

THOMSON REUTERS STREETEVENETS

# EDITED TRANSCRIPT

PEP - PepsiCo Inc Annual Shareholders Meeting

EVENT DATE/TIME: MAY 02, 2018 / 1:00PM GMT



MAY 02, 2018 / 1:00PM, PEP - PepsiCo Inc Annual Shareholders Meeting

## CORPORATE PARTICIPANTS

**David Yawman** *PepsiCo, Inc. - Executive Vice President, Government Affairs, General Counsel & Corporate Secretary*

**Indra K. Nooyi** *PepsiCo, Inc. - Chairman of the Board & CEO*

## CONFERENCE CALL PARTICIPANTS

**Lisa Hoffman** *Representative for Kenneth Steiner*

**Beth VanDerbeck** *Broadridge Communication Solution, Inc. - Inspector of Election*

**Justin Danhof** *National Center for Public Policy Research*

## PRESENTATION

### Unidentified Company Representative

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 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 2017 annual report and subsequent filings with the SEC.

Also, to find explanations and reconciliations of non-GAAP measures that we may use when discussing PepsiCo's financial results, please refer to the glossary and other attachments to our Q4 2017 earnings release and to the "Investors" section of PepsiCo's website under the "Events and Presentations" tab.

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

---

### Indra K. Nooyi - PepsiCo, Inc. - Chairman of the Board & CEO

Good morning. Good morning, everyone. 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 2018 Annual Meeting of Shareholders. It's wonderful to be back in New Bern with all of you because this is our seventh consecutive meeting here in New Bern. It's always exciting to gather in the shadow of Caleb Bradham's old drugstore, the cradle of our beloved Pepsi-Cola. And I must say each visit is more special than the last.

But this year, 2018, is particularly special as it marks Pepsi's 120th birthday, adding that to the incredible milestone for one of the world's most iconic beverages and one of the world's most beloved brands. And while we've come a long way since Pepsi was known as Brad's Drink, we are as proud as ever of our New Bern roots.

So to everyone here in this town, it's an honor to join you for this historic celebration, and thank you, once again, for being such warm and generous hosts.

Let me begin by introducing our Board members who are here with us today. And I'll ask each of them to stand as I read their names: Shona Brown, George Buckley, Cesar Conde, Ian Cook, Dina Dublon, Richard Fisher, William Johnson, David Page, Robert Pohlad, Dan Vasella, Darren Walker and Alberto Weisser.

With me on stage is Dave Yawman, Executive Vice President, Government Affairs, General Counsel and Corporate Secretary. And let me also introduce other members of our leadership team who are here with us today: Ramon Laguarta, our President; Hugh Johnston, Vice Chairman and Chief Financial Officer; Laxman Narasimhan, Chief Executive Officer of Latin America and Europe Sub-Saharan Africa; Jon Banner, Executive Vice President of our Communications; and Ruth Fattori, Executive Vice President and Chief Human Resources Officer.



## MAY 02, 2018 / 1:00PM, PEP - PepsiCo Inc Annual Shareholders Meeting

Let me also say what a privilege it is to be joined once again by Paul Finney, CEO of Pepsi Bottling Ventures, our largest bottling partner in North America. Paul, welcome. And Jeff Minges and his sons, Miles and Landon. Jeff, Miles, Landon. Jeff runs Minges Bottling Group, our bottling partner here in Pepsi-Cola's birthplace and across Eastern North Carolina. Thank you for all you do day in and day out. For our partnerships with Paul and to Minges, thank you very much. And thank you to everyone who's here today. I want you to consider that -- I want you to know that I consider it not only a responsibility but a privilege to come here and tell you how we're honoring the trust you place in us, how we're making good on your investment.

Now I've been in business for roughly 40 years, and I've rarely seen a time so disruptive, as full of change in our industry and in all industries, as what we are experiencing today. I'm reminded of the words of a wise man. "Change," he said, "is the only constant in life." Change is the only constant in life. In the more than 50 years since Pepsi-Cola and Frito-Lay merged to form PepsiCo, we've done our best to heed those words, to adapt to change. We've continued to scan the horizon, strived to identify new and emerging trends and focused on making the necessary investments and strategic moves to navigate them successfully. And that's how we've delivered good returns that have grown consistently and sustainably year after year, decade after decade.

