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PepsiCo, Inc. (PEP)

Q3 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to PepsiCo's 2024 Third 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 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 and updated 2024 guidance. Forward-looking statements inherently involve risks and uncertainties and only reflect our view as of today, October 8, 2024, and we are under no obligation to update.

When discussing our results, we will refer to non-GAAP measures, which exclude certain items from reported results. Please refer to our third quarter 2024 earnings release and third 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: Thank you. [Operator Instructions] Our first question comes from Lauren Lieberman with Barclays. Your line is open.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

Thanks. Good morning, everyone. So, in the release, clear that Frito volumes trended in the right direction in the third quarter. Category backdrop is still tough, and you offered a lot of detail in the prepared remarks on kind of the strategy from here. I wanted to maybe think about the building blocks to a return to volume growth for that business. And if we isolate it between, let's say, core Lay's and some of the promotional work that you started this summer, the expansion efforts we focused on kind of multicultural offerings and value offerings, and then the positive choice, more premium end of the spectrum.

As we think about the path forward, what do you think about the growth rates for those three, if you will, segments or initiatives? Do you think that long-term Lay's gets back to in that kind of core part of the business to be a positive volume contributor or is it more of a kind of hold the line and avoid losses there, but the other two are really what drives the turnaround as we move forward? Thanks.

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

A

Good morning, Lauren. Thank you. Listen, let me step back for a minute. If we think about the long-term growth potential of the food business in the US, we are very positive about the long-term trends. We've seen Gen Z snacking patterns and food patterns being in a way that favor the growth of our category. They are snacking more. They are eating mini meals versus large meals, and that favors our brands and the number of occasions that the category will grow. So, long-term, we feel very good about it.

After three years of outsized growth for Frito, if you think about the double-digit growth, we knew this year was going to be a year of normalization, and that's what's happened. The consumer is reassessing patterns and with mobility and some of the financial situations. Now, going forward, we think that the category will continue to grow at the pace of the past, because of the long-term trends that I referred to.

Now, the way we're thinking about our brands playing in that space, potato chips will continue to be a big driver of the growth, and we're looking at potato chips, to your question on Lay's, as a multitier opportunity, and the same we think all the other segments. So, we have Lay's clearly as the main part of the category, and within Lay's, we will have unsalted and we'll flavors, where we know we can create a lot of loyalty and higher value for consumers. We'll have subsegments like lightly salted or baked that provide even more permissible options for consumers to stay in potatoes. And then, we'll have, at the upper end of the category, brands like Miss Vickie's that provide a more premium experience.

So, we're thinking about each one of those categories as multitier, where we offer value to some consumers, more specific choices for other consumers that want to stay within our brands. But the overarching – the way we're thinking about the category is to continue to create growth, continue to ensure that, in the long-term, the category creates occasions and bring consumers into the category with our brand programs, our innovation, to keep the category growing very healthy in the future for us and for our customers. And that's how you should think about the long-term value that we can create with the Frito-Lay business.

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

Thanks, operator. Good morning, everyone. So, my question is just how we're approaching planning for, I guess, 2025 and maybe just the medium-term. And Ramon, I guess, underneath my question is, given that this is sort of in some ways unchartered water in terms of the – what we're dealing with the consumer and finding ways to get them to respond, how is it affecting the way you're thinking about the balance, right, between investment, spending to stimulate demand, returns, and how it affects the bottom line? And I guess, really what I'm asking is, how do you gauge or guard against cutting too much cost in order to preserve the bottom line while trying to reaccelerate top line growth?

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

Yeah. Great question, Bryan. Listen, we've been thinking about productivity and cost transformation now for some time. We knew it was going to be a year of normalization after, as I said, three years of outsized growth. So, we've been thinking about productivity in a very programmatic way and systemic way across the company, and there are some big platforms that we have started to deploy and we'll continue to deploy over the next few years. And these platforms are automation of our supply chain, both warehouses, manufacturing, distribution centers. We have invested a lot in data and organizing our data in a way that now we can deploy digitalization at scale throughout the value chain. So, from the way we procure to the way we run our factories, to our transportation, to our go-to-market, we're really digitalizing the company, and that will generate growth and productivity as well.

