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PepsiCo, Inc. (PEP)

Q1 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to PepsiCo's 2026 First Quarter Earnings Question-and-Answer Session. Your lines have been placed on listen-only until it is 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. 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, guidance, and outlook. Forward-looking statements inherently involve risks and uncertainties and only reflect our view as of today, April 16, 2026, 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 2026 earnings release and first quarter 2026 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 CFO, Steve Schmitt. 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 Dara Mohsenian with Morgan Stanley. Your line is open.

Dara Mohsenian

Analyst, Morgan Stanley & Co. LLC

Hey, good morning.

Q

Ramon L. Laguarta

Chairman & Chief Executive Officer, PepsiCo, Inc.

Hi, Dara.

A

Dara Mohsenian

Analyst, Morgan Stanley & Co. LLC

So, you guys are first up in large cap staples, so I thought it was appropriate to start with just an update on any impacts from the Iran conflict that are now contemplated in guidance and how that ties to your full-year earnings visibility. So, first, maybe, Steve, on the cost side, just can you highlight what's changed in terms of your cost assumptions? Any sizable pressure points individually as you think about the cost situation? And also, if you're more locked in at this point on cost with hedging and contracts or a bit more open-ended for the full year? And I'm presuming costs have gone up. So, what are the offsets internally as you think about 2026 earnings visibility? And do you think you still have that visibility even with the external volatility?

Q

And then, Ramon, if I can slip a second one in, maybe you can just touch on international demand. Obviously, another solid quarter, continuation of momentum there, but in theory there's also some macro risk to demand post Iran. So, if you can touch on the international regions, if you're seeing any impact from the conflict later in March or April so far, that'd be helpful. And again, the juxtaposition of sort of internal momentum versus the external volatility and if you think you can drive continued momentum going forward. Thanks.

Stephen Schmitt

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

Hey, Dara. It's Steve. Thanks for the question, and good morning, everyone. Obviously, we've been spending a lot of time here. A few things maybe. We've had no major issues from a supply chain standpoint. We're seeing really nice continuity there. The teams are managing it well. I think in times like these, the scale of PepsiCo is really an advantage. I really want to thank our supply chain and procurement teams for the work they're doing. I know they're working around the clock to manage this, and they're doing a really nice job making sure that we continue to service our customers. We do have some systemic hedging programs in place that does give us some near-term visibility here. We typically have about 6- to 12-month hedges in place.

A

Now, our assumption is that inflation will come. The order of magnitude we're still working through, and I think a lot of that is still to be determined. And the way I think about it from my experience on how you manage inflation would be kind of three ways over time. One, you grow your way through it and really leverage your infrastructure. The second is you push harder on productivity. And third, you do have options with your price pack architecture. We'd like to do the majority of it through the first two. But I think the reality is depending on the magnitude and time that we have inflation, we'll likely play in all three areas to combat the inflation that we'll see.

From a visibility and guidance standpoint, our assumption is that we can mitigate what comes our way this year, and that's really reflected in our assumptions on guidance. And as you might expect, we've started to begin our work on 2027 scenarios. But we're still working through that, and we don't have anything more to share on that today.

But Ramon, maybe you take the second part.

Ramon L. Laguarda

Chairman & Chief Executive Officer, PepsiCo, Inc.

A

Yeah, Dara. So, I would emphasize Steve's point that at this point in the play, the scale of PepsiCo and the resilience we've built over the last few years, especially after COVID on our supply chain, we built a lot of redundancy in terms of our key materials and multiple supply points for our key materials. So, that's giving us an advantage, obviously our hedge program. And as Steve mentioned, the seniority and experience of our leaders on the ground make a big difference because they provide agility, they provide good common sense on how to deal with situations, protecting our people, but also driving for growth in moments of complexity.

Now, with regards to the international business, as you saw, it's very strategic to our long-term growth strategy is one of the key pillars. It's been accelerating. And actually to your question, it continues to accelerate. So, we haven't seen an impact on demand in the last – since the war started. We have very strong commercial programs. Actually, I would say, in some markets, we're seeing a benefit because we have better supply chain than some of our competitors, especially in the food business.

