Consumer Analyst Group of New York (CAGNY) Virtual Conference

Company Participants

- Ramon Laguarta, Chairman & Chief Executive Officer

Presentation

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Good afternoon, everyone. I'm Ramon Laguarta, I'm the Chairman and CEO of PepsiCo It is a pleasure to present a cognate this year. I'd like to focus my agenda on discussing how PepsiCo has evolved into an even faster, even stronger and even better company and how we expect to sustain that momentum in our business performance.

But before I get started, I would like to take a brief pause and ask that you please take note of our cautionary statement.

I'll focus my agenda on providing some background on our business, our strategic framework, the results we have delivered against that framework and conclude by discussing our priorities and value-creation proposition.

Before we get into the presentation, I would like to thank our highly experienced local teams and frontline associates who continue to focus on driving superior marketplace execution to serve both our customers and our communities. Our associates are the backbone of this organization. I could not be prouder of how they continue to manage through what has been an incredibly complex and volatile environment.

While many of you probably know us very well, I would like to start with an overview of our company and our businesses. PepsiCo is one of the largest beverage and convenient food companies in the world. With more than $79 billion in net revenue and more than $11 billion in core operating profit.

Our products are sold in more than 200 countries and territories. And we have a diverse portfolio of large iconic brands, that consumers know and trust including Pepsi-Cola, Mountain Dew, Gatorade, Lay's, Doritos, Cheetos, and Quaker, just to name a few. And we have a very clear vision of how we can create growth and value for the planet and for the people with our recent launch of pep+.

From a category perspective, our businesses have complementary characteristics, including consumers, customers, shoppers and locations. We are the market leader in convenient foods and hold a leadership position in savory snacks with opportunities to expand our presence within macro snacks and convenient meals.

We hold a strong #2 position in beverages globally, with a solid representation in all LRB categories and seek to expand our businesses into other beverage occasions. 60% of our global net revenue is derived from North America, while 40% is derived from our international markets. Our top 10 markets account for over 80% of our global net revenue with the U.S. being our largest market.

Our North American beverage business is the largest contributor to our net revenue, while our Frito-Lay North America business is the largest contributor to our core division operating profit. Our international businesses span across many markets and have a long runway for growth. Currently, Europe and Latin America are the largest contributors to our international net revenue. But we do expect AMESA and APAC to become a larger part of our international revenue over time.

Our core division profit margin is greatly influenced by category mix and our choice to own or franchise our bottling operations. For example, our strategic decision to own and operate a substantial portion of our bottling operations in North America and Russia are important factors to consider when analyzing our core division operating margin at PBNA and in Europe. Within North America, most of our beverage and convenient food products are primarily distributed via our company-owned direct store delivery system, while certain products are distributed via a warehouse delivery system.

Product velocities, market share and scale, category dynamics and, of course, return on investment are all important factors that go into considering the appropriate go-to-market distribution system. The same principles also apply to our international businesses.

I will now shift my focus to the continued implementation and execution of our strategic framework. Three years ago, we embarked on a mission to become the global leader in beverages and convenient food by winning with purpose and becoming a faster, stronger, and better organization. Faster meant winning in the marketplace, becoming more consumer centric and accelerating investment for top line growth. Stronger meant developing capabilities that can give us a competitive advantage with technology and digitalization at the center. Building a differentiated culture and driving productivity through holistic cost management. And better meant integrating purpose into our business strategy and becoming leaders towards building a more sustainable food system.

To mark on this mission, we developed a set of principles called the PepsiCo Way, which primarily involves taking a consumer-centric lens into everything that we do, empowering our employees to act like owners and making diversity a competitive advantage. The heart of this agenda includes investing in our people and making PepsiCo a diverse and great place to work.

Our culture and values also extend beyond our people to the planet with our launch of pep+. The goal of pep+ is to transform the way we create growth and value by operating within planetary boundaries and inspiring positive change for the planet and people in the global food system. Pep+ drives action and progress end-to-end across three key pillars: positive agriculture, positive value chain and positive choices.

