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PEP - Q3 2016 PepsiCo Inc Earnings Call

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PRESENTATION

Operator

Good morning and welcome to PepsiCo's third-quarter 2016 earnings conference call. Your lines have been placed on listen-only until the question-and-answer session. (Operator Instructions). Today's call is being recorded and will be archived at www.PepsiCo.com.

It is now my pleasure to introduce Mr. Jamie Caulfield, Senior Vice President of Investor Relations. Mr. Caulfield, you may begin.

Jamie Caulfield - *PepsiCo, Inc. - SVP of IR*

Thank you, operator. With me today are Indra Nooyi, PepsiCo's Chairman and CEO, and Hugh Johnston, PepsiCo's CFO. We will lead off today's call with a review of our third-quarter 2016 performance and full-year outlook and then we will move on to Q&A. We have kept our comments brief this morning and intend to conclude the call by 8:45.

Before we begin, please take note of our cautionary statement. This conference call includes forward-looking statements including statements regarding 2016 guidance 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. Statements made on this conference call should be considered together with cautionary statements and other information contained in today's earnings release and in our most recent periodic reports filed with the SEC.

References to organic revenue results exclude the impact of acquisitions and divestitures, structural changes, foreign exchange translation and for the full-year 2016, the impact of the 53rd week. To find disclosures and reconciliations of non-GAAP measures that we use when discussing our financial results you should refer to the glossary and other attachments to this morning's earnings release and to the investors section of PepsiCo's website under the events and presentations tab.

As we discuss today's results, please keep in mind that our third-quarter comprises the 12 weeks ended September 3 for our North American operations and the three months of June through August for most of our operations outside North America.

Now it is my pleasure to introduce Indra Nooyi.

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

Thank you, Jamie. I am pleased to report our businesses continued to perform well in the third quarter. Specifically we had more than 3% organic volume growth in Global Snacks and more than 2% organic volume growth in Global Beverages. While foreign exchange translation continued to pressure our reported revenue results, we delivered more than 4% organic revenue growth which represents an acceleration from the first half.

We generated positive net price realization in total, we stepped up investment in our brands with A&M up 65 basis points as a percentage of net revenue and made incremental market place investments. We expanded gross and operating margins. We grew core constant currency operating profit 2% and up 6% excluding the impact of deconsolidating Venezuela. And core constant currency EPS grew 7% and up 11% excluding the Venezuela impact.

Our performance was well-balanced by market type. Our developing and emerging market businesses grew organic revenue 8% for the quarter with double-digit organic revenue growth in a number of markets including China, Mexico, Brazil and Egypt. Our developed markets grew organic revenue 3% led by Frito-Lay North America and North American beverages.

Year-to-date, our results are equally strong. Core constant currency operating profit grew 5% and up 8% excluding the impact of deconsolidating Venezuela. Core constant currency EPS grew 7% and up 11% excluding the Venezuela impact.

On the strength of our year-to-date results and our outlook for the fourth quarter, we have increased our full-year core EPS target to $4.78 from our previous target of $4.71 driven by the expectations and factors set out in this morning's press release.

In addition to our financial results, we are also delivering on other key performance metrics. Innovation ran at approximately 9% of net revenue in the quarter. Advertising and marketing is up another 60 basis points as a percent of net revenue year to date and execution metrics are improving across the board driving growth for us and our retail partners.

For example, the third quarter in the US which is our largest market, we were once again the largest contributor to retail food and beverage sales growth. We generated approximately 37% of all food and beverage retail sales growth, significantly higher than our food and beverage dollar share position of less than 10%. We generated more retail sales growth than all other $5 billion plus food and beverage manufacturers combined.

We are on track to deliver $1 billion in productivity savings in 2016 and we are on track to deliver $7 billion in free cash flow excluding certain items.

Our results reflect our commitment to Performance with Purpose, PepsiCo's vision to deliver top-tier financial performance over the long-term by integrating sustainability into our business strategy. When we launched Performance with Purpose in 2006, we opted not to view sustainability simply through the lens of corporate social responsibility. Instead, we charted a course rooted in the firm belief that in order to meet the changing needs of our consumers, exercise responsible stewardship for the environment and create an environment within our Company where each employee feels valued and can bring their whole selves to work, we had to transform the way we do business weaving sustainability into the way we make money.

A decade into our journey, that belief is being validated and is propelling our Company forward as this quarter's financial results demonstrate.

