA has been very vocal from our side that we want to have that business going – moving into mid-teens and we've delivered on that. And we've always said that the big value of Frito for us is not so much whether it's a 26% or 26.5% or 27.5%, that is very relevant, I would say. It's always tremendously accretive for us long-term. And the biggest value creation for Frito is to make sure that it grows at a 4% or 5% levels. And that is going to be our – continues to be our strategic focus.

How do we get Frito to continue to grow above the category, make the category very healthy in terms of growth, keep bringing consumers occasions and channel – new opportunities for channel expansion to Frito and that will continue to be our focus. We'll keep investing until we get it right – we feel good about getting it right rather soon. And that's the way we'll keep managing the overall profitability of the company. And Frito, PBNA and International, in particular, with different sub-strategies and obviously, that triggers down to every market around the world when you talk about International, but we have a very good playbook for every country and every line of business in every country, expectations on profitability and roadmaps to deliver that kind of growth.

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

Hi. Good morning, everybody. Do you believe that the prices at Frito are too high, given the increases over recent years?

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

A

Listen, Kaumil, I think I kind of touched on the point earlier, but some parts of the portfolio need value adjustments, some parts of the portfolio don't. Some parts of the portfolio needs to be – for particular consumers, we need some new entry price points and probably some new promotional kind of mechanics that don't spec for the consumer to invest so much cash in a purchase of salty. So there's adjustments that we have to make for certain consumers, some parts of the portfolio. I don't think the overall portfolio needs a reset. I think this is going to be about granularity. It's going to be about good execution of that granularity. And that's what's – I think we're well prepared to do throughout the full value chain. So yes, there is some value to be given back to consumers after three or four years of a lot of inflation. Our cost allows us to do that, whatever we choose to do and that will be one of the interventions that we'll be making in the second half, but not the only one.

I mean, there's going to be investments in marketing. There's going to be investments in better execution that overall will drive the business growth to where we think it will be structured in the coming years.

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. So, I was hoping to get some color on Latin America. Organic revenue was the weakest we've seen in some time here. And I think in the prepared remarks, Brazil and Mexico seemed solid, so just curious kind of what drove the weakness in the quarter.

And then Ramon, just as we look ahead, you mentioned you still expect strong growth from International in the back half of the year. How does Latin America fit into that equation and would you anticipate improvement or should we expect more muted performance to continue? Thanks.

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

A

No. I think the – again, I would look at LATAM and all the International business in like six months, rather than a three months. In three months, there's a lot of moving pieces between first quarter, second quarter, Chinese New Year. In particular, the LATAM situation, in our case, is related to Mexico.

And Mexico, because of the elections, there have been some changes in disposable income given to the families by the government that created some, I would say, some abnormalities in the way those funds were distributed and that's impacted demand in Mexico in the last – what we've seen in the last three weeks in Mexico that as those funds have been given back to consumers again, that the demand has come back to our category.

So we don't foresee any issue in LATAM. LATAM, again, I mean, value continues to be a factor, as it's always been in LATAM, we'll see pluses and minuses between the different countries. But as a region, LATAM continues to be a high-performing region for us, where we keep developing the categories and we keep expanding our margins and building scale businesses, not only in Mexico and Brazil, but across multiple markets.

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. So just staying on International business, Ramon, you sounded pretty confident on the growth in International. Maybe you can talk more about, like what regions do you see the greater growth potential in that business?

And going back to the question on guidance, on top line for the second half, is the improvement in organic sales mainly driven by an improvement in North America or an acceleration in International? If you can give some color there will be helpful.

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

A

Yeah, Filippo, hi. You should assume that most of the incremental acceleration of the business comes from mostly North America, right? And the two factors I mentioned, Quaker will get back to growth, [ph] the labs (00:22:53) get better for North America and then some of the interventions we're making, both in value and in additional A&M should drive additional volume. Those are the three factors.

Internationally, we're assuming that the rate of growth for the first half will continue in the second half. And again, we're seeing parts of the portfolio accelerating, parts of the portfolio stabilizing, some of them being a little bit softer. But overall, the portfolio at this point is broad enough, we have enough scale across multiple markets that we're kind of hedged geographically.