We invested – we started to create our global business services, shared services, now we call them Global Capability Centers, about a couple of years ago. Now, we have them at a maturity level that we can use them much more in how we do labor across the company and how we service our organization. A&M optimization, or in general demand generation, budgets optimization, we are much better at understanding ROI. So, there's multiple platforms of productivity that we'll keep deploying in the next few years in the US and internationally. That will give us the optionality to invest in the business as we see best to continue to grow our categories in a responsible way and continue to deliver the financial returns that our investors expect and we are delivering.

We feel good about this year in the sense that even with a very challenging consumer background, we're able to deliver at the high end of our EPS long-term target. That is a very positive and it makes us feel very confident that the productivity, the cost transformation programs that we started with the right levels of investment will deliver for us. Again, we're always managing the company for the long term. Even in a year like this where we're challenged on the top line, we keep investing in A&M, we keep investing in the long-term transformation of the company, we keep investing in sustainability, making sure that long term we are using less resources. So, we're not taking our eyes off the ball on the long term, whilst we deliver on the short term for our investors, thanks to what I think is best-in-class productivity multi-pronged program that we'll continue to deploy in the coming years.

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. Good morning. If I could just follow up on that with the – other than the details, if organic revenue growth does indeed stay in the sort of low-single-digit or 1% range, can you still deliver 8% on EPS? Kind of putting all of that together, do you have the flexibility to do that for the forward year?

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

A

Kaumil, as I said earlier, I think we have a very large productivity set of tools that we'll keep deploying systematically. At the same time, we don't think our category will grow at 1% long term. We think our category with investments that we're putting back into the business and the help of our brands and the innovation that we have in place for this year and next year will deliver much more than 1%. So, we're not considering that scenario in our kind of planning.

But, I would say, what we want to do is control what we can control, which is clearly focus on productivity, focusing on the long-term health of our category, continue to keep our consumers in our brands, continue to keep our consumers in our categories, building winning plans with our partners that generate profitable growth for both of us. That's where we're putting the focus. Long term, as I said earlier, we believe in the long-term growth of both our snacks category and our beverage category. Both of them are trillion-dollar type of categories with global relevance, growing very healthy in many markets around the world, and with long-term trends, that give us a lot of confidence that these will be sizable growth categories for the long term.

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

Hey, Dara. Good morning.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

So, Ramon, you touched on earlier and in the prepared remarks some of the actions you've taken so far in Frito-Lay. Just can you take a step back and give us your view in terms of the initial payback you're seeing. But the thrust of the question is really more about going forward, is it sort of tweaking those actions in place already to drive greater payoff going forward? Are there additional actions you're going to lean heavier on? And just how do you think about sort of changing the magnitude of investment behind some of those?

And maybe specifically, you can dial down on providing value to consumers that you mentioned. What exactly does that sort of mean? Is that more of a promotional focus? Is it taking less pricing? Give us a little more tangible detail on that front. Thanks.

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

A

Great. Dara, thank you. Listen, the way we're – I think it's a multi-pronged strategy and that we'll continue with that. So, giving more value on the core is super relevant. We feel good about the investments that we put this summer, mostly behind the potato chips category and Lay's. That drove growth in the potato chips business. Lay's gained 3 points of household penetration and we feel good about that return.

Now, we're going to apply that sequentially to other categories. We will use the fall/winter season to put more investments behind Doritos and Tostitos. It's the football season. There's a lot of gatherings, and those brands belong very well in those gatherings. And it will be a combination of value in the form of bonus packs and more product to – obviously, these are large – normally large group gatherings, so bonus packs make a lot of sense. We're giving 20% more product in Tostitos and Ruffles, some of the brands that belong in those occasions. We're also investing in brand events. So, you will see Tostitos and Doritos big brand events around NFL. You will see Lay's play in some of the classic Do Us a Flavor events. So, the brands will have a combination of value and big brand events.

At the same time, we're working on the long-term evolution of the portfolio and that's just something that we've been working for many, many years. We'll continue. I think it's the success of our business long-term is based on evolving the portfolio at the speed that the consumer wants to go. So, we'll continue to invest on our permissible portfolio. This is growing very fast and we continue to put more legs to that business. Now, we have Sunchips, Simply, PopCorners. We have Smartfood. We have multiple brands. We – you guys saw the announcement of Siete. Hopefully, that will go through legal approval, and we will have another leg to that portfolio of solutions to keep growing the permissible portfolio.