So, nothing too remarkable at this point. We're executing our very strong commercial programs for the summer. The World Cup is a big driver of execution and innovation during the summer, and the teams are full speed executing that, along with some other transformation of the portfolio. So, the international business is very solid, continues to accelerate. And in our guidance, we haven't assumed any impact because we're not seeing any at this point.

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. I was hoping to see if you can talk about PFNA a bit more in detail, and congrats on the volume inflection. Can you talk to us about like how the programs have been progressing as we go through the quarter? And how sustainable do you see this performance if you had – I mean, some of the investors may have asked if you had some benefit from shipping ahead of the shelf resets and then the winter storms as well. And if you can comment on that, and how has the repeat rates been in your view for the refilling of those orders? Thank you.

Ramon L. Laguarda

Chairman & Chief Executive Officer, PepsiCo, Inc.

A

That's good, Andrea. So, if you step back for a minute, early last year in the springtime, we defined the new strategy for the company, focus on growth and very strong productivity to fund the growth. The company has been executed across all the different sectors this strategy with rigor and a sense of urgency. And we've seen results in Q4 and continued sequential improvement in Q1 as you saw.

Now, when you go down to the North America Foods business, this was a holistic, commercial study focused on growth. There was some additional value to the consumer. There was more space. There was a restage of some of the key brands like Lay's and Tostitos. There was a lot of innovation to accelerate our, what we call, permissible and functional. And there was a repurpose of funds towards away-from-home to accelerate away-from-home. All of that is delivering for us.

So, when you see the 2% volume growth, is a combination of all these elements, more value in some of the core brands, multi-packs, and multi-serve is one lever, but it's a much more holistic. We feel good about where we are at this point in the journey. Still in the process of all the shelf resets and launching the innovation. I would say, by the end of Q2, we'll probably be almost completed in that process. But the early reads are quite exciting.

If you think about 2% volume growth, about 4% unit growth, we have increased 300 million occasions in Q1 in the food business, 300 million new occasions to our business compared to Q1 of last year. The away-from-home business is growing three times the average of the company. The permissible portfolio is growing double digit in some of the brands. So, clearly, all the structural things that we're trying to do are working. And most importantly, and we don't talk so much about it, the productivity decisions that we took early last year are giving us that flexibility and optionality to invest in the food business in a way that we couldn't do earlier. And actually, the cost for North America Foods went down in Q1, which is a remarkable achievement by the team.

So, we're good. We're feeling encouraged also by the results in the last few weeks where we got positive share, not only in volume we've had for quite some periods already, but now we have positive share in value as well, which is one of the KPIs that we set for ourselves early on. So, good progress. We'll continue to update, but the execution is – we're in the middle of this reset execution, but feeling very good about how the brands are reacting, how the customers are supporting, and how the teams are executing in the marketplace.

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

Bonnie Herzog

Analyst, Goldman Sachs

Q

All right. Thank you. Good morning, everyone. I had a quick follow-up on PFNA. I just wanted to verify that you still expect to deliver both organic revenue growth and core operating margin expansion this year for the business. And then, I do have a question, I guess, on the volume pressures you're seeing at PBNA. I assume your volumes have been pressured as you continue to roll out smaller pack sizes for affordability, and then you're leaning in on your price pack architecture initiatives. But I guess, hoping for some color on what's continuing to pressure volumes and maybe your strategy to drive better volume growth this year. I guess, should we assume PBNA volumes will be negative this year, but declines will moderate and improve for the next few quarters? Thanks.

Stephen Schmitt

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

A

Thanks, Bonnie. This is Steve. Let me talk about the PFNA, I guess, margin question I think you asked. If I take a step back, if I look at the total company, core operating margin increased about 10 basis points. We did have a property sale gain from last year in the PFNA business that negatively impacted that. So, it would have grown, expanded a little bit more without that. And we had organic revenue increased 2.6%, core EPS increased 9%. So, we're pleased with how the total company performed.