We also took decisive action and fine-tuned certain operating models throughout our organization to become more agile, nimble, connected end-to-end and consumer centric. In North America, this included a new operating model for our beverages business, which enhanced our focus on execution at the local market level. It also included the creation of PepsiCo Foods North America, which has improved collaboration and agility around innovation and productivity initiatives at Quaker Foods and Frito-Lay.

In our international markets, we realigned our reporting structures within Asia, Africa and the Middle East to focus on local relevance and consumer centricity for this very large and diverse populations and cultures. We also delayered our organization in all our divisions by shifting resources from the center to local markets to enhance our expertise and local execution capabilities. These models have clearly helped us navigate the complexities created by the global pandemic in the last two years with superior marketplace performance.

To build on the changes we employed to our culture and organization, we prioritized our actions to accelerate top line growth and enhanced our competitive advantages. This actions included numerous investments and initiatives to support our faster, stronger, and better framework and I will now take you through some very specific examples.

To become a faster organization and accelerate growth, we invest into 45 our global brands and businesses. For example, we bolstered our global advertising and marketing spend, reflecting investments across our large brands, such as Lay's, Doritos, Pepsi, and Gatorade within beverages and convenient foods.

We also invested in advancing our in-house content creation and automation capabilities to deploy targeted higher return on investment and marketing programs in a manner that is both efficient and scalable. We added manufacturing lines to capture new demand spaces and unlocked capacity for constrained products. The expanded capacity has enabled us to be more responsive to the evolving needs of our customers and consumers in areas such as variety packs.

We are envisioned our workforce of the future by matching jobs and global talent more effectively to maximize efficiencies and free up resources to focus on new capabilities. We also added routes, merchandising racks and people, as well as leverage technology to make our go-to-market systems more flexible to satisfy heightened consumer demand with greater precision and efficiency. And we continued to automate and digitize our supply chain to help reduce bottlenecks and enable greater agility and speed-to-market for breakthrough innovation. As a result of all this investment, we've seen a consistent acceleration in the net revenue growth of our large global brands.

Another key initiative has been to invest behind meaningful consumer-centric innovation. We've expanded variety pack and multi-pack offerings to satisfy heightened consumer demand, while also providing positive choices for the consumer on our larger brands with sustainable packaging, zero sugar, baked and lightly salted options. We also have invested to create smaller brands to participate in fast-growing new consumer segments such as bubbly and Off The Eaten Path, amongst some others.

And we've continued to refresh our products with great-tasting flavors and textures for our convenient foods, while also expanding our presence to satisfy the demand for energy drinks, which remain a fast-growing and highly profitable category. Innovating to extend our brands further within beverages and into convenient foods by targeting new occasions has also been an important facet of our approach.

Within beverages, we've extended our presence in the energy category with our Mountain Dew brand, while expanding options in the coffee category with our Starbucks partnership. We've also entered a new business venture with The Boston Beer company to distribute Hard Mountain Dew.

Within convenient foods, we've extended our Doritos franchise into Tacos and our Cheetos franchise into the popular and convenient Mac 'n Cheese category, while also innovating with inconvenient meals with Rice-A-Roni and Pasta Roni.

To further strengthen our -- and enhance our portfolio, we've made highly strategic acquisitions over the last few years, including SodaStream, Rockstar, Be & Cheery, PopCorners, Muscle Milk, Pioneer Foods and Bayer to expand our opportunities for growth and advance our capabilities in both developed and developing and emerging markets.

We entered new business ventures with Beyond Meat to develop producer market, plant-based protein products, and The Boston Beer Company, as I mentioned earlier. In addition, we recently completed our divestiture of Tropicana, Naked and other select juice brands to PAI Partners for approximately $3.5 billion in pre-tax cash proceeds and a 39% non-controlling interest in a newly formed joint venture that will operate across North America and Europe.

The next key facet of our strategy involves becoming a stronger organization by building advantage capabilities to stay ahead of the evolving consumer marketplace and set the stage for future growth. For example, we are digitalizing our marketing and consumer insights efforts to help make our consumer engagement more effective and efficient and we are simplifying and harmonizing our technology systems to connect and integrate various components of our global business.

Ultimately, we strive to better leverage technology and data analytics to capture data at a more granular level and ensure we have the right products in the right location at the right place or what we refer to as precision at scale.