The same with multicultural. We see that with the Hispanic population growing in the United States, we have brands like Sabritas, Santitas, Gamesa that can work very well to that group of consumers. We have those brands in Mexico. We're making them. We're scaling them up in the US. And the other lever we're playing, Dara, is we're entering new channels. We're trying to expand beyond retail, away-from-home, in other channels where we can create occasions for our brands that right now are underpenetrated.

So, that's the multi-prong approach. We're probably going to lean a bit more on value in the first quarters without taking the ball off the long-term investments that we're making consistently in building the portfolio for the future. So, you will see us making those options. But again, I refer back to what I was saying earlier, the optionality that we can create for ourselves with our productivity programs gives us a lot of flexibility, and we will be making those adjustments as we see the returns of the different actions and the tactics taking place over the next few months.

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 want to talk about the international business. So, Ramon, you mentioned in the prepared remarks geopolitical tensions and some weaker consumer across certain markets. So, maybe you can talk about those markets that had a negative impact and quantify any impact in the quarter.

And then, kind of like looking at the two pieces of the international business, it seems like the deceleration has been more in the convenience food side versus the beverage business continues to do well. So, what are the drivers in international of the slowdown in snacks, and convenient foods is similar to the US or there are other drivers? Thank you.

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

A

Yeah. Thank you, Filippo. I'll give you a bit of a sense of – there are pockets of strength in international. So, there are markets like, in Southeast Asia, India, those are markets that are growing nicely. We see parts of Eastern Europe growing nicely. We see Brazil growing at a good pace. So, there is pockets of growth. There are other markets where we're seeing a bit of a deceleration. So, China is a market where consumers are feeling a bit more constrained and we're seeing that in our food business, although, we're gaining share, we're seeing a deceleration from double-digit to single-digit growth.

We're seeing a bit of a deceleration in Mexico. We think this has to be related with elections and some of the noise around the flows of social money into the economy. Hopefully, that will now stabilize. And we're seeing parts of Western Europe also challenged, weather and other dynamics there. Now, the Middle East is a different reality, the fact that we have a big business in the Middle East. And yes, it's been impacted by geopolitical situation and I don't think that's going to change in the coming months. But our teams locally are doing a great job navigating the situation and trying to continue to stay relevant for consumers and drive that business forward. So, yes, your comment on food versus beverages, yes, the beverage business is growing a little bit faster than the food business globally.

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. Maybe just a bit more of a housekeeping question, but the full year organic revenue guidance still implies a relatively wide range for the fourth quarter. So, just any thoughts on where you would expect to fall within that range? And then, within that, any comments on the underlying assumptions embedded? Clearly, things have been more challenged from an external perspective. So, just would be curious if you were assuming kind of the current environment holds or would you anticipate category trends show some improvement here as we exit 2024? Thanks.

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

A

Hey. It's Jamie. I'd say that we really don't expect a huge inflection up or down from the conditions that existed in Q3.

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. Thank you. Ramon, you have a very thoughtful strategic approach to investing in Frito-Lay. In some areas, you're investing in some – different ways in different areas. Two questions. I thought that the plan was to also invest behind Tostitos and promote more. I thought it was like similar to the process for Lay's. Did you put that into market or not? Because we didn't see much yet for Tostitos.

And then, secondly, regarding the positive choice brands, I would have thought that they would be less exposed to value-seeking consumer behavior, because I think they tend to skew more towards higher income, but they've been weak. Can you give us a little bit of what progress you've made to improve the distribution and where you are in terms of turning them around? Thanks.

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

That's great two questions. On Tostitos, we've made some investments in the summer, but the Tostitos brand has a lot of relevance in this fall season with all the gatherings around TV watching and tailgating and everything else that happens in the US. So, we will be putting incremental investment behind Tostitos, and as I mentioned, it's going to be around brand investment, so programs on consumer investment, brand investments, and also value in the sense of 20% more bonus packs and some other additional value for consumers that will – sure will create additional penetration for the brand and hopefully growth. And we're doing the same with Doritos. Doritos, we're investing a bit more sequentially. We started with Lay's. Now, we're moving to Doritos. Doritos being a brand that responds very well to any sort of activity, and we're seeing it already in the month of September/October how the brand is responding and will sequentially improve.

