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# EDITED TRANSCRIPT

PEP - PepsiCo Inc Annual Shareholders Meeting

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## CORPORATE PARTICIPANTS

**Indra K. Nooyi** *PepsiCo, Inc. - Chairman and CEO*

**Tony West** *PepsiCo, Inc. - Executive Vice President, Government Affairs, General Counsel and Corporate Secretary*

## CONFERENCE CALL PARTICIPANTS

**Beth Vanderbeck** *Broadridge Investor Communication Solutions, Inc. - Inspector of Election*

**Christopher Demetropoulos** *Trillium Asset Management - Representative*

**Robert Thomas** *Holy Land Principles, Inc. - Representative*

## PRESENTATION

### Operator

Before we begin, please take note of our cautionary statement. This presentation includes forward-looking statements based on currently available information. Forward-looking statements inherently involve risks and uncertainties that could cause our actual results to differ materially from those predicted in such forward-looking statements. Statements made in this presentation should be considered together with the cautionary statements and other information contained in our 2016 annual report and subsequent filings with the SEC.

Also, to find reconciliations of non-GAAP measures that we may use when discussing PepsiCo's financial results, please refer to the Investors section of PepsiCo's website under the Events & Presentations tab and our Q4 2016 earnings release.

And now, please welcome the Chairman and Chief Executive Officer of PepsiCo, Indra Nooyi.

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**Indra K. Nooyi** - *PepsiCo, Inc. - Chairman and CEO*

Good morning, everyone. It's wonderful to see all of you. On behalf of our Board of Directors and senior management team, thank you for joining us either in person or via webcast for PepsiCo's 2017 Annual Meeting of Shareholders.

To everyone here in New Bern, thank you for showing us once again such a gracious welcome. This is our sixth consecutive year of returning to New Bern, the birthplace of Pepsi-Cola, and each and every time, you make us feel like we're coming home.

Let me begin by introducing our board members who are with us today. I'll ask each of them to stand as I read their names: Shona Brown, George Buckley, Cesar Conde, Ian Cook, Dina Dublon, Rona Fairhead, Richard Fisher, William Johnson, David Page, Robert Pohl, Darren Walker and Alberto Weisser. One of our board members, Dan Vasella, is unable to be here today, and I'd be remiss if I didn't say a word about Lloyd Trotter who is now retired from our board. Lloyd has not only been a wise counselor during his nearly 10 years on our board, he's also been a dear friend. And on behalf of the entire company, I want to thank him for all that he's done for PepsiCo.

With me on stage is Tony West, Executive Vice President, Government Affairs, General Counsel and Corporate Secretary. And let me also introduce the other members of our leadership team who are here with us today: Hugh Johnston, Vice Chairman and Chief Financial Officer (Hugh, just stand while your name is called here); Mehmood Khan, Vice Chairman and Chief Scientific Officer, Global Research and Development; Al Carey, Chief Executive Officer of North America; Ramon Laguarta, Chief Executive Officer of Europe, Sub-Saharan Africa; Laxman Narasimhan, Chief Executive Officer of Latin America; Vivek Sankaran, President and Chief Operating Officer of Frito-Lay North America; Kirk Tanner, President and Chief Operating Officer, North America Beverages; Jon Banner, Executive Vice President of Communications; Brian Newman, Executive Vice President, Global Operations; Cynthia Trudell, Executive Vice President, Human Resources and Chief Human Resources Officer; and Eugene Willemsen, Executive Vice President of Global Categories and Franchise Management.



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I'd also like to welcome the newest member of our leadership team, Jim Andrew, Executive Vice President, Corporate Strategy and Chief Venturing Officer. I feel good to be working for all of them.

And let me also say what a privilege it is to be joined once again by Jan Calloway, whose late husband, Wayne, a proud son of North Carolina, brought me to PepsiCo back in the 1990s when he was CEO of PepsiCo. Jan Calloway, welcome. Thank you for coming.

It's also wonderful to be joined again by Paul Finney, CEO of Pepsi Bottling Ventures, our largest bottling partner in North America, as well as Jeff Minges and his sons, Miles and Landon. Jeff, as you know, runs the Minges Bottling Group, our bottling partner here in New Bern and across eastern North Carolina. Jeff and Landon and Miles, welcome. Thank you. Thank you for everything you do for our partnership.