For PFNA specifically, we're going to continue to play offense. We're investing in value. We have exciting innovation. We're supporting that with additional advertising and marketing, and we're growing volume in sales. So, we affirmed our guidance today. We'll manage margin as a total company, but we want to give ourselves as much flexibility as possible within the segments to do what's necessary to hit our guidance overall.

Ramon L. Laguarta

Chairman & Chief Executive Officer, PepsiCo, Inc.

A

Yeah. And Bonnie, on the North America Beverages business, we've been – we're talking about this case pack water transition to a third party. That's still part of the numbers in Q1. I think it laps in [ph] B4 (00:13:46). So, we only have one more month to lap. If you excluded that transition, the volume is actually almost flat. And we expect that that acceleration will continue in the coming periods.

Now, what's exciting about PBNA at this point is that the business grew 9%, right, 9%. Now, it's a combination of organic growth, revenue growth of 2% plus 7 points of additional platforms that are now in our distribution system. Some of that is business that we acquired, like poppi. Some of that is an increased portfolio of energy brands that are generating growth to our business. So, we feel good about the 9%. We feel good about the acceleration, the 2% in organic, and we feel good about the fact that we have flat volume as case pack water and that that progress will – that acceleration will continue in the coming quarters. Our expectation is to have positive volume growth ex case pack water in the coming quarters.

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. I wanted to maybe get a little bit more granular, if we can, on some of the trends in the PFNA business, knowing that Nielsen scanner data doesn't capture everything. One thing that stood out to us is Lay's. Lay's is one of the businesses where I think you moved earliest. You had the great Super Bowl commercial, refreshing the visual imagery, emphasizing simple ingredients, price adjustments, and so on. And that business while it's improving, it still looked pretty weak in aggregate volumes, bumpy, but still generally down and organic down pretty significantly.

So, I just wanted to talk – hear your response to that kind of next steps. I would think that's the business that's the toughest in terms of kind of mainstream competition and less differentiation. But you're the furthest along there. So, just maybe your perspective, what I might be missing on how that turnaround has been progressing from your perspective. Thanks.

Ramon L. Laguarta

Chairman & Chief Executive Officer, PepsiCo, Inc.

A

Yeah. Lauren, this is good. The Lay's brand is part of, as I said, a more holistic restage of the full business. We're well under – this is a global brand restage. So, Lay's is being restaged globally. It's performing very well globally. It is performing well in the US. We grew volume this quarter in Lay's in particular.

But if you step back and say, okay, what's happening at PFNA? We grew volume 2%, we grew occasions' units 4%, and we grew 300 million occasions in the quarter versus Q1 last year. That, for us, are some of the success metrics that we're looking at. The other set of KPIs we're looking is household penetration, and we see household

penetration gains across all our core brands. And on top of that, we see our permissible portfolio growing, in some cases, double-digit, brands like SunChips, Smartfood, Siete, and some others.

So, holistically, we think we're in a very good place. The fact that we're back to gaining share in the last three weeks, we use IRI. We don't use Nielsen internally. That's the data point that we have. In IRI, we're gaining share of – in value terms in the last few weeks, and we've been gaining volume share now for, I think, three or four periods. So, overall, we think that the consumer is back in our brands. The consumer is coming back multiple times to our brand, responding to our holistic value, plus execution, plus advertising, plus innovation strategy. And there will be more – as we execute the full space transformation and innovation execution, we'll see – we're very optimistic about the sequential improvement of that business. And we think we're on track, actually a little bit ahead of where we thought we would be by now.

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 Exane

Q

Great, thanks. Good morning, everyone, and congrats on the progress in the quarter. I wanted to ask you both on the organic sales guidance and your expectations for the back half of the year. So, I think the existing commentary was that if success with North America Foods and International continues to progress well, et cetera, you could deliver toward the higher end of the 2% to 4% in the back half of the year. You sounded good on International to me, maybe even a little bit better despite the conflict, promising with the return to volumes in North America Foods, and same with Beverages. So, I just wanted to see if that is still the expectation that the exit rate for the year is going to be closer to the lower end of your long-term guidance of the 4% to 6%. So, your comments there would be helpful. Thank you very much.