To address the evolving retail landscape and how we engage with our consumers, we've continued to invest in building end-to-end advantage omni-channel capabilities, including flexible manufacturing platforms that can offer customization and variety and enhancing our transportation and logistics expertise to ensure our products travel efficiently from the plant to the consumer. By building an advantage backbone to support these initiatives, we've been able to launch and gradually scale our direct-to-consumer platforms with existing brands and assets such as Gatorade and SodaStream.

These platforms provide valuable consumer insights and data, which helps us tailor and enhance our engagement and offerings to the consumer. In 2021, our top 5 e-commerce markets delivered over $4 billion in estimated retail sales and expect us to accelerate our presence and build even additional capabilities that would enhance us to win in the marketplace well into the future.

To help find our capability investments, we've identified opportunities to become a leaner and more efficient organization and began managing our costs, as if they were an investment. This is what we refer to as holistic cost management. For example, we're reducing general and administrative expenses by leveraging standardization, digitalization, and global business services. We're redesigning frontline work by utilizing more technology and automation to drive agility and efficiencies, while also creating better jobs. And we're continuously rethinking our business processes by identifying key areas of waste throughout our value chain and applying best-in-class benchmarks and solutions to further cut costs. Our efforts will aim to deliver at least $1 billion in annual productivity savings through 2026.

To further complement and enhance our strategic framework, we introduced pep+, an end-to-end strategic transformation with sustainability at the center of how we will create growth and create value. From how we source ingredients to how we make and sell our products in a more sustainable way to how we inspire consumers through our iconic brands to make better choices for themselves on the planet. Pep+ is our roadmap for becoming the global leader in beverages and convenient foods and a leading actor in the transformation of the food system.

Pep+ focuses on three key pillars. The first pillar is positive agriculture. We're working to spread regenerative practices to restore the Earth across land equal to the company's entire agricultural footprint, which is approximately 7 million acres; sustainably source key crops and ingredients and improve the livelihoods of more than 250,000 people in our agricultural supply chain, all by 2030.

The second pillar is positive value chain. We're helping to build a circular and inclusive value chain with goals to achieve net-zero emissions by 2040, become net water positive by 2030, cut virgin plastic in our packaging by 50% by 2030, and progress against our more than $570 million investment in our racial equality journey.

And the third pillar is positive choices. We're continuing to evolve our portfolio of beverages and convenient food products so that they're better for the planet and for the people by incorporating more diverse ingredients in both new and existing food products that are better for the planet and are delivered nutritional benefits, prioritizing chickpeas, plant-based proteins, and whole grains.

Expanding our position in the nuts and seeds category, where we're already the global branded leader, accelerating our reduction of added sugars and sodium using science-based targets across our portfolio and cooking our food offerings with healthier oils, and continuing to scale new business models that require little or no single use packaging, including the global SodaStream business, an icon of a positive choice and the largest sparkling water brand in the world by volume.

Following the implementation of our strategic framework and investments in our business, our performance and results have meaningfully improved. Our annual organic revenue growth has accelerated from 2.3% in 2017 to 9.5% in 2021, while our core constant currency earnings per share growth accelerated to 12% in 2021. And as you will see on the next few slides, our strong performance is broad based across key categories, divisions and geographies.

Over the past few years, we've delivered on average mid-single digit organic revenue growth in North America and high-single digit organic revenue growth in our international markets, each of which represent a strong acceleration versus previous years. A key factor behind these results have been our marketplace execution. We've held or gained share in approximately 80% of our key savory markets and in approximately 70% of our key beverage markets, including Mexico, Russia, Brazil, China, Saudi Arabia, and Poland. And within our largest market, the U.S., we held or gained share in salty and savory snacks and carbonated soft drinks in 2021.

Our organic revenue growth also accelerated across beverages and convenient foods with our largest divisions in North America and our international developing and emerging markets, each delivering meaningful improvements. We believe that our investments to increase manufacturing capacity fortify our supply chain and continuous focus on consumer-centric innovation aided our strong results on marketplace execution.

Our investments in our people and products have also aided our success. We've invested to achieve a collaborative, inclusive and equitable workplace. As a result, our employee engagement and confident surveys have produced very favorable scores. In addition, we've made good progress in offering positive product choices to the consumer and we will continue our efforts to offer more choices with lower added sugar, sodium and saturated fat levels over time.