In fact, over the past 5 years, organic revenue grew at a 4% compound rate. Core constant currency EPS growth averaged more than 9% annually. Our annualized dividend per share increased by 50%. And we returned \$38 billion to shareholders through dividends and share repurchases combined.

And I'm pleased to say that we built on that progress last year. In 2017, we delivered organic revenue growth of 2.3%. We expanded core operating margins by 45 basis points. We grew core constant currency EPS by 9%, exceeding the 8% goal we set at the beginning of the year. We generated free cash flow, excluding certain items, of \$7.3 billion, exceeding our goal of approximately \$7 billion set at the beginning of 2017. We expanded core net return on invested capital by 140 basis points.

And we also met our goal of returning \$6.5 billion to shareholders through dividends and share repurchases combined while increasing our dividend for the 46th consecutive year -- a dividend increase that benefits nearly 2 million retail investors, many like you. And these results have generated solid shareholder returns. With our most recent dividend increase and based on yesterday's stock price, our dividend alone is generating a 3.7% annualized return. Our dividend alone is generating a 3.7% annualized return. And this is before taking into account stock price appreciation and future dividend increases. For those of you who bought the PepsiCo stock 20 years ago, your total return with dividends reinvested is over 265%.

Now, more recently, our stock price and the consumer staples sector overall, have been a bit volatile. And that is a function of broader macro conditions, especially rising interest rates and some of the market place disruption I just mentioned, which is creating a downward pressure on the share price. But we believe that keeping our focus on the fundamentals of our business, growing sales, being productive, investing back in the organization, and using our capital in a disciplined way, will continue to drive attractive, sustainable returns for our shareholders, especially those seeking long-term sustainable value creation.

So I want all of you to feel confident. We're paying dividends just as we have in the past, and our goal is to continue to operate this company with a very steady hand. Now and then we might face a challenge in any one area of the business, but the management of the company is very strong, perhaps the best in the industry, and we know how to right the ship.

Moving forward, we'll continue building on our progress with help from the tax reform that passed last year, reform that has modestly reduced our overall effective corporate tax rate and allows us to invest more international cash here in the United States. Look, we are a global company operating across multiple categories and serving more than 200 countries and territories around the world. That reach, that diversification, is part of who we are and what makes this portfolio work. And we are, in many ways, a citizen of the world.

But we will never forget that we're also a company born here in the United States and domiciled here. That's why earlier this year, we used some of the benefits of the U.S. tax reform to give our U.S. frontline associates a special one-time bonus of \$1,000 each. Our frontline is the backbone of our company. Without them, no product gets made, distributed or sold. And we wanted to recognize all they do on our behalf -- on your behalf.



## MAY 02, 2018 / 1:00PM, PEP - PepsiCo Inc Annual Shareholders Meeting

At the same time, we are reinvesting the benefits of tax reform in our company. We're using these investments to help equip associates around the world with the skills to succeed in tomorrow's workplace and make sure that we have the kinds of world-class digital capabilities we need to navigate the changes in our industry.

We're also using the benefits of tax reform to accelerate capital investments that will add manufacturing capacity and make our operations more efficient. In addition, as we said in February, we are enhancing cash returns for you, our shareholders, beginning with the 15% increase to our annualized dividend per share effective with the June dividend payment.

And as we continue heeding that wise man's words and adapting to all the changes around us, our north star as a company will remain Performance with Purpose, our governing philosophy for generating top-tier returns over the short term and the long term. Our commitment to offer more nutritious products, minimizing our environmental impact and empowering associates and people in the communities we serve. Overall, I'm incredibly proud of our progress, and you should be, too. Because it's progress that can be measured, not only in the amount of added sugar and sodium we're reducing in our products or the amount of water we're conserving on farms and in plants, but in the lives of shareholders like you.