Stephen Schmitt

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

A

Sure. Hey, Kevin, this is Steve. Maybe I'll start. Really no change in the guidance from the top line standpoint. We guided 2% to 4% in upper end of that in – towards the back half of the year, and that is a good estimate as we can give you at this point in time. In terms of the progress of the financial performance over the year, I think in the last call, we talked a little bit about the year being balanced between the first half and second half. And I still think that's as good of an estimate as we can give you at this point in time.

Ramon L. Laguarda

Chairman & Chief Executive Officer, PepsiCo, Inc.

A

Yeah, Kevin. I think the – if you look at all the execution of the hungry and thirsty for growth strategy across the company is very positive. So, we see an acceleration in International, continue that. We've seen momentum in PBNA, both organic and reported. So, that is good as well. And sequential growth in PFNA, as I said, probably a little bit ahead of what we thought at this time. So, nothing has changed for us to give you guys a different guidance on how we see the business evolving and where we plan to be by the end 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

Hi. Good morning, everyone. I wanted to ask a follow-up on PFNA, especially on the innovation and the distribution gains that you're expecting. Ramon, you mentioned you should be mostly done by the end of Q2. So, how should we think about the relative size of distribution gains and the contribution from innovation in Q2 versus Q1? You have a lot of products shipping in Q2 like Doritos Protein, Good Warrior, Smartfood with fiber. So, I was just curious like your plans into Q2 in terms of innovation contribution and then the distribution gain. Should we see an acceleration into late April and May? If you can comment on that, would be great. Thank you.

Ramon L. Laguarda

Chairman & Chief Executive Officer, PepsiCo, Inc.

A

Yeah, Filippo. I think we are obviously different launches, different stages of ACV that we have. But if you think about the majority of our innovation is, let's say, 40%, 50% ACV at this point. So, we should expect that we accelerate that in the balance of the quarter and into the summer. The same with the planograms resets. We're probably 50%, more or less, in the process of transformation of the space for the year.

The space gains that we are getting from our retail partners are pretty much as we expected, some customers a bit more, some customers a bit less. And we continue to work with them in win-win programs for the summer where this category is very relevant to consumers. So, that's more or less the journey that we're in and why we think that we would be accelerating the business in the summer – I mean, towards the summer.

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. Can you just maybe unpack some of the top line in PFNA a little bit more and maybe elaborate on the timing of some of the price adjustments? Obviously, we see the segment price down, but just modestly in the first quarter. How much more is in place versus maybe still to come? And then, just on some of the category assumptions looking ahead, some of the SNAP revisions and cuts are still quite early. Anything you're seeing or how you're factoring that into guidance? And just maybe some thoughts on your expectations for GLP-1 impact.

Stephen Schmitt

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

A

This is Steve. Maybe I'll take the SNAP question. We did have eight states. There were eight states that began restriction in the first quarter. It's mainly beverages and candy. I think it's too early to come to any definitive conclusions right now in terms of impact. It's obviously something we'll watch closely, see how customers balance SNAP funds with other discretionary income for purchases over time. I think the LRB category overall remains robust, and we'll continue to monitor it.

Ramon L. Laguarda

Chairman & Chief Executive Officer, PepsiCo, Inc.

A

Yeah. And on the – to complement what Steve said, on the food side, we're seeing the savory snacks category accelerating with – part of that is our efforts, obviously, to bring more consumers into the category. Our retail partners are working with us in that journey. It's a very relevant category to everybody. We're seeing that category

accelerating. In many parts of the world, savory snacks is growing ahead of food. In the US, some weeks, it's already growing ahead of food, which is a good sign, and we're gaining share of that category.

So, overall, we see LRB consistently growing above food and beverages, and we're seeing savory snacks continuing to accelerate and eventually stabilizing and growing ahead of food and beverages, which has been the historic norm in the past. That is one of the – we've always thought that as leaders of the savory snack category, one of our key objectives, make sure that the category is healthy, and we continue to bring consumers into the category. Some of them have lapsed. They're coming back, innovating to bring more families, more consumers into the category. So, that's the assumption for balance of the year. And so far, so good. As I said, we've brought in a lot of consumption occasions into the category in Q1, and we see the same trends in Q2.