And thanks to all of you, our shareholders, for being here and for the confidence you've placed in us with your investment. We don't take that confidence for granted. We value the chance to come here and talk about what we're doing day in and day out to earn that confidence and to meet the responsibilities to all of you.

And this gathering is particularly meaningful to me because we're here to talk about our performance in 2016, which happens to be my 10th year as CEO. I must say it's been a rather eventful decade. We've faced a range of challenges from changing consumer preferences, to the 2008 financial crisis, to growing volatility and uncertainty in key markets around the world. But you know what? As I reflect on the past 10 years, I couldn't be prouder of what we've accomplished. We've made a great company even greater, delivering performance that surpassed the S&P 500. And we built that successful performance last year. We built on that successful performance last year, once again meeting or exceeding our financial targets. Specifically, organic revenue grew 3.7%, in line with our goal of approximately 4%. Core gross margins improved by 50 basis points while core operating margin improved by 80 basis points. Core net return on invested capital improved by 190 basis points to 21.5%. Core constant currency earnings per share grew 9% and free cash flow, excluding certain items, was strong at \$7.8 billion.

PepsiCo increased its annualized dividend for the 45th consecutive year beginning with our June 2017 payment and returned \$7 billion to our shareholders through share repurchases and dividends. Our spending on advertising and marketing as a percentage of sales increased by 40 basis points. We steadily increased our R&D investment for more than 10 years and in 2016, R&D spending was up 45% since 2011. 2016 also marked the fourth consecutive year innovation accounted for at least 8% of our net revenue.

You know what, I'm proud of these results and I'm even prouder of the way we delivered them, by embracing an approach we call Performance with Purpose, an approach, a governing philosophy that guides every decision we make. At its heart, Performance with Purpose is about securing healthy financial returns for our shareholders by building a healthier future for all our stakeholders. It's about transforming our portfolio so we can offer more of the healthier options consumers want. It's about making PepsiCo more environmentally sustainable so we can lower our energy and packaging costs but more importantly, get a license to operate in markets around the world. And it's also about promoting a healthier planet along the way. It's about recruiting and retaining world-class talent by fostering a healthier workplace and building goodwill in the communities we serve by lifting people up and lending a hand wherever we can.

Put another way, these 4 priorities: performance, our products, the planet and people, form a kind of virtuous circle because by making healthier products, promoting a healthier planet and investing in our people and communities, we can continue to deliver healthy performance.

And by continuing to deliver healthy performance, we can continue to make the investments we need to build a healthier future for all our stakeholders.

This is the approach we've taken over the past 10 years, and it has enabled us to deliver significant value for our shareholders just as we've been doing for decades.

In an era of accelerating change, we continue to offer steady, consistent leadership and steady, consistent returns.

To cite one example, our annualized total shareholder return since 1990 has been 11.4%. Since 2000, it's been 9.1% and since 2010, it's been 11.2%. In fact, if you've invested -- if you had invested \$100 in PepsiCo at the start of the new millennium, it would be worth \$439 today, more than twice



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as much as \$100 invested in the S&P 500, more than twice as much as \$100 invested in the S&P 500. And all of us know that it's not just about dollars and cents, it's about lives and livelihoods. Some years ago, we received a letter from a financial adviser who represented a couple with some PepsiCo stock. I'd like to read you a brief excerpt.

"To whom it may concern," the letter begins, "I believe I have an interesting story for Pepsi, which dates back to 1958. My clients, Mr. and Mrs. Z, invested \$2,413.44 in 100 shares of Pepsi on October 29, 1958, October 29, 1958. Today, the original investment is worth \$1,273,838, plus Mr. and Mrs. Z took the dividends all these years, Mr. and Mrs. Z are still here going strong at 91 and 93.

By focusing on the business and the value of the stock, their grandchildren have their college and future education secured."

That story captures why we do what we do at PepsiCo, the people, the shareholders, those interests we are fighting to advance each and every day. And yet, the value we generate extends beyond the rise in our stock price. It can be measured in the production lines of our bottlers, the orange groves and potato fields of our farmers and growers and the shelves of our retail partners. It can be felt in the lives of the more than 200,000 men and women I'm proud to call fellow associates who live and work here in North Carolina, across all 50 states in our country and more than 200 countries and territories we serve around the world.