So that's what we're assuming and what we're seeing that the per caps growth of the category will continue. We continue to invest meaningfully incremental funds to both execution and brand development and we don't see any reason why not, of course, it could be big geopolitical reasons why we change our mind later in the year, but with information we have today about geopolitics and the stability of countries, that's our best, best guess today.

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

Hi, thanks. A couple questions. One is, I was hoping you'd give a little more color on the energy drinks category. Growth has slowed dramatically in the US. And just wanted to get your perspective and ask like, do you think that consumers there are making a value decision as well? There's a lot of premium price drinks there. Do you see any evidence of trading down to maybe higher caffeine carbonated drinks? Thanks.

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

A

Listen, I think fundamentally, the energy category continues to provide long-term good prospects for our industry. And I think it's a consumer need that will continue to be there and whether we're able to satisfy that through multiple options, that will continue to grow. There's always small, ups and downs of subcategories within LRB that you could argue, is it because of channel dynamics? Is it because it's very hot and people are moving to other parts of the portfolio?

Like we're seeing, for example, in our case, in that recent six weeks, a massive growth in our hydration portfolio because obviously it's been very hot in the US. So I guess there is some cannibalization between energy and hydration for some consumers and they prefer to do that. So I wouldn't over-read into the short term of the category. I would try to think about this as a – the consumer needs energy, if we're able to provide energy in a consumer-friendly way, including price, probably, as you mentioned. But I would say functionality, clean labels. I mean, like a lot of the things that I think the category has been working on, this should be a good runway for that segment of the category and it's been value-creating for a lot of us that are participating it, including the retailer partners and the brand owners.

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

Thank you. Good morning, everyone, Ramon, Jamie. My question is on the bridge to the mid-single-digits organic sales growth in the second half. Assuming International, Ramon, you just mentioned, goes the same kind of mid-single-digits into the second half and of course, understanding the easy comps for Quaker, it still implies a good inflection into Frito and PBNA. How do you think like we should be thinking about the progress? And perhaps, related to that, from a channel perspective, the away-from-home, are you growing from what it seems to be like a distribution? What is the like-for-like in sales basically by channel? If you would think about away-from-home and at-home?

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

Hey, Andrea, it's Jamie. On the acceleration in the back half, as Ramon mentioned, that's going to come mostly from North America for reasons we cited and we're making the investment primarily focused in North America. We've got the [ph] easier laps (00:27:30) and Quaker, so that gives us a lot of confidence.

On channels, look, away-from-home has been a focus area for us. We've put investment behind that and it's outgrowing the balance of our portfolio. So we'd expect that to continue.

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. Ramon, I know you mentioned International to be looked at on six months cadence. I was wondering, however, if you could comment on some specific regions just in Europe, why, to your mind, have trends been so resilient? I don't think it's just your portfolio. I think the region in general has been more resilient for longer than many expected. And then in Asia, I think you were clear last quarter that there was some timing benefit. Clearly, we saw that normalized this quarter. What's the right run rate for this division? And do you have any comment on the progress in China? Thank you.

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

Yeah. So listen, again, we're looking at International as a portfolio of geographies and markets. And we see the portfolio kind of, when it's not growing so much here it's growing – so at the end, historically, we've learned that the portfolio is quite diversified and that gives us the opportunity to talk about an International business as a total. Obviously, we run the business locally.

Now, when you go down to different parts of the world, Europe is very – is resilient and it's resilient – our business has been performing very well, both on top line and share and very importantly in margin improvement and that has been a focus of the management team for quite some time. We're getting a lot of traction. That's also giving the business the opportunity to reinvest, which also obviously drives the top line. And I think Europe, in our case, is in a very positive cycle, which we expect to continue in the coming years.

Now, I talked about Latin America, so I will not mention much. We continue to see a lot of growth in many parts of our AMESA region, In particular, India is a big growth space for us and is an investment area for sure. The opportunity is massive, if you think – if you take a decade perspective and we're putting infrastructure on the ground and we're putting a lot of – we're investing in the brands, make sure that we build the scale to capture what is going to be, I think, a high demand market for many, many years.