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



Hi. Thanks for the question. You talked about your market shares in PFNA. I want to know if you could talk about it in PBNA also. Is it fair to say that on a value basis, those shares are still in decline? And is that part of your strategic review? Will you be evaluating how to improve market share, as well as what I think we're all focused on, the bottler network? Thanks.

Ramon L. Laguarda

Chairman & Chief Executive Officer, PepsiCo, Inc.



For sure. I mean, obviously, market share is a key – but let's step back for a minute. PBNA is growing 9% total business, right? So, we're growing at an accelerated way, including energy. So, we see ourselves participating in the energy portfolio through our Celsius investment and our distribution of Celsius. That's gaining share. We see ourselves, obviously, very strategically, leading the functional hydration category and that category is accelerating. For the first time in several years, we see functional hydration, including sports and the rest of functional hydration, growing ahead of LRB. That's a key objective for us as well.

We see Gatorade and Propel gaining share there. We still have some work to do on accelerating the coffee business and accelerating the tea business, where we're also leaders. Some of the innovation that we have in the Starbucks portfolio is intended to do that. And then, in CSDs, we continue to have good growth in modern soda, which is a segment that keeps accelerating. Our poppi business is starting to accelerate now in Q2. And then, obviously, we have opportunities with Mountain Dew that we have highlighted for quite some time.

Now, some of the innovation that we've put on the market early innings by both the Dirty Mountain Dew and Baja and Cabo, different flavors on the Mountain Dew, are starting to grow the brand, which is very encouraging for us. And then, on the Pepsi business, we're lapping some of the events that happened last year. We continue to see no-sugar Pepsi growing ahead of competitors. And we're optimizing pricing, sizing on the rest of the business to participate in a better way in the – during the summer period. So, overall business, we feel good about the 9% top line growth and how we're participating in different segments of the category to drive the growth for PBNA.

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



Thanks, operator, and good morning, everyone. I wanted to ask a follow-up on PFNA. You mentioned in the prepared remarks that you expect sequential improvement for the division in 2026. So, I just wanted to clarify if that was a broad-based comment or should we expect organic sales to continue to show improvement relative to the 1% growth that you delivered this past quarter? And I guess, if it's the latter, can you maybe provide some guardrails around what to expect as we think about the balance of the year? Thanks.

Ramon L. Laguarta

Chairman & Chief Executive Officer, PepsiCo, Inc.



Yes. I mean, our current assumptions is we continue to accelerate organic – I mean, first volume. We continue to grow volume, which is consumption units into the brand's consumption act. We'll continue to accelerate organic and reported revenue growth. Siete becomes organic as of next quarter, I think. And then, we'll – our intentions and how we're thinking about the balance of the year is growing our profit growth in North America Foods again. That's how we're thinking about the business sequentially.

Now, Steve mentioned that we're going to manage the business as part of the broader portfolio. We're going to continue to be on the attack, trying to make sure that we stabilize the top line, and we continue to make this category, the savory snacks category growing ahead of foods and making this a place where both us and the retailers want to invest and continue to grow for the future.

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.



Great. Good morning, everybody. Ramon, recognizing that it's still early in the PFNA momentum rebuild, I guess, have you seen any meaningful change at all in competitive intensity, whether pricing promotions or on-shelf behavior? And I guess, given the incrementality of building cost inflation, how do you think the food industry broadly will balance what our clear consumer affordability concerns with producer needs to offset costs? Is there a chance that that could interrupt your own affordability investments or I guess, conversely, does that – are you looking at that as a potential natural limitation on the risk of more aggressive competitive pricing response to your own actions as we build through the year? How are you thinking about those dynamics? Thank you.

Ramon L. Laguarta

Chairman & Chief Executive Officer, PepsiCo, Inc.