I'm reminded of a letter I received many years ago. "Dear Mrs. Nooyi," it read, "I have wanted to write to you for a long time. My husband and I bought a few shares of Pepsi for our granddaughter when she was born, and we reinvested dividends. In a few years, she will be going to college and we hope to be able to help." It was a warm letter, and we wished her well and we thought that was that. Then in March of 2016, we got another letter from the same person. "Today," she wrote, "I'm writing to let you know that your team's management of PepsiCo has so increased the value of my shares that I was able to cover most of my granddaughter's first 2 years of college." It goes on to add, "I'm 86 now and still enjoy Pepsi. And my son only uses Pepsi products. Thank you again for all you do." These stories touch me in the depths of my heart and make me so proud to lead this extraordinary company. They're evidence -- tangible proof -- that creating value for our company creates value for our communities, for our neighbors, our friends, our children and grandchildren. That's what we've been doing since Caleb Bradham mixed up the first batch of Pepsi-Cola in the New Bern pharmacy 120 years ago. And that's what we'll continue to do and what we'll strive to do in 2018 and beyond.

With that, let me turn it over to Dave Yawman. Thank you.

---

**David Yawman** - PepsiCo, Inc. - Executive Vice President, Government Affairs, General Counsel & Corporate Secretary

Thank you, Madam Chair. I am pleased to report that a majority of the votes entitled to be cast at this meeting are represented here today in person or by proxy and therefore, we have the necessary quorum under state laws and our bylaws.

If you have previously voted by proxy, you do not need to vote today unless you wish to change your vote. If anyone has not yet voted and would like to do so by ballot during the meeting, please raise your hand. We have folks coming around to distribute ballots to you. Please keep your hands raised until someone gets to you. Thank you. The ballots you're receiving must be completed and turned in before the inspectors of election announce the closing of the polls. And please remember to complete all the items and vote on all the items on your ballot. Please also remember to print your name clearly and sign your ballot. And if you have a legal proxy, please hand that in with your ballot.

The ballots and the proxies will be held in the possession of the inspectors of election, Beth VanDerbeck and Matthew Criscenzo from Broadridge Investor Communication Solutions. They have previously taken their oath as inspectors of election at this meeting. Ms. VanDerbeck and Mr. Criscenzo, please stand up or raise your hand so that you may be recognized. Thank you.

Finally, consistent with state laws 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?

---

## MAY 02, 2018 / 1:00PM, PEP - PepsiCo Inc Annual Shareholders Meeting

**Indra K. Nooyi** - *PepsiCo, Inc. - Chairman of the Board & 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 laws and our own bylaws. It is now in order to proceed with the meeting. Will the inspectors of election please open the polls?

**Beth VanDerbeck** - *Broadridge Communication Solution, Inc. - Inspector of Election*

I hereby declare the polls to be open.

**Indra K. Nooyi** - *PepsiCo, Inc. - Chairman of the Board & CEO*

We have four 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 2018; the third is the advisory approval of executive compensation; and one shareholder proposal 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 to please direct your questions only to me.

The proponent of the shareholder proposal or the shareholder's representative will have 5 minutes to present the shareholder proposal. After 5 minutes, you will hear this chime as indication that your 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 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 the meeting, and we appreciate your cooperation. I have asked Dave Yawman to address any issues that arise under those rules.

So let's begin with the first agenda item, which is the election of directors. I place before the meeting to serve as directors for the coming year the 13 individuals whose names and biographies appear in our proxy statement. Our Board recommends a vote "for" each of the nominees for director.

Let me now turn to the second agenda item, the ratification of the appointment of KPMG as the company's independent registered public accounting firm for 2018, which I place before the meeting. Brian Hegarty 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 of the appointment of KPMG as PepsiCo's independent registered public accounting firm for 2018.

The third 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.

We'll now move on to the shareholder proposal submitted by John Chevedden, on behalf of Kenneth Steiner, requesting that the company reduce the stock ownership threshold to call a special meeting of shareholders from 20% to 10% of PepsiCo's outstanding shares. The shareholder proponent's representative will present the proposal. Would Lisa Hoffman please introduce herself and the proposal? Lisa?

**Lisa Hoffman** - *Representative for Kenneth Steiner*

Good morning. Special shareholder meeting improvement sponsored by Kenneth Steiner of Great Neck, New York. Shareowners, I ask the Board of Directors to take the steps necessary to amend the bylaws and appropriate governing documents to give holders of a total of 10% of the



## MAY 02, 2018 / 1:00PM, PEP - PepsiCo Inc Annual Shareholders Meeting

outstanding common stock the power to call a special shareholder meeting. In other words, this proposal asks for an adoption of more shareholder-friendly version of the shareholder right to call a special meeting.