Simply put, the value we generate can be felt in the neighborhoods we call home. You see, you're not just our shareholders, you're our neighbors, you're our friends, you're our family. Your communities are our communities and we want to make sure all of us can thrive. I'm proud to say that that's a standard we have felt in 2016 also, and we've already gotten to work making sure we build on our progress in 2017.

So with these opening comments, let me turn it over to Tony West. Tony?

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**Tony West** - *PepsiCo, Inc. - Executive Vice President, Government Affairs, General Counsel and Corporate Secretary*

Thank you, Madam Chairman. I am pleased to report that a majority of votes entitled to be cast at this meeting are represented today in person or by proxy and therefore, we have the necessary quorum under North Carolina state law and our bylaws. If anyone has not yet voted and would like to do so by ballot during this meeting, please raise your hand. Okay, we see some hands here. We have staff assistants who will distribute these ballots to you. If you keep your hands raised so that they know to give you a ballot. Now these ballots must be completed and returned before the inspectors of election announce the closing of the polls. And we'd ask that you please remember to vote on all items, not just those on which you may want to change an earlier vote. Please also remember to print your name clearly and sign your ballot. If you've previously voted by proxy, you don't need to vote today unless you wish to change a previous vote. And if you do have a legal proxy, please hand it in with your ballot.

The ballots and proxies will be held in the possession of inspectors of the election, that's Beth Vanderbeck and Viv Stapleton from Broadridge Investor Communication Solutions. They have previously taken their oath as inspectors of election at this meeting. Ms. Vanderbeck and Mr. Stapleton, please stand up or raise your hand so that you can be identified.

Now consistent with state law and our bylaws, a list of the shareholders entitled to notice of this meeting is available for inspection at the registration desk throughout the meeting. Madam Chair?

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**Indra K. Nooyi** - *PepsiCo, Inc. - Chairman and CEO*

Now that we have a quorum, I declare this meeting to be duly convened for purposes of transacting such business as may properly come before it in accordance with state law and our bylaws. It is now in order to proceed with the meeting. Would the inspectors of election please open the polls?

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**Beth Vanderbeck** - *Broadridge Investor Communication Solutions, Inc. - Inspector of Election*

I hereby declare the polls to be open.



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**Indra K. Nooyi** - *PepsiCo, Inc. - Chairman and CEO*

We have 6 agenda items this morning. The first is the election of directors; the second is the ratification of the appointment of KPMG LLP as the company's independent registered public accounting firm for fiscal year 2017; the third is the advisory approval of executive compensation; the fourth is the advisory vote on the frequency of future advisory approval of the executive compensation. And 2 shareholder proposals will then be voted on if properly presented.

In proceeding with the meeting, we will introduce all agenda items and then we will open the floor to questions relating to the agenda items only. I ask you to hold all questions on our agenda items until we actually open the floor, and please direct your questions only to me.

The proponents of the shareholder proposals or their representatives will have 5 minutes to present each shareholder proposal. After 5 minutes, you will hear this chime, and that's your indication the time is up.

Because we did not receive notice in accordance with our bylaws of any additional matters to be considered, no other proposals or nominations may be introduced at this meeting.

After we address any questions regarding the agenda items, we will collect all the ballots and then ask our inspectors of election to tabulate the voting results. At the end of the meeting, we will open the floor to general questions. You should have a copy of the rules of procedure that we will follow in the conduct of this meeting, and we appreciate your cooperation. I have asked Mr. West to address any issues that arise under those rules.

So let's begin with our first agenda item, which is the election of directors. I place before the meeting, to serve as directors for the upcoming year, the 14 individuals whose names and biographies appear in our proxy statement. Our board recommends a vote for each of the nominees for Director.

Our second agenda item, the ratification of the appointment of KPMG as the company's independent registered public accounting firm for 2017, which I place before the meeting. Doug Ruud is here with us, representing KPMG, and will be available to answer questions or make a statement if he would like to do so later in the meeting.

Our board recommends a vote for the ratification and appointment of KPMG as PepsiCo's independent registered public accounting firm for 2017.