We're particularly pleased to see our efforts being recognized by our retail partners. For the sixth consecutive year, PepsiCo received the #1 manufacturer ranking in the latest Kantar PowerRanking survey, while also ranking #1 in all nine metrics in the survey over the last five years. This survey reflects our customers' view of PepsiCo as a valued partner and demonstrates the benefits of investing alongside our customers to help them drive growth. We also were awarded Best ESG Reporting and Corporate Governance Team of the Year for large-cap companies at the annual corporate governance awards for the second year in a row.

In addition, we're named amongst Newsweek America's Most Responsible Companies in 2021 and we're ranked #1 food, beverage, and tobacco Just Company by JUST Capital. I hope that you have a better understanding of our strategy and business performance.

Now, I will spend some time on our future priorities and how we look to create value for our shareholders over the long term. We remain encouraged about our growth prospects, as the categories we're competing are large and growing. Specifically, we compete in an addressable market that exceeds $1 trillion with our market share below 10%. So the opportunities for future growth remain vast. And our business priorities within this large and attractive categories remain consistent with our framework as we look to become an even faster, even stronger, and even better organization with pep+ at the center of our strategic transformation.

Specifically, we look to rationally outpace category growth across our businesses and channels by expanding the depth and breadth of our products and packages to capture new consumer occasions within beverages and convenient foods. We will also look to improve the core operating margin of PepsiCo Beverages North America by targeting profitable growth occasions that are beneficial to our product mix and become more efficient with our advertising and marketing spend.

In addition, we will look to drive greater manufacturing, supply chain and distribution efficiencies, while also accelerating our global business solution model to reduce general and administrative expenses.

We will continue to invest in people and technology and build advantage omni-channel, data and analytics and consumer insights capabilities, while also making targeted IT investments to modernize and harmonize our systems. We believe these investments will yield opportunities for growth and contribute to our target of at least $1 billion in annual productivity savings through 2026. And we will look to advance our culture and talent. We have numerous initiatives and investments in place to achieve an even more collaborative, inclusive and equitable workplace at which we focus to get things done fast, act like owners with very high levels of integrity.

Our capital allocation approach fully aligns with the priorities I've laid out. Specifically, we'll look to invest appropriately in our business; pay and grow our annual dividend; selectively consider acquisitions, partnerships and divestitures that meet very strict strategic and financial criteria; and repurchase shares while maintaining ample liquidity and access to top-tier commercial paper.

Our net capital spending as a percentage of net revenue has increased since 2018 with almost half of our capital spending directed towards growth initiatives in 2021. For example, we've added to and upgraded our fleet of vehicles to fortify our direct store delivery system. We have a plan to continue to expand our manufacturing capacity for many of our iconic brands to meet the evolving needs of consumers when it comes to convenience and packaging. We're accelerating the digitization of our supply chain. These initiatives look to unlock real-time inventory visibility, split sourcing and machine learning capabilities in order to minimize complexity in a rapidly evolving marketplace.

We're continuing to harmonize and simplify our technology systems, which will drive productivity and help enhance our trade promotional management, forecast accuracy and financial planning.

We have and will continue to allocate the net proceeds from our green bond to invest in sustainable plastics and packaging, decarbonization of our operations and supply chain and water sustainability. And we're investing in pep+ which requires rethinking and re-engineering our approach across our value chain to better serve our people and the planet. We believe our capital spending investments will better position PepsiCo to compete and win in the marketplace.

After ensuring that our businesses are well funded, cash dividends will remain a critical component of our total shareholder return proposition. We have demonstrated our commitment on this front by announcing our 50th consecutive annual dividend per share increase, while also repurchasing shares to reduce our share count.

In conclusion, I hope you have a greater level of confidence in our strategy and our aspiration to deliver strong organic revenue growth and longer-term value creation. And I want to emphasize that we remain confident in delivering against our long-term objectives, which include a 4% to 6% increase in organic revenue growth, approximately 20 to 30 basis points of core operating margin expansion and a high-single digit increase in core constant currency earnings per share growth.

With that, I'd like to conclude this presentation and thank you again for your time and attention today.