This proposal does not impact the Board's current power to call a special meeting. This proposal topic won more than 70% of Edwards Lifesciences and SunEdison in 2013, a shareholder right to call a Special Meeting and to act by a written consent of 2 complimentary ways to bring an important matter to the attention of both management and shareholders outside the annual meeting cycle such as an election of directors.

This proposal is more important to PepsiCo shareholders since the corporation laws of North Carolina do not allow a shareholder action by written consent, and PepsiCo's shareholders do not have the full right to call a special meeting that is available under state law, hence, the need to have a greater right of shareholders to call a special meeting of the shareholders.

Plus, the proposal to the topic already won an impressive 49% vote at a previous PepsiCo Annual Meeting. This 49% vote would have been higher than 51% if small PepsiCo shareholders had the same access to corporate governance information as large shareholders. Please vote to improve management accountability to shareholders. Special shareholding meeting improvement, proposal #4. Thank you.

**Indra K. Nooyi** - PepsiCo, Inc. - Chairman of the Board & CEO

Thank you, Ms. Hoffman. Let me take a minute to share with you the Board's position on this matter, as described further in the proxy statement.

The Board believes that the action requested by the proposal is neither necessary nor in the best interests of PepsiCo or our shareholders because We already provide our shareholders with a meaningful right, permitting holders of 20% of our outstanding shares to call a special meeting. The vast majority of S&P 500 companies either have a threshold that is equal to or higher than our threshold or do not provide such rights.

We believe that our threshold strikes an appropriate balance between allowing shareholders to vote on important matters that arise between annual meetings and protecting against significant cost and unnecessary waste of corporate resources in calling special meetings on frivolous grounds.

The Board also believes that this proposal should be evaluated in the context of PepsiCo's strong overall corporate governance policies and practices that are already in place to protect shareholder rights and enable shareholders to influence the governance of this company.

We have long supported means for our shareholders to effectively communicate with the Board and senior management and provide significant opportunities to engage on important topics throughout the year beyond the limited forum of this annual meeting or a special meeting.

For these reasons, the Board believes that the action requested by the proposal is neither necessary nor in the best interest of PepsiCo or our shareholders and recommends that the shareholders do not support this proposal.

Are there any questions about any of the agenda items we just reviewed? Remember, we'll open the floor to general questions at the end of the meeting on any topic you want. And as a reminder, in order to accommodate all of you who wish to pose a question, especially on these agenda items, each shareholder will be limited to 3 minutes for questions or comments. And after 3 minutes, you will hear the chime. So Q&A on the agenda items only. Hello, Justin.

**Justin Danhof** - National Center for Public Policy Research

Hi Indra. And I want to echo that you guys do participate with stakeholders not just at this meeting, and I want to thank you for that. My name is Justin Danhof. I'm General Counsel at National Center for Public Policy Research, a D.C.-based think tank and an investor. I want to ask today about Darren Walker's position on the Board directly. Mr. Walker is the President of the Ford Foundation. For those who don't know, it's -- with its roots in the profits of a great American success story, the Ford Foundation has become a radicalized tool of the Americanless war on capitalism and prosperity. Back in 1976, Henry Ford II quit the foundation's board writing this: "The foundation is a creature of capitalism, a statement that I'm sure



MAY 02, 2018 / 1:00PM, PEP - PepsiCo Inc Annual Shareholders Meeting

would be shocking to many professional staff. It is hard to discern recognition of this fact in anything that the foundation does." It continues to fund extremist causes that bothered Henry Ford II back then. For example, in 2017, the Ford Foundation gave the racial-focused group Color of Change \$8.7 million. Color of Change is one of the very groups that coordinated the attacks on PepsiCo and other members of the American Legislative Exchange Council, known as ALEC. If a company refused to leave ALEC, Color of Change then threatened to air radio ads in the hometowns of their board members, blaming them for the death of black Florida teen, Trayvon Martin. That's because ALEC had worked on what's so-called stand-your-ground legislation. While ALEC had nothing to do with the Florida law in question regarding Martin's death, facts don't seem to matter to Color of Change. This was racial extortion to score political gain. Think about if this were happening today. Color of Change may well be threatening to air ads in Mr. Walker's hometown, all but accusing him of being a racist. That's purely rich. The Ford Foundation also give millions of dollars to the National Resources Defense Council, known as NRDC. This group's environmental agenda, including working to eliminate plastics and calling for extra cost to be pushed on corporations, would likely see the removal or changing of much of Pepsi's packaging as successful. This would dramatically increase the price of the company's goods, thereby diminishing sales and shareholder value. I encourage my fellow investors to take a full look at the roster of extreme causes sponsored by the Ford Foundation and ask yourselves this, how do any of these causes improve society or America's business environment? And Ms. Nooyi, what do Pepsi shareholders gain from Mr. Walker's expertise in supporting racially motivated groups that have falsely attacked this company and others with extortion tactics and the funding of radical environmental special interests?