On the purpose side of Performance with Purpose, our first commitment was human sustainability, transforming our product portfolio with a particular focus on reducing sodium, saturated fats and added sugars while dialing up our nutrition investments and we are pleased with the progress we have made. As compared to 2006, we have reduced the average sodium in our food products by 11% per serving and removed more than 2300 metric tons of sodium from key global food brands in key countries.

We have reduce the average amount of saturated fat per serving by more than 15% in key global brands in a number of our major markets including the United States, United Kingdom, China and Turkey. We are making strides to reduce added sugars in our beverages through reformulation.

Our transformation efforts to date have resulted in a portfolio where we drive approximately 45% of our net revenue from products that we refer to as guilt free. Those products include diet and other beverages that are below 70 calories per 12 ounces and snacks with low levels of sodium and saturated fat. And a full 27 points of the 45 points is made up of what we refer to as every day nutrition which are products with positive nutrients like grains, fruits and vegetables, protein, unsweetened tea and water.

Our innovation focus reflects our commitment to portfolio transformation. Just to give you a few examples, recently we launched Quaker Super Goodness porridge sachets in the UK made with whole-grain oats, quinoa, barley and flax seed; introduced Carrot Pineapple Mango Tropicana Farm Stand in the US made with 100% fruit and vegetable juices and no added sugar.

Sabra built up the strength of our highly popular hummus and established a range of authentic products that include guacamole, salsa, baba ghanoush, and Greek yogurts dips and spreads. Sabra now generates approximately $800 million in estimated annual retail sales in the United States well on its way to becoming a $1 billion brand.

Our Naked superpremium fruit and vegetable juices and coconut waters are loved by consumers for their great flavor, all-natural ingredients and no added sugars or preservatives. We have doubled Naked's net revenue over the last six years and grown estimated annual retail sales to over $1 billion. We recently extended the Naked lineup with the introduction of Naked cold pressed juices.

Propel Water by the makers of Gatorade, a zero calorie sports hydration beverage enriched with the electrolytes and minerals is enjoying renewed success in North America with year-to-date volume up 6%.

We have also successfully expanded what we refer to as our guilt free product lineup. Pure Leaf Tea is an example, a premium line of ready-to-drink teas brewed and steeped simply and authentically from leaves picked at their freshest. Since this launch in 2012, Pure Leaf has grown to more than $650 million in estimated annual retail sales. We are now elevating Pure Leaf into a superpremium line under the Tea House collection.

Our Baked lineup is another example of how we are transforming our portfolio. Spurred by the success of Baked Lays, we have broadened our Baked lineup to include Baked Doritos, Baked Tostitos and Baked Cheetos and have expanded the lineup to nine international markets where there is a lot of opportunity for further growth and market expansion.

We recently launched Stubborn Soda, a new generation of premium crafted sparkling beverage that is just 90 to 100 calories per 12 ounces and is made with fair trade certified cane sugar and Stevia with no high fructose corn syrup.

So it is the breadth of our evolving product portfolio and our ability to innovate against it that enables us to generate consistent organic revenue growth.

Likewise under Performance with Purpose, our environmental sustainability agendas had positive impacts both on our business results and more broadly on the planet we share. By using fewer resources, water, packaging and energy, we are simultaneously shrinking our environmental footprint and reducing our operating costs. We have improved our water stewardship by adopting new technologies and processes which have steadily reduced our water use by unit of production and we have implemented integrated watership management in water stressed and water scarce areas.

As a result, today we are using approximately 25% less water per unit of production than we did when we embarked on Performance with Purpose.

In addition, we have supported growers in our value chain in their pursuits of better water use management and through the PepsiCo Foundation, we have successfully partnered to provide access to safe water for more than nine million people globally.

We are also using less packaging and generating less landfill waste. We have successfully reduced packaging weight and size and increased post-consumer recycled content in our packaging. By reducing packaging weight and size, we have removed almost 100 million pounds of packaging materials from the market in 2015 alone.

We have worked to increase the recycling rates of beverage containers among consumers and we have significantly reduced the amount of solid waste generated by our operations at the central landfills, achieving a rate of over 90% solid waste diversion away from landfills in 2015. And we have reduced greenhouse gas emissions by focusing on energy use and renewable energy and by modernizing our fleet with more fuel efficient vehicles, routing and capacity utilization. In fact compared to 2006, we have improved the energy efficiency of our legacy operations by 18%.