The other part of the business that with the pandemic, mobility and return to different patterns by consumers that has been impacted is multipacks, and variety packs was a huge driver of business. We're seeing that part of the business kind of slowing down a little bit, part is affordability, so some of the larger packs have been impacted. Now, we offer 10-count multipacks to – before, it was more 18 and 24, now 10-count, that's growing very fast. Parts of the month, the consumers are gravitating toward lower purchase. That's growing very well. We're also giving bonus packs to our multipacks, plus two units, plus three units. So, this will be all additional value that I think will have a positive impact in the business in the coming months.

Now, when it comes to permissible, we've been working on permissible now for many, many years, both on making our core products more permissible. You see our levels of sodium, our levels of fat are being reduced, and that's creating a positive halo for all our brands, but also creating a portfolio of brands that are, as you say, not necessarily premium. I think the penetration is still limited around – between 10% and 20% in some of those platforms, but already beyond what is the premium consumer. It's really democratizing positive choices to consumers. It's Sunchips, it's the Simply range which covers most of our large brands, it is Smartfood, it is PopCorners, and as I said, some new addition to the family hopefully with Siete.

So, we keep investing in those. We're seeing penetration increasing. We're seeing positive development of those brands. And everything is impacted by affordability, even for medium-income consumers or medium/high-income consumers. So, we don't see this as a long-term derailer. We see something that will continue to provide the right portfolio, add distribution, make sure visibility is at the levels that it needs to be to generate trial, be very intentional with where we invest money behind these brands to generate additional trial.

And the fact of the matter is that, today, with digital advertising and all the information and insights that we have, we can be much more precise and thoughtful and have much higher returns on how we build these platforms, which as I said earlier, they're meaningful, they're already $2 billion and this is a large business that is growing and will continue to grow for us in the long term.

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

Good morning, everybody. Thank you. So, I just – maybe to clarify, Ramon, if you could talk a little bit more about what drove the step-down between 4% organic sales growth for the year and now low-single digits, the balance between how much was driven by some of the changes in the international markets that you've talked about versus less improvement than expected in some of the domestic businesses, because I'm not 100% clear of where the incrementality was.

And then, within that, within Frito-Lay specifically, you talked a lot about investments both in incremental brand building and in sort of sharpening price points and the value equation. I guess, I'm gleaning from that, that we should potentially expect segment pricing to flip negative as we go forward as you realize those investments. So, I just wanted to play that back and see if that was an appropriate assumption.

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

Hey, Steve. It's Jamie. On the revision from the 4% to low-single digits, combination of recovery of the consumer in the US frankly has been slower than we had anticipated, and then to a lesser degree, the geopolitics have impacted the international. That's probably a 0.5-point drag on total PepsiCo revenue growth in the quarter.

As far as pricing goes, it's a bit complex. We're investing in affordability where it makes sense, but we're investing in a number of levers to stimulate demand, and I think too soon to call on what the pricing outlook is going forward.

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. I wanted to step back and think about international convenient food, because we also need to see an increased level of reinvestments in marketing to inflect volumes in key regions like in LatAm, while also keeping momentum in Europe. That was – that has been a very nice place where I know, Ramon, you have a lot of experience in there in negotiating with retailers.

And should we see – I mean, my question is rooted on the affordability that we saw also in the US, is that something that we should be basing for in places like LatAm and specifically Mexico? I understand the tough comps, but going forward, looking at ways to kind of dialing in in your RGM in LatAm. And on the Frito-Lay North America, just a bit of a check-in and a follow-up. In the reinvestments you mentioned, should we prepare for margins to remain pressured, it seems, until we lap summer next year? And therefore – I mean, we saw a sizable 200-basis-point decline in operating margin for Frito-Lay. Would appreciate that. Thank you.

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

Thank you, Andrea. Listen, I think your question on international is very valid. I think, we've always been very good at the affordability and the revenue management in LatAm for our food business, and we – I think we manage well the ladder – the price ladder and the entry points, and the price packs and how we execute that in the point-of-sale in our racks and in our front-facing to the consumer. So, we'll continue to dial that up.