Then when it comes to Asia, we're seeing a very cautious consumer in China. The consumer is clearly saving, saving more than spending and that has an implication for many categories. Our category is a low ticket item, so we continue to see good performance of our category and we're gaining share. It's quite an advantaged business what we have in China, especially on the food side, and we continue to invest in different regions of the country. We continue to get more penetration, additional distribution, that has been a big driver. So additional penetration, additional consumers coming to our brands, coming to the habit of snacking and that has been very positive.

So in spite of a cautious consumers, we have levers to continue to grow the business, some of that physical availability, some of that is share of market and better penetration of our brands. I think we have advantaged products there. We've been – we have a very strong R&D center in China that develops East for East products. And that is giving us an advantage versus other companies. So, that's how we're seeing the different parts of the world.

And again, we'll continue to invest [indiscernible] (00:31:54), this is a business that if you think about our International business, it's almost $40 billion already, right? So, it's been growing very fast over time. It's almost $40 billion, it's accretive to PepsiCo. It's higher margin than the average of PepsiCo and it's clearly the largest growth opportunity for our company, if you think about the next decade.

And that's where we put in so much focus, so much investment. We believe that we – both on the beverage side and on the food side, we have many years of growth in that particular part of the business.

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

Robert Ottenstein
Analyst, Evercore ISI

Q

Great. Thank you very much. Want to look at a more structural, strategic type question and that is to get your thoughts around the Carlsberg Britvic transaction and maybe talk a little bit why perhaps it made more sense for Carlsberg to buy Britvic rather than you, given the fact that you generally own your bottlers in the US. Why not Britvic? Does that have any implications in terms of how you're thinking about the US bottlers? And does the fact that maybe combining beer and CSDs makes more sense outside of the US obviously, for regulatory reasons, how should we think about that component? Thank you.

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

A

Yes, I wouldn't extrapolate too much. This is a decision by Carlsberg to make an investment in the UK business. It makes a lot of sense for Carlsberg, for multiple reasons, and we partner with Carlsberg in other geographies. We are very happy with the partnership. We trust them as a partner to grow our business and, of course, we supported the transaction.

So, I wouldn't over-extrapolate it. Let's make it a UK decision by Carlsberg and we decided to endorse the transaction because we have a great relationship with Carlsberg and we trust them.

Operator: Thank you. One moment for our next question. Our next question comes from Carlos Laboy with HSBC. Your line is open.

Carlos Laboy
Analyst, HSBC Securities (USA), Inc.

Q

Yes. Good morning, everyone. Ramon, in keeping with the last two comments you've made and the Britvic deal, can you discuss the International franchise doctrine of PepsiCo? In other words, how are you thinking in terms of clarity of what each side is supposed to do and allowed to keep, right?

I'm trying to get a sense of how you're compelling independent bottlers in these great growth territories that you see to step up investments for the purpose of accelerating system revenue growth and bottling returns.

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

A

Yes, Carlos, listen, we're very pleased with the relationship we have with most of the bottlers on this strategic alignment. Actually, our international beverage business has been one of the growth engines of the company for the last few years. So, we keep innovating and building great products that have consumer appeal.

And specifically, we've been very successful with our non-sugar business internationally. Our non-sugar Pepsi has been a great driver of growth for many years. Gatorade is also another great platform that we are moving around. So, [indiscernible] (00:35:42) growing 10% historically and we'll continue to invest. Now, are there other opportunities to scale up some of our bottlers? Are they? Of course, there's always opportunities to improve the infrastructure and we're working on that for the long term. But I think this is a part of our business that is going well. It's a part of our business that we are prepared to invest even more, the bottlers now, we obviously are very aligned strategically on which markets and which platforms we're going to put our focus and our investments.

And I think, as I said, it's part of our international story that I was referring to earlier. There's a food story and there's a beverage story and there's combination of the two story in some markets that we're playing, that we're playing long-term. So hopefully I'm answering your question. I don't know if you had some other kind of implications there.