Taken together, our environmental sustainability initiatives have not only had a significant positive impact on our planet but they have also contributed to our productivity savings. Over the past five years, our sustainability initiatives have generated more than $600 million in savings because we are simply using fewer resources in our businesses.

Combining our environmental sustainability savings with those of our other productivity initiatives, we are generating more than $1 billion in annual productivity savings. These savings are both providing fuel for reinvestment in the business and contributing to consistent margin improvement.

We continue to invest in and promote initiatives to protect and support the safety, health, professional development and human rights for our global workforce. This includes promoting women's equal advancement and fostering a diverse and engaging culture that attracts the talent base needed to grow our high-performing business.

We view our sustained top tier results as a validation of our Performance with Purpose direction where we are balancing short-term results while ensuring PepsiCo remains successful for the long-term.

In the coming weeks, we will issue our annual sustainability report where we will share with you in much more detail our progress and accomplishments under Performance with Purpose. Just as important, we will lay out our sustainability vision and goals for the coming decade and our pledge to make our products more nutritious, our food system more sustainable and our communities more prosperous. In doing so, we will pave the way for PepsiCo's continued growth.

So with that, let me turn it over to Hugh Johnston. Hugh?

Hugh Johnston - *PepsiCo, Inc. - Vice Chairman and CFO*

Thank you, Indra, and good morning, everyone. As Indra mentioned, we are very pleased with our year-to-date performance. We are seeing a good mix of revenue and productivity within the P&L, driving the topline and margin results mentioned earlier and we continue to exercise strong cash flow management and capital allocation discipline.

As a result, in the third quarter, we once again shortened our cash conversion cycle in this case by almost 10 days compared to Q3 of 2015 and we maintained our net capital spending on a rolling four-quarter basis well within our target of 5% of net revenue.

I'm also pleased to report that we remain on track to return approximately $7 billion to shareholders in 2016 through a combination of $3 billion in share repurchases and $4 billion of dividends. During Q3 with the June payment, we increased our annualized dividends per share by 7% which marks our 44th consecutive annualized increase.

Looking to the balance of year as we mentioned, we increased our full-year core EPS target to $4.78 which incorporates the following: underlying core constant currency EPS growth of 10% excluding the impact of Venezuela; an approximate 2 percentage point negative impact from the 2015 Venezuela deconsolidation, and an approximate 3 percentage point negative impact from foreign exchange translation based on current market consensus which is an improvement of approximately 1 percentage point versus our July update.

Our outlook on the other metrics we provide remain unchanged from July and are set out in this morning's release.

For the analysts on the call as you update your Q4 models, you should consider the following factors, the inclusion of the 53rd week in this fiscal year will benefit our full-year revenue results by approximately 1 percentage point but is not expected to result in any impact to our core earnings per share as we intend to reinvest the benefit back into our business. Our Q4 foreign exchange outlook implies a moderation of the headwind as compared to what we have experienced year to date but this assumption is obviously subject to macro and geopolitical conditions which remain quite volatile.

Given the timing of our commodity hedges, we face a difficult year-over-year gross margin expansion comparison in Q4. While we are lapping a large increase in A&M spending as a percentage of net revenue in the quarter, we expect to continue to invest in A&M. And finally, while our full-year tax rate guidance remains unchanged, we will be lapping an unusually low core effective tax rate from Q4 2015.

So to summarize, our core constant currency earnings per share outlook for 2016 has improved from our last call and we continue our focus on disciplined capital allocation and cash returns to shareholders.

With that, operator, we will take the first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Dara Mohsenian, Morgan Stanley.

Dara Mohsenian - *Morgan Stanley - Analyst*

Good morning. So 10% full-year core EPS growth guidance for this year is really pretty impressive given the type of environment we are in and that even assumes you don't beat again in Q4 like you have been recently. It looks like much greater SG&A leverage is driving this year in particular when compared to the prior few years.

So albeit with one quarter left to go, I guess can you talk about what is driving that greater SG&A leverage particularly given it looks like A&M will be up again solidly this year? I am assuming the answer is productivity perhaps a bit less onerous FX, but on the productivity side, is the ramp up kind of sustainable versus the past years and how should we think about it going forward?

And then on the other hand on the gross margin side, obviously very strong expansion the last few years. It did slow a bit sequentially this quarter I am assuming with less favorable commodities. But as we look out to Q4 in 2017, perhaps you can give us some guidance around commodities and how that impacts gross margins? Thanks.