Yeah. I'm sure there will be, as we enter the high season for the category in the summer with all the big holidays, I'm sure there will be more competitiveness in the category, but we have our plans for this. It's not only price, it's trying to provide that. The growth strategy for Frito is not only price. Price is one element. Obviously, that is very relevant for many consumers to get back to our category, but is innovation, is execution, is making sure that all the elements in retail and away-from-home continue to be successful.

Now, with regards to the productivity story that we have, I don't know if our competitors have the same productivity story. But we've been focused on reducing cost – cost per unit and overall cost for the food business and all the North America business and across the company actually. And that has been a very successful strategy for us. We still have a lot of non-executed drivers of productivity in the coming quarters and years that

would help us continue to give consumers the right value and compete probably in a better way against the other food manufacturers.

So, that's how we're thinking about the next innings in the journey, and we'll see how inflation behaves. As Steve said earlier, we're going to play a full portfolio and want to make sure that we win in the marketplace with PFNA whilst we continue to deliver the overall profit growth targets for the full organization.

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

Robert Ottenstein

Analyst, Evercore ISI

Q

Great. Thank you very much. So, most of the focus today has been on the top line. I'm wondering if we could kind of dive into and you just started to touch on it a little bit, the productivity programs. I think you mentioned that you're on track to having perhaps a record year on productivity. So, can you talk about maybe the major buckets for productivity, what you're doing maybe differently this year than in prior years because you've obviously been focused on productivity for a number of years? And then, how you see that productivity gain scaling up through this year and into next year? Thank you.

Stephen Schmitt

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

A

Sure. Thanks for the question. This is Steve. Productivity is one of these never-ending battles that we're going to have. We are benefiting from some of the moves from last year, the reduced head count, plant closures, reduction in SKU count. It's encouraging to see key metrics like cases per hour in our supply chain continue to improve. So, we've got some things that are really working in our favor that allow us to play offense as much as we have to grow volume.

We're going to continue to remain very focused on customer service measures while we do this and reduce expenses. I think, overall, we have more work to do on the total company cost structure. It's little things that we'll look at, like just different things in the supply chain. It's like whether overtime hours are trending the way we want, the little details of how we're operating to make sure that we get the operating metrics really in line with where we need them to be to drive the productivity overall in the company. But we have good progress there. We have lots of work to do. And it's a big part of our strategy to make sure we continue to play offense.

Ramon L. Laguarta

Chairman & Chief Executive Officer, PepsiCo, Inc.

A

Yeah. And also, I would add, some of the big drivers that we've been talking about in the past, we continue to execute. So, global shared services, deploying technology across the company, and AI, both in our supply chain, but also in how we do transportation or we optimize routes. You think about, in many countries around the world, we're moving to digital ordering systems where we reduce the number – the time that our salesmen expect to take an order. And so, we're leveraging technology in a very holistic way and AI and data to drive efficiency and transformation of costs, not only efficiency across the system. Both supply chain and go-to-market are two big buckets. We're also optimizing our advertising and marketing. We're getting better at the multi-year journey on return on investment on marketing and trade. So, those are two big demand budgets that we're optimizing.

So, if you think about where we are in the journey, we're in the multi-year journey, and we're executing all these strategies across all of our anchor markets, obviously, including the US. And we're testing and learning the idea of

can we create more value, both growth and cost, by integrating more the supply chain in the US. And we're live in some tests in Texas, and we're -going to deploy that in some other states. That is another vector of cost transformation going forward that we're going to learn more in the next few quarters and update you guys later in the year, early next year.

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

Kaamil Gajrawala*Analyst, Jefferies LLC*

Q

Hey, guys. Good morning. Ramon, you had mentioned the very substantial increase in the number of occasions. Can you maybe dig into that a little bit more? Who are these consumers or what are those occasions? Are they different from the core? It just sounds like it was obviously quite a success so far. I'd just like to learn more about what's behind it. Thanks.

Ramon L. Laguarda*Chairman & Chief Executive Officer, PepsiCo, Inc.*

A

I'll give you a couple of examples, Kaamil, and so you can get a sense. Obviously, by optimizing the value in some of our multi-serve and multi-packs, both in Lay's, Doritos, Ruffles, et cetera, and also in Gatorade, we are bringing lapsed consumers into the brand. So, these are consumers that had left the brand, either moved to a – stopped buying the category or moving somewhere else. So, that is kind of growth in the core.