The third agenda item is the advisory vote to approve the compensation of the named executive officers identified in our proxy statement, which I place before the meeting. Our board recommends a vote for the advisory resolution to approve executive compensation.

The fourth agenda item is the advisory vote on the frequency of future shareholder advisory approvals of executive compensation, which I place before the meeting. Our board recommends a vote of every 1 year with respect to how frequently a shareholder advisory approval of the compensation of named executive officers should occur.

We'll now move on to the shareholder proposals in the order that they appear on the agenda. Each of the shareholders or their representatives will present their respective proposals.

Now we turn to our first shareholder proposal submitted by Trillium Asset Management LLC on behalf of Susan Meade; The Sustainability Group on behalf of the William B. Perkins Trust; Domini Social Investments LLC on behalf of Domini Social Equity Fund; The School Sisters of Notre Dame Cooperative Investment Fund; The Benedictine Sisters of Baltimore; and Benedictine Sisters of Mount Saint Scholastica, Inc.

Would Chris Demetropoulos, the representative of the proponents, please introduce himself and the proposal. Chris?

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**Christopher Demetropoulos** - *Trillium Asset Management - Representative*

Good morning, Ms. Chair, members of the board and fellow shareowners. My name is Chris Demetropoulos with Trillium Asset Management, which along with The Sustainability Group of Loring, Wolcott & Coolidge, The Benedictine Sisters of Baltimore, The Benedictine Sisters of Mount St. Scholastica, Domini Impact Investments and School Sisters of Notre Dame Cooperative Investments Fund, filed proxy item 5.

Representing asset owners with a commitment to integrate environmental, social and governance issues into our stock selection process, we applaud Pepsi's commitment to sustainable business practices and are pleased to be shareowners. However, we believe the company has not adequately addressed the impacts that pesticide use in the supply chain can have on humans and health of the pollinators.

Because of this deficiency in Pepsi's actions and reporting, I hereby move this proposal, which asks the company to report on strategies and options they can take to protect against risk by tracking and reducing the amount of pesticides used in its supply chain.

We believe taking such action would serve the long-term interest for the company, including business risks associated with potential disruption of food supply chain due to the loss of pollinators as well as competitive reputational risks. These and other pollinators play a significant role in global food systems and face well-documented risks from pesticide usage.

Approximately 1 of every 3 bites we eat comes from plants pollinated by honeybees. Further, Pepsi is a major purchaser of crops which are highly dependent on pollinators. As a result, the sharp declines in the number of pollinators recorded in the U.S. and Europe pose risks to Pepsi's supply chain. This is the third year a proposal on this topic has been filed. In that time, scientific and consumer concern continues to grow and peer companies have responded. Unfortunately, Pepsi has not. Its reporting on its pesticide use more broadly is out of step with the rising concerns from consumers and health professionals regarding the use and exposure to such chemicals.

According to a 2015 consumer report survey, 89% of people think it is critical to protect the environment from chemicals and 86% think it is critical to reduce pesticide exposure and support fair working conditions. And in July 2016, prominent health providers and scientists released a scientific consensus statement calling for a significant reduction in exposures to harmful chemicals. The group cited linkage between neurodevelopmental disorders in children and exposures to organophosphate pesticides, in particular, used in food production. Several of Pepsi's peers which are mentioned in the shareholder proposal are disclosing strategies to improve programs and some have begun to describe plans to improve pollinator health. As investors, we're concerned that Pepsi's inaction could pose business and reputational risks. Pepsi's sustainable farming initiative has the potential to provide a framework to address this issue but currently, it does not. Unilever, in contrast, disclosed its results related to a sustainable agricultural code in this way. Unilever expects growers to implement practices to reduce pesticide use. In 2012, Unilever began collecting data from farmers, including pesticide use metrics, and found that farms that implemented integrated pest management and other pest -- integrated pest management programs reported using 1 kilogram less pesticide per ton of crop than those that did not, with no loss in crop yields.

In closing, widespread public and scientific concern about environmental and public health impacts from bee-harming pesticides and other pesticides pose risks to our company's food supply chain. Company peers are providing much more disclosure on strategies and actions. We would like Pepsi to do the same. Thank you for your time and consideration.