---

**Indra K. Nooyi** - PepsiCo, Inc. - Chairman of the Board & CEO

Justin, thank you for making the trip, and thank you for your comments. Let me just offer my thoughts here. I think one person's observation that something is radical is another person's observation that it's right. Again, it depends on who in the population you talk to. So I would not want to label anything as radical or not radical. I mean, there's different groups of the population. Second, let me speak to Darren Walker himself. PepsiCo is a company that does business in 200 countries. And in every country, we have to be in that country, for that country, with the communities there and really behave as a citizen of that country. It takes very unusual people to have such a global perspective and give this company a soul and a humanity in every country in which we operate. If there's one person who does that brilliantly on our Board, it's Darren Walker. He has that sensibility. He understands all of the issues, not all of them maybe popular even for us. But at the end of the day, if Darren Walker brings awareness of plastics, it's not Darren Walker. It's societies and communities around the world. So it's coming to us through the voice of Darren Walker, which is what we need on the Board. We need different voices on the Board to make us a better company. So I'm going to respectfully -- first of all, appreciate the fact that you're here, Justin. You're here every year, and we truly enjoy seeing you here and the interactions we have. But I have to tell you, spend some time getting to know Darren Walker. I think you're going to be blown away by what an incredible addition he is to our Board, and I'm just grateful he's on our Board. Thank you. Any other questions, comments?

Has everyone voted who wishes to do so? Anybody who hasn't voted yet? And if there are any outstanding ballots at this time, please raise your hand, and we'll collect them. And please, I'll remind you again to vote on each item. Do we have all the ballots? Yes? We now seem to have all of the ballots. And since all those desiring to vote have done so, I will ask our inspectors of election to close the polls. Ms. VanDerbeck and Mr. Criscenzo?

---

**Beth VanDerbeck** - Broadridge Communication Solution, Inc. - Inspector of Election

I now declare the polls to be closed.

---

**David Yawman** - PepsiCo, Inc. - Executive Vice President, Government Affairs, General Counsel & Corporate Secretary

Thank you. 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 of the Board & CEO

While votes are being tabulated, we want to show you a video about your great company, our great company, PepsiCo. Please watch.



## MAY 02, 2018 / 1:00PM, PEP - PepsiCo Inc Annual Shareholders Meeting

(presentation)

**Indra K. Nooyi** - PepsiCo, Inc. - Chairman of the Board & CEO

Dave Yawman, the Corporate Secretary, will now announce the preliminary results of the balloting. Dave?

**David Yawman** - PepsiCo, Inc. - Executive Vice President, Government Affairs, General Counsel & Corporate Secretary

Thank you, Madam Chair. I'd like to report the preliminary results of the voting.

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 PepsiCo's independent registered public accounting firm for 2018, has been ratified by the affirmative vote of approximately 98% of the votes cast.

Ballot item #3, the advisory vote on executive compensation, has been approved on an advisory basis by the affirmative vote of approximately 92% of the votes cast.

And ballot item #4, the shareholder proposal to reduce the stock ownership threshold to call a special meeting has received support of approximately 48% of the votes cast and thus, did not receive enough votes to pass. The Board will take this under advisement.

Again, I remind you, these are preliminary voting results. Final results will be available after the votes have been certified by the 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.

**Indra K. Nooyi** - PepsiCo, Inc. - Chairman of the Board & CEO

Thank you, Dave. 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.

#### DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2018, Thomson Reuters. All Rights Reserved.