The truth is that in LatAm as well, we have great brands and we continue to invest in those brands to make sure that we carry to the consumer and to our brands versus strong competitors that we have in the area. So, you'll see a balance between both. That is not a new capability. It's something that we've been executing for a long time. We're perfecting that as we use – leverage the data and the information that we have, and we have more precise executional tools versus more broad-based execution that we might have had in the past. So, I think it's a capability that we could keep optimizing, but it will be critical in us driving the business performance in the coming years.

Now, when it comes to the margin, maybe, Jamie, you want to cover that one? Cover all...

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

Yeah.

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

...Frito. But we put Frito margin in the context of overall PepsiCo. So, maybe Jamie, you want to talk about how we are approaching margins?

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

Yeah. So, Andrea, we're managing the margin at a total portfolio level at this point, and with Frito, our focus right now is on stimulating consumer demand, doing it in a responsible, disciplined way and – but overall, we're focused on the total PepsiCo margin. Over time, I think when the consumer gets a little more healthy and the business accelerates, we can put a little more emphasis on managing the margin. But for right now, we're really focused on the consumer and stimulating demand.

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

Yeah. And this year is a good example how we're able to invest in Frito, whilst expanding PepsiCo margin meaningfully and substantially, and I think that's the way you should think about the way we will run the business in the near future.

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

Chris Carey Q
Analyst, Wells Fargo Securities LLC

Hi. Good morning. Thank you for the question. I just wanted to ask a higher level question and then a follow-up on the line of questioning that Andrea was approaching. But the higher-level question, Ramon, is as you begin to make pricing investments into this portfolio and other strategic investments that you had outlined for Frito-Lay, you're beginning to see the sort of traction that you're getting or not. And I just wonder if your assessment of the slowdown that we're seeing is entirely cyclical. Said another way, this is purely about value equations or are you seeing any consumption habits which may feel more structural or secular that are moving away from the business? I wonder if the Siete acquisition is a nod to how you see the direction of travel in this business over time.

And if I could just one follow-up on the line of questioning about total company margins, just from a productivity standpoint, are there any divisions where you feel better about your productivity initiatives? The Frito profit was under pressure this quarter, despite you're going to be expanding programs. So, are the international and PBNA productivity programs, is the visibility there just quite good? And so, anyway, just expansion on your visibility on cost offsets for the investments that are coming in Frito? So, thanks for entertaining both of those.

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

Yeah. Great questions, both. Let me start with the margins, and I'll get back to the long-term growth of the food business. On the margins, we've declared very clearly that one of the strategic goals that we have is to keep improving the margins of our beverage business in the US. I think, we're on track. Great performance by Ram and the team in improving the efficiency of the business, managing the portfolio towards high margin segments, and the business grew margin last year meaningfully and it will grow margin this year meaningfully. And we see a good line of sight to our intentions of the mid-teens margins in a couple of years in PBNA. So, that is working.

The same in international, you've seen the margin improvement in international. That's driven by scale, but also by efficiency and productivity efforts by all our teams across our key markets, and that will continue. So, those two are meaningful margin expansion opportunities for PepsiCo that we will continue to put our focus and deliver as we have a more balanced approach to the margins of the company, and we should be able to expand our margins. We're investing in the future of the company and providing value to consumers. So, those three levers, we feel good about that. And think about PBNA and international as the two contributors to how PepsiCo continues to expand its margins in a responsible way in the coming years.

Now, when it comes to the food business, your question on strategic transformation of the portfolio, we have been working for many, many years on evolving our portfolio with the trends of the market. And these trends are different in different parts of the world, but clearly the consumer has been moving in some parts of the world towards looking for more permissible snacks or going into more unstructured meals. Those two are big levers of growth for us long-term. One is, yes, we are providing consumers with better options to fulfill their needs for either a treat or any other occasion, a social gathering or whatever the occasion is, on the snacks. And we feel good about the way our R&D has improved, the way our portfolio offerings have improved in providing permissibility in the category, and we see that in the penetration of the category. We see it in the frequency. We don't think that's going to be changing for the long-term.

The big opportunity we see and that is very visible in developed markets, but also in some of the developing markets, is consumers are changing their eating habits and they're eating more calories in small portions throughout the day. So, the concept of mini meals, the concept of replacing a big meal with a smaller meal, you can think about a Sabra hummus with a Tostitos and a banana or something. Like, these kind of meals are becoming more and more popular. And especially if you think about Gen Z, they're using these mini meals much more than we used to have, we used to use it in our equivalent age. So, we see the positive trends for the category. We're leaning in with innovation there. We're going to be moving our brands more into those spaces, because there are a lot of occasions that our brands belong in and that we'll be able to satisfy consumers in that space.