At the same time, if you think about the consumers that are coming into the category because of innovations like Naked or we're seeing already some – in some of the innovation from Gatorade with no artificials, low sugar, we're seeing consumers that were not in the category. But because they loved our favorites, now we're offering solutions with no colors – no artificial colors, no artificial flavors, and they are coming back to the category. So, two types of consumers coming into the category because both of a stronger core and also innovation that drives incrementality to the category. And I think we're going to continue to play both levers.

The other – obviously, that applies to both foods and beverages. And we will continue to do this not only in the US, but also in our international markets, where we're starting to deploy some of the innovation from the US. And we're seeing also an acceleration of the category, especially developed markets in Europe.

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

Chris Carey*Analyst, Wells Fargo Securities LLC*

Q

Hey, guys. Thanks. Just back to PFNA, way back to the beginning of the call on Bonnie's question, did you change your investment targets or goals for the business this year? And if so, where are you seeing greater opportunity to invest? And, Ramon, you flagged the World Cup as an activation event. What does a World Cup activation look like for PepsiCo, perhaps specifically for Frito? How is it different versus past events? And are you embedding any of that uplift in your outlook?

Stephen Schmitt*Chief Financial Officer & Executive Vice President, PepsiCo, Inc.*

A

Hey, Chris. It's Steve. Thanks for the question. The comments I was making earlier, I think, to Bonnie's question, is that we just want to give ourselves as much flexibility as possible to manage all of the sectors and all of our businesses to hit the numbers that we've given you with our guidance. So, that's what I was just trying to illustrate, is that we want as much flexibility. There's a lot happening in the world that we need to manage and navigate through. And so, we're going to give ourselves as much flexibility within the business to make the decisions that are right for the total company.

Ramon L. Laguarta

Chairman & Chief Executive Officer, PepsiCo, Inc.

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That's great. No, listen, and World Cup is a – obviously, we're sponsors on the food side across the world, and this is obviously a very big opportunity to engage consumers. This is a real passion point for many consumers. I mean, I'm a big fan of soccer, and I see how we feel at that moment. Now, it's very holistic. If you think about innovation, we're going to have flavors from around the world being executed in every market. Obviously, there's space gains, there's activations.

But most importantly, from the consumer occasions point of view, we're working on No Lay's, No Game, which is kind of an activity that – or a campaign that we've been executing globally for quite some time. We'll double down on that with some of our global football players. And the idea is link Lay's to the occasion of sports watching and making sure that when there is gatherings of consumers watching the game, this is activated. We're going to personalize, obviously, for different – we know more or less who supports what team, and then we're going to be able to personalize the communication to our consumers. We're going to have fan of the match. So, we're going to have different activations in every game, where our Lay's brand will nominate fans of the match. We're going to have Quaker participating as well in the event. As the players walk into the stadium, the little children will have Quaker brand, and that's going to be part of a restage of Quaker globally.

And then, obviously, we have partnerships with our retailers and quick delivery partners around the world to make sure that we capture those occasions in the moment, and consumers have the opportunity to order Lay's and to order some of our drink combinations to enjoy the game with friends. So, a lot of occasion development, a lot of brand awareness, a lot of personalization, and some innovation to drive excitement across the world. Obviously, space gains and retail partnerships.

So, it's a very holistic activation across the world. I think, especially for countries where per caps are low, this is a huge idea for us to bring new consumers into the brands and also to develop frequency and some new occasions. So, we're excited, and we can already see the – some of the acceleration in some of the international markets because of this activation.

Ramon L. Laguarta

Chairman & Chief Executive Officer, PepsiCo, Inc.

So, thank you very much for your questions and your support. And thank you for the confidence you've placed in us in PepsiCo and look forward to further conversations in coming quarters. Thank you very much.

Operator: Ladies and gentlemen, this does conclude today's presentation. We thank you for your participation. You may now disconnect, and have a wonderful day.

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