**Indra K. Nooyi** - *PepsiCo, Inc. - Chairman and CEO*

Thank you, Chris. Thank you for coming to our meeting. As we discussed last year, we recognize that pesticides is an important issue within PepsiCo's supply chain, no question about that. That's why as a company, we are focused on promoting sustainable agriculture, including the responsible use of agrochemicals and expanding our sustainable farming initiative. And through our policies and initiatives, we aim to optimize the use of pesticides, nutrients and other agrochemicals and support sustainable practices that substitute natural controls for some agrochemicals and foster overall ecosystem balance.

In addition, pesticide use is regulated by agencies responsible for ensuring public safety. And we require that all of our suppliers comply with all laws and regulations applicable to their operations. And our sustainable agricultural policy sets standards of performance and expectations for

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our growers across our diverse global supply chain, including compliance with governmental laws, regulations and industry standards. And this policy also includes a broad-based objective specifically addressing agrochemical and nutrient management.

We've also developed sustainable farming initiatives to be a comprehensive framework to gauge environmental, social and economic impacts associated with our agricultural supply chain. And through this initiative, as a company, we're taking a holistic approach that addresses a wide variety of interconnected issues, including the one you raised today.

Agrochemicals are one of the 16 indicators in the SFI framework through which we gather information on pesticide management and application, including measures to enable safe, legal and responsible use while minimizing agriculture application.

I must say, we are proud of our consistent public disclosure on a wide range of critical environmental, social and governance issues impacting our business. Our sustainability disclosures are designed to be interconnected, something that we feel is very important to ensure a holistic approach to sustainable agriculture and avoid the unintended consequences of focusing on any one issue in isolation. And we believe our resources will be better used in the continuation of our current policies and practices regarding our supply chain impact. And we believe these policies and practices address the concerns that you raised in your proposal. For these reasons, we recommend that shareholders do not support this proposal.

The second shareholder proposal on the ballot was submitted by Holy Land Principles Inc. Would Robert Thomas, the representative of the proponent, please introduce himself and the proposal?

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**Robert Thomas** - *Holy Land Principles, Inc. - Representative*

Good morning, Madam Chairman and everyone else here. I rise to move the resolution on the Holy Land Principles. My name is Robert Thomas from Fredericksburg, Virginia. The Holy Land Principles are pro-Jewish, pro-Palestinian and pro-Pepsi. The Principles do not call for quotas, reverse discrimination, divestment, disinvestment or boycotts. The Principles do not take any position on solutions to the Israeli-Palestinian issue. The Principles do not try to tell the Palestinians or the Israelis what to do. The Holy Land Principles only call for fair employment by American companies in Palestine-Israel. Let me repeat that. The Holy Land Principles only call for fair employment by Pepsi and the other 547 American companies doing business in the Holy Land.

Irrespective of what Americans think about the Palestine-Israel issue, one thing is certain. Americans expect American companies in the Holy Land to practice fair employment. Yet, incredibly, before The Holy Land Principles were launched in 2012, the issue had never been brought before Pepsi or any other of the 542 American companies doing business in Israel-Palestine.

Our resolution calls on Pepsi for the second time to set the standard by signing and implementing The Holy Land Principles which are based on the very effective MacBride Principles for Northern Ireland.

Initially, American companies resisted the MacBride Principles in Northern Ireland, but now, 116 companies have signed on to these principles. So why would Pepsi or any American company refuse to sign The Holy Land Principles?

In 2015, GE, Corning and Intel tried to get the SEC to exclude The Holy Land Principles resolution from their 2015 proxy materials. However, the SEC ruled in favor of The Holy Land Principles. Therefore, you may know The Holy Land Principles are intrinsically valid, inherently fair and reasonable and in the best American tradition. Furthermore, The Holy Land Principles are fully consistent with ESG issues and are a practical and particularized application of the Ruggie principles.

Fair employment by the company is not only morally right but makes good economic sense, good for the company, enhancing its reputation and making it more profitable for its investors. Signing The Holy Land Principles will send out the very strong message that Pepsi is, in principle and in practice, committed to American fairness in its operations in the Holy Land. Who could be opposed to that?

Please vote for The Holy Land Principles, it's the American way. God bless America.