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

Dara, we are not going to talk about 2017 today. But let me just take a shot at the first question you asked and then Hugh, you might want to add whatever you want to.

On the SG&A leverage, it all starts first with topline growth. The minute you get good topline growth you get leverage on all of the other SG&A costs that we have in the P&L. So this quarter was a very, very good topline growth at 4.2. That is pretty significant and that gives us leverage to start with. Couple that with the fact that many of our productivity programs which we put in place very deliberately, it wasn't a productivity program where we just cut the cost for the sake of cutting the cost, we actually built the underlying capability so when we take out the costs, they come out for good.

So putting in the ERP systems, putting the right tools to ensure visibility across the Company, all of that took some money. We invested so that we could take out the costs permanently. And slowly by step-by-step, all of these costs are coming out in a very deliberate and a disciplined way. And so the combination of the two gives us the SG&A leverage.

The key thing to remember is that over a year or two years, the overall P&L works very well. Quarter-to-quarter you might have different aspects of the P&L delivering differently, one quarter might be gross margin, another quarter might be SG&A leverage. But I think over a long period of time, the P&L seems to be working quite well.

Hugh, do want to add anything to that?

Hugh Johnston - *PepsiCo, Inc. - Vice Chairman and CFO*

I think you covered most of it, Indra. Two small items that I would add that I think are worth mentioning. Number one, the investments we have made in technology are not just making our selling system more productive by putting not just handhelds in the hand of our route salesmen but actually putting iPads in the hands of our district managers enabling them to be more effective and to manage more basically with the same or less resources.

And the same is true of management more broadly in the G&A bucket by virtue of leveraging the technology advancements that are out there, we are making our management frankly more productive and that has enabled us to do more with less.

The other item that I would point to is we implemented smart spending really late last year and into this year and we are seeing the benefits of that whether it is across travel or consultants or facilities, we have gotten smarter with our spending. And as a result, you are seeing flow through of that productivity into margin improvement.

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

I think the part that we all feel good about is that the smart spending program, the emphasis was on smart. We wanted to make sure that we never cut into topline driving initiatives and I think we are succeeding doing that.

Operator

Bryan Spillane, Bank of America

Bryan Spillane - *BofA Merrill Lynch - Analyst*

Good morning, everyone. I've got a question I guess just related to if you can talk a little bit and give us some color on how especially developing in emerging markets sort of performed in the quarter and maybe whether or not you are beginning to see maybe some recovery or some stabilization in some markets? With oil prices up in Russia, it seems like we have heard the consumer a little bit better there. And just given the 5% organic sales growth you had in Europe, in sub-Saharan Africa and AMENA and 10% in Latin America, just can you give a little bit more color in terms of some of the performance there and whether you think maybe things have maybe stabilized or begun to bottom out there would be helpful. Thank you.

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

We are in a troubled global economic environment but in spite of that, I would say a lot of the emerging developing markets in Q3 showed some signs of improvement. Now whether they last or not we don't know but at this point, they are looking pretty good.

Russia, we did see some improvement. The Pacific Rim, good economies all from the entire -- [ASIAN] world if you want to put it that way. India is looking good. Even China is looking much better than it did in the early part of the year. I am just talking overall economic not just our business.

Then if you come over to Europe, Russia clearly we are seeing signs of improvement and this is even before the oil prices started to stabilize and improve. East Europe still looks all right; Western Europe is not getting worse so that is a good sign.

When you come to Latin America, look, we have good businesses there and there is no question Argentina had a troubled year. Brazil is having its share of troubles but I would say that overall the economy seemed to be holding up. But more importantly, our businesses seem to be performing quite well because retailers turn to us to deliver more of the growth because we have high velocity categories and we take labor off the [stool] through our DSD systems. So I think retailers are turning more and more to us to deliver a lot of the growth.

Overall I would say cautiously optimistic about emerging and developing markets.

Operator

Ali Dibadj, Bernstein.

Ali Dibadj - *Bernstein - Analyst*

So I have a set of questions about the balance between price and mix and volume and then just a question about bottling.

First, on the price mix part, would love to get your sense around North America and AMENA specifically so NAB volumes up which is great but assuming kind of innovation, there is a lot of [pre-innovation] it sounded like and that was good, channel shift for better weather would have suggested to me at least a little bit of a more positive price mix kind of tailwind as well.