Operator: Thank you. One moment for our next question. Our next question comes from Nik Modi with RBC. Your line is open.

Nik Modi
Analyst, RBC Capital Markets LLC

Q

Yeah. Thank you. Good morning, everyone. Ramon, I was hoping you can just kind of share some perspective around overall food volume, right? Because a lot of questions have been asked about where's the volume going? It's not just salty snacks that's been under pressure, it's pretty much across the board in terms of volumes. And so I was just curious on your thoughts. I mean, I don't think it's GLP-1. I know that's what some might suggest. But would love your views on kind of where you think the volume is actually migrating.

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

A

Yeah, listen, Nik, I don't know about all the categories. I know that for many categories, the multiple year inflation that we had to take, because our input cost went up, has created some perception and some reality in a lot of households that food is expensive and consumers are making choices. And they can make choices to cook versus buy finished goods or finished products or they can make a lot of decisions around how they spend their money and how do they feed themselves every day with the lowest budget.

And I think that's the fundamental question to address for the food companies. Now that our costs are kind of normalizing, our input costs, and we've all been going at productivity, in our case, this has been a very, very strategic focus for us. Now, how do we deploy those resources against what are the best levers to reignite growth? And again, it will not be a blanket approach. It will be a segmented approach. In our case, it will be very rational. It will – based on data. I think we have a lot of data and we have great segmentation and I think we can execute with, again, with precision so that we don't destroy value, but we create value for the category as we increase the net revenue of the category.

So that's how we're thinking about it. I don't think GLP at this point, Nik, has material impact in our category for sure and we have a lot of panels and we have a lot of conversation with consumers, it's not impacting us. At this point, it's an economic value relationship for our categories and we will address them in the second half of the year.

Operator: Thank you. Our last question comes from – one moment – comes from Kevin Grundy with BNP Paribas. Your line is open.

Kevin Grundy
Analyst, Jefferies LLC

Q

Great. Thanks. Good morning, everyone. Covered a lot of ground and not to beat a dead horse, but just to drill down on a couple areas, Ramon, if we could on the demand weakness in snack. So you mentioned some parts of the portfolio, but not all consumers. I apologize if I missed this. What are you seeing beyond the low income consumer? There's a lot of focus on where's the consumer and depends on which management call you're listening to or what industry frankly. What are you seeing specifically with the middle and high end consumer? Is the weakness also being seen among that cohort as well?

And then I think an important question as well, is there anything you see in your market research, I know you're staying close to the consumer, that gives you any pause with the longer-term outlook for the Frito business, which has been so strong for so long? Is there anything there that kind of gives you pause or you'd view this to be entirely transitory? So, thanks for that.

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

A

Yeah. Thanks, Kevin. Listen, I think this need for value or more value consciousness, I think, is impacting every household in the US. So it is different levels of income, I think it's impacting everybody, and we're seeing behaviors in different income levels.

I would aggregate all that, the consumer is much more price-conscious, is looking for more value across. So maybe you see the higher income consumers that they're not going to expensive restaurants, they're adjusting their behavior to more affordable restaurant or they stay at home and then they create their own entertainment moments or fun moments at home.

So do you see different behaviors happening everywhere? I think the connecting line, it would be the consumer is more cautious, the consumer is more choiceful, but the consumer is willing to spend in areas where they see value and we see it in our category, right? The more – the parts of the category that I was referring to, but also for other parts of the category, they're asking for more value and they're willing to compromise in some of their decisions, so that's the problem to address.

So I would stay there and I think once we address that situation, we will be back in growth and we feel pretty good about the tools and the resources we have and the actions that we're taking and we're quite encouraged by recent performance of the business.

Ramon L. Laguarta

Chairman & Chief Executive Officer, PepsiCo, Inc.

Okay. So I think this is the last question. So, thank you, everyone, for joining us today and your thoughtful questions and also obviously for the confidence that you've placed in us with your investments and we hope everybody has a great summer and that you buy a lot of PepsiCo products. So, thank you.

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