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**Indra K. Nooyi** - *PepsiCo, Inc. - Chairman and CEO*

Thank you, Mr. Thomas, and thank you for coming to our shareholder meeting. As we discussed last year, PepsiCo already has robust and comprehensive policies and procedures that promote equal and fair employment practices, diversity and inclusion and respect in the workplace. Our global antiharassment, antidiscrimination policy sets forth a zero-tolerance policy towards any type of harassment or discrimination. PepsiCo's values and global code of conduct reinforce this policy. Our code prohibits discrimination or unfair treatment in matters that involve any term or condition of employment and provides that employment decisions must always be made based on merit, qualifications and job-related performance. Our code also prohibits harassment or conduct of any kind that creates an intimidating, offensive or hostile work environment. Respecting human rights is fundamental to PepsiCo's values, policies and business strategy. It's fundamental to us. As a signatory to the UN Global Compact, our policies, operations and strategies support universally accepted principles, including those for human rights and labor standards.

Our new Performance with Purpose 2025 goals include advancing respect for human rights. We believe PepsiCo's global policies and practices in the areas of equal opportunity, human rights and diversity already address the goals of this proposal and that our policies work best when they're applied in a consistent manner across each of the markets in which PepsiCo operates. Therefore, the board recommends that shareholders do not support this proposal.

Are there any questions about any of the agenda items we just reviewed?

We will open the floor to general questions on other topics at the end of the meeting. As a reminder, in order to accommodate all of you who wish to pose a question, each shareholder will be limited to 3 minutes for questions or comments. And after 3 minutes, you will hear the chime indicating that your time is up.

Has everyone who wishes to vote done so? Are there any outstanding ballots at this time? Please raise your hand and we'll collect them. And I'll remind you to vote again on every item.

We're okay? Okay. We now seem to have all the ballots. And since all those desiring to vote have done so, I will ask our inspector of elections to close the polls. Ms. Vanderbeck and Mr. Stapleton?

**Beth Vanderbeck** - *Broadridge Investor Communication Solutions, Inc. - Inspector of Election*

I now declare the polls closed.

**Tony West** - *PepsiCo, Inc. - Executive Vice President, Government Affairs, General Counsel and Corporate Secretary*

The responsibility of the inspectors of election is to tabulate the voting results and they will begin to do so now while we take a brief break.

**Indra K. Nooyi** - *PepsiCo, Inc. - Chairman and CEO*

And while votes are being tabulated, we wanted to show you a video about your company, PepsiCo.

(presentation)

**Indra K. Nooyi** - *PepsiCo, Inc. - Chairman and CEO*

Tony West, the Secretary, will now announce the preliminary results of the balloting. Mr. West?





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**Tony West** - PepsiCo, Inc. - Executive Vice President, Government Affairs, General Counsel and Corporate Secretary

Thank you, Madam Chairman. I'd like to report the preliminary results of the voting. I remind everyone that holders of our common stock and the holders of our convertible preferred stock vote together on all matters as a single class.

With respect to the nominees for Director, I'd like to report that all Director nominees have been duly elected by the affirmative vote of a majority of the votes cast.

Ballot item #2, the appointment of KPMG LLP as our independent registered public accounting firm for 2017, that has been ratified by the affirmative vote of approximately 98% of the votes cast.

Ballot item #3, the advisory vote on executive compensation, that has been approved on an advisory basis by the affirmative vote of approximately 94% of the votes cast.

Ballot item #4, regarding the advisory vote on the frequency of future shareholder advisory approval of executive compensation, the frequency option of every 1 year received the most votes, representing approximately 90% of the votes cast.

Ballot item #5, a shareholder proposal regarding pesticide pollution, that has received the support of approximately 9% of the votes cast and thus, did not receive enough votes to pass.

Ballot item #6, a shareholder proposal regarding the implementation of the Holy Land Principles, that has received the support of approximately 3% of the votes cast, and thus, did not receive enough votes to pass.

Again, I remind you that these are preliminary voting results, and final results will be available after the votes have been certified by our inspectors of election. The final results will be disclosed on a Form 8-K that will be filed with the U.S. Securities and Exchange Commission.

Madam Chair?

**Indra K. Nooyi** - PepsiCo, Inc. - Chairman and CEO

Thank you, Tony. All of the proposals eligible for consideration by the shareholders at this annual meeting have been presented, and the formal business portion of the meeting is now adjourned. I thank you all for your time and attention today.

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