But the price mix was only up 1% so I want to get a sense there. Negative price mix in AMENA continues, arguably getting a little bit worse given the easier compares. So just on those two, would love to get a sense of that.

Separately on bottling, I guess it is sort of related I guess, but on bottling, would love to get a sense of how you are thinking about the right structure from a bottling perspective given ABISAB got approved do you care about blue and red under one roof? Do you even mind?

And then if you go to North America specifically, have you seen any kind of competitive disruptions positive or negative in the Coca-Cola re-franchise move of the bottling? Sorry for a lot there, but thank you.

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

I'm just going to answer this last question and then toss it to Hugh to talk about price, mix and volume. We aren't going to comment about the ABI deal closing with SAB Miller and the consequences for overall partnership. But let me talk about the North American situation.

We are playing an operating game and we are pretty successful in playing a game where we own a large portion of our bottling system. We leverage part of one. Our retailers seem to be quite happy with the service that we are providing and we are driving a lot of growth for them because we are able to service them exceedingly well. That is our strategy and that is how we are going to continue going forward.

Let me turn it to Hugh to talk about price, mix and volume.

Hugh Johnston - *PepsiCo, Inc. - Vice Chairman and CFO*

Happy to. Good morning, Ali. Regarding North America, price mix was one but it was actually a strong one. I think the number was exactly 1.3. And that is as you said a combination of price mix. We are continuing to get good pricing in carbonated soft drinks. A couple of factors I would remind you of is we do have deflationary commodities right now so you are seeing a little bit less of that pricing flow through into retailers as we have deflationary commodities.

The other is we do have negative water mix going on so on the one hand, non-carbs were quite positive but a portion of that was water which is obviously from a price mix perspective negative.

So in total with the 1.3 of price mix that we got along with good productivity, you saw a profit of 10% in the quarter. So we think we've got a very healthy mix of pricing and productivity in that market right now and frankly we see nothing but rational pricing going on in the marketplace.

Regarding AMENA, a couple of factors there. Number one, we did see some bottlers reducing their concentrate inventories so the volume number that you see relative to the revenue number is in part driven by the fact that volume is driven by bottle a case sales and revenue is driven by concentrate shipments. So the numbers aren't quite as negative as they look in terms of what flows through the balance of the P&L.

In addition to that, the pricing was not particularly high in India both in the snacks and in the beverage businesses and those were both factors in the numbers for the quarter.

Operator

Bill Schmitz, Deutsche Bank

Bill Schmitz - *Deutsche Bank - Analyst*

Can you just talk a little bit more about the sources and sustainability of NAB growth? You are obviously doing a great job with Gatorade. It looks like the whole category is lifting quite a bit so I'm just curious how much of that is really good marketing and good activation versus maybe some favorable weather? And then perhaps September trend since the quarter ended so early this year?

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

I think NAB has been doing a great job in terms of innovation. Very sensible marketing programs and then execution has improved quarter by quarter and so I very proud of the NAB team.

Clearly Gatorade has done very well, marketing programs are good; execution is very, very good. It has been a good summer. All of those together did drive the growth of all beverages and definitely Gatorade.

As far as the rest of the categories go, we are playing the long game. We want to play the total beverage portfolio because we want to make sure that we go where the consumer is going. So teas are up, coffee is doing well, hydration is doing well, products like Kickstart which are sort of soft energy products, I would say are doing well.

I think overall the category is doing -- our business is doing quite well and we are gaining NAB share which is really our focus.

Lastly, our food service is doing well. It is an area that we underperformed in many years ago with the bottlers coming back and we have reinvested in food service and that is growing too.

So overall I would say innovation, incredible focus on execution followed by productivity. All three are delivering good results in NAB.

Hugh Johnston - *PepsiCo, Inc. - Vice Chairman and CFO*

Indra, the only thing I would add to that and Bill you mentioned it specifically, we didn't, but I would not overrate the impact of weather in the summer. While it is undoubtedly true it was a very hot summer, last summer was also a very hot summer so I'm not sure it was a particularly large overlap. You didn't hear us talk about whether in Q2 when it was cool in the spring, you won't hear us talk much about whether right now. We are focused on the things we can control as Indra mentioned in her opening.

Operator

Steven Powers, UBS.