So, yes, health and wellness, and we're ready and we've been moving the portfolio in that direction. Yes, unstructured meals, mini meals, and we're moving the portfolio in that direction. Your assessment is right, the acquisition of Siete hopefully will give us another tool to capture both permissible occasions and enter into meals in a way that is sustainable long term. But there are many other brands in the portfolio that can play in both of those spaces.

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. First off, I was wondering if you can give us a report card on the Gatorade transition. And then, related to that, perhaps if you could discuss the DSD system in general in PBNA and whether – through all the great work that you guys have been doing for the last couple of years, have you been able to reengineer the system so that perhaps it's less volume dependent than it was in the past, and that is part of your path to the mid-teen margins in a few years? Thank you.

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

A

Great question. So, on Gatorade, we feel good about Gatorade. Clearly, we learned last year, and we've executed better this year. I'm sure that if you ask our customers, they would still think that we have way to improve and I would agree. So, our service levels have improved meaningfully, but still, opportunities will get better as we go. The output of that improvement, we've seen share of market of Gatorade in the sport category going up, and we think this is a sustainable share performance.

So, that on one side. Along with Gatorade, the one brand that is performing beautifully for us is Propel, and Propel is part of also this transformation. Propel is growing double digit. It's fulfilling some great spaces for consumers, complementary to Gatorade, and it's benefiting us well by the execution that we're putting in place. So, we feel good about that. It's improving somehow the economics of our DSD system in some states, where we had lower scale with our soft drinks and other parts of the portfolio. So, that's a good move overall.

With regards to the productivity journey on PBNA, go-to-market is clearly an opportunity and we're optimizing a lot of variables, both in our warehousing, our transportation, our delivery models that will be sources of productivity going forward and – but not only, right, we're seeing that we can also be more efficient in many other parts in how we procure. We can be more efficient in how we invest in demand. We can be more efficient in many areas in the PBNA business. And that's why I said earlier, we feel good about the trajectory of the business. We feel good about profitable growth. We feel good about how this business can get to this platform of mid-teens operating margin that will be great for PepsiCo and will be great for, obviously, our beverage business in North America as well.

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

Kevin Grundy
Analyst, BNP Paribas

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Great. Thanks. Good morning, everyone. Thanks for the question. So, Ramon, just sticking with North America beverages, maybe we can pivot and get an update on the energy drink category, where you've broadened the portfolio strategy during recent years. Not lost on you, of course, like salty snacks in the US, the category remains surprisingly weak. So, a couple questions, please. One, maybe just some updated thoughts on the energy drink category and what the recovery there may look like? And then, two, perhaps just comment on the sharp slowdowns that we've seen with Celsius market share and your ability for that brand to regain its lost momentum in the Pepsi system. Thank you.

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

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Thank you, Kevin. Listen, I think the energy need state by consumers in the US and everywhere in the world will continue for the foreseeable future. I think everybody needs a bit of an energy boost throughout the day. And so, that need state will remain, and I think it's going to be up to kind of manufactures or brand owners like us to satisfy those needs, whether it's through soft drinks, through coffee, through tea, through energy drinks. So, I think that opportunity remains, and that opportunity will continue to be an opportunity for innovation and for brand investments.

On the short-term and how different segments of the category play out, I think the energy category in the US is clearly being impacted by the traffic in convenience stores, and traffic in convenience stores has gone down. It's been going down. I think, it's part of the economic cycle that we're in, and that will reverse itself in the future once consumers feel better. So, I wouldn't overplay the long-term of the energy category. With regards to Celsius, I'll say the same as I said in the past, we like the partnership. We are delivering on our part of the partnership. Our distribution points are going up. Our service levels keep going up. So, we're executing our part of the partnership with discipline and high standards, and we remain optimistic on the partnership.

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

Yeah. So, thank you very much, everybody, for the questions and the dialogue. And obviously, thank you for the confidence that you've placed with PepsiCo with your investment. We hope that you all stay safe and healthy, and look forward to seeing you around. Thank you.

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