Steven Powers - *UBS - Analyst*

Thanks. I was hoping you could help us bridge the margins particularly in your North American businesses which is where we saw the particular strength. Obviously you cited revenue management (inaudible) benefits as key drivers overall and I am assuming that that applies in Frito-Lay and NAB as well offset by those A&P investments.

But harkening back maybe to Dara's original question, can you size for us also the commodity tailwinds specifically in North American segments? Obviously overall they were inflationary but there they seem to have helped. I am just curious as to how much?

Hugh Johnston - *PepsiCo, Inc. - Vice Chairman and CFO*

Steve, good morning. This is Hugh. As we disclosed in the release this morning, North America had slightly deflationary commodities so from that perspective it was undoubtedly a tailwind but not a huge tailwind. The bigger drivers were number one, pricing as you saw and as I mentioned earlier, we had 1.3 in North America beverages, and snacks we had about 1.5 points to 2 points of pricing. And then the balance of it was really productivity whether it was continuing to expand our automation programs, continuing to leverage technology in SG&A, continuing to leverage smart spending to manage our non-labor costs and operating expense down, the big drivers were just flow-through off of that productivity to deliver the positive margin result while at the same time investing significantly more money in advertising and marketing to drive all of the product innovation that is enabling the top line.

So in sum, we really do have this virtuous cycle going that is typically a sign of success in the CPG space.

Operator

Kevin Grundy, Jefferies.

Kevin Grundy - *Jefferies LLC - Analyst*

Good morning. So two unrelated questions if I may. First, back to NAB, I was hoping you could comment on one specific aspect of the competitive environment and that is Monster's launch of Mutant which will be targeting Mountain Dew. So to the extent you can, expectations there and any specific spending or programs you may have in place behind the Mountain Dew brand.

Unrelated to that, you guys spoke to productivity and you have done a tremendous job there so we are a couple of years into the $5 billion program that you announced. Is it still your expectation that the remaining $3 billion will be realized fairly ratably through 2019? I know that a tremendous amount of uncertainty with respect to commodities and FX, etc. but how are you thinking today with respect to the flowthrough to earnings relative to advertising and marketing levels?

And then as productivity has become a bigger part of the Company's culture, how are you thinking about potentially exceeding that target? Thank you.

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

Kevin, I think first of all, we want to deliver on what we promised. So the five-year $5 billion program, that is a big productivity program and we are singularly focused on delivering that five-year $5 billion program and we are pretty confident we will. The first two years has been good and as is typical of us at PepsiCo, as we think about delivering the five-year $5 billion program, we are constantly looking for new ways to deliver more productivity. But at this point, it is five years, $5 billion and we are doing just fine along those lines.

In terms of Monster and Mutant, there can only be one Mountain Dew. I think there is only one Mountain Dew and we are focused on growing Mountain Dew and if I were you, I would go buy a Mountain Dew and enjoy it.

Operator

Robert Ottenstein, Evercore ISI.

Unidentified Participant

Good morning. This is (inaudible) for Robert. You mentioned on the release incremental investments particularly in Quaker, ESSA and AMENA and I was hoping you could clarify or provide some color around those please? Thank you.

Hugh Johnston - *PepsiCo, Inc. - Vice Chairman and CFO*

The incremental investments in those markets as well as elsewhere really fall into three categories. Number one is around advertising and marketing to support the innovation that we have launched. Number two is research and development to enable us to accelerate our innovation into 2017 and beyond. And number three is investments that will enable us to continue to drive productivity across the P&L.

So without getting into the specifics of each of those individual markets, those are the three big buckets in which we are investing.

Operator

(inaudible), Credit Suisse

Unidentified Participant

Good morning everyone. I do have a question regarding innovation. So you mentioned innovation representing about 9% of your net revenue. Could you give us a bit more color about the split between beverages and snacks or US versus international?

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

I think it is all balanced across the board and I would say in some of the emerging and developing markets, it runs higher than 9% because we take products developed in the developed markets and we send it there. But I would say on balance, it is plus or minus 1% around [9] in terms of emerging, developing and developed markets and then beverages and snacks.

So thank you all for your questions. In closing, let me just say that we are confident we can the right strategies in place and we are executing very well. We are pleased with our results for the quarter and year-to-date. We are on track to deliver our targets for the year and we look forward to sharing with you our sustainability vision and goals for the coming decade and the weeks ahead.

As always, thank you for the trust you have placed in us with your investment. We remain absolutely committed to increasing its value. Thank you.

DISCLAIMER