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PepsiCo, Inc. (PEP)

Consumer Analyst Group of New York Conference

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MANAGEMENT DISCUSSION SECTION

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So please join me in thanking PepsiCo for fortifying us with snacks and drinks today. I did a check a little bit earlier and based on the traffic, it's likely to be while it lasts. So thanks, Pepsi.

I'm pleased to introduce PepsiCo, one of the world's largest convenient food and beverage companies with more than \$90 billion in revenue. Joining us today are CEO Ramon Laguarta and CFO Jamie Caulfield. Together, Ramon and Jamie have nearly 60 years combined experience at PepsiCo with a range of experiences from sales and marketing to operations to finance.

Since Ramon took over as CEO in 2018, the company embraced its strategy to increase investment and accelerate growth. The result has been strong performance in the most recent years. Ramon, I'm going to turn it to you, so we can have a discussion on Pepsi.

Ramon L. Laguarta

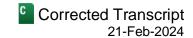
Chairman & Chief Executive Officer, PepsiCo, Inc.

Great. Thank you, Bryan, for the kind words. And good morning, everybody. It's always fun to be in Florida when you live in the Northeast in the month of February. So it's great. And hopefully you guys can have fun with our product as well. I saw they were flying off the shelf, so it's great.

We're going to double team with Jamie in the presentation. And we're basically going to focus on how do – how have we been executing against the strategic framework that we shared with you five years ago.



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Before I go into the presentation, I'd like to thank our very experienced leaders in every country around the world and our frontline for the work they've been doing over the last five years, which has been tough. And they've been performing, as you will see, with outstanding, outstanding levels. And also before I move to the presentation, I'd like for you to take note of the cautionary statement.

Okay. So four chapters that we'll cover. I'll spend a little bit of time on who we are. Probably most of you know about our company, but just to make sure that we all have the same level of information. Then we'll spend the majority of the presentation on the last five years' performance against the strategic framework. And then where we're going to take the company over the next three, four years as well within that same in strategic framework. And then we'll talk obviously about capital allocation and financial targets. And Jamie will do this part.

So as Bryan was saying, we're one of the largest food and beverage companies, convenient food and beverage companies, around the world. We sell \$91 billion – last year, we sold \$91 billion; operating profits of \$14 billion. And we have a broad set of brands, iconic brands, a lot of brands that people love and trust. And we sell them over 200 countries around the world.

The business is about 60% convenient foods and about 40% beverages. We operate in those two very large categories. I'll talk about them later. They're complementary categories from many dimensions, consumer, customers, locations, infrastructure. So that's how we get the benefit.

In snacks, we are mainly leaders in savory snacks, but opening up to many new occasions in convenient meals, convenient foods in home and away from home. And in beverages, we play in mostly all the LRB categories. And we're expanding beyond our current footprint into new occasions, as you will see later.

The – we operate through seven sectors or operating units. All of them have obviously a lot of MUs, or marketing units, are reporting to them. And that allows us to be very locally relevant and down play our strategies to the local level.

As you will see – as you see there, 60% of our business is in the US; almost 40% of our business is international. But look at the size of our international business, \$36 billion, clearly much larger than most of the companies in our sector globally.

If you go down to one level in North America, beverages business is about \$28 billion. And you see the brands that we operate, Pepsi, Gatorade, Mountain Dew, Starbucks, Lipton, Bubly, and many others. We play across most of the categories in LRB.

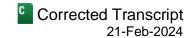
Frito-Lay North America, already \$25 billion and with brands that you probably all recognize, Lays, Doritos, Cheetos; but also smaller brands like PopCorners, SunChips, Tostitos, et cetera.

And then Quaker Foods, a smaller division, \$3 billion unit, \$3 billion. Playing in breakfast, but also in different meal locations throughout the day.

Good, good. We feel very good about the fact that for the eighth consecutive year, our customers are recognizing us as the number one manufacturer. And that gives us a lot of pride and is a great recognition to the teams that operate every day in the US.

Internationally, we have four large sectors. And as I said, a lot of market units are reporting to those sectors. Europe and Latin America are the two largest ones. AMESA and APAC, growing faster, and we expect that as we

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think about the future, given demographics and our scale already in those markets, those sectors will continue to increase in relevance.

One thing to note, our food business, we operate it end to end. So we recognize much more net revenue. Our beverage business is mostly a franchise business. So when you compare the size of the beverage business, get smaller, full system revenue is still very large.

Now we operate as a company in this framework that we share with you multiple times, where we have a mission to create smiles with every sip and every and every bite across the world. We have an empowered culture, a high performing culture, with the objective – with the goal of becoming the global leader in the – in convenient foods and beverages. And we're putting Pep Positive at the center of our strategy. Make sure that we will have long-term returns by being sustainable, by being a company that cares for the planet and for people.

Okay. So that's who we are. Now, let me tell you about the last five years. How have we done against the strategic framework that we shared with you about five years ago. That framework was that we want to pivot to growth. We want to pivot – want to take this company from being a good company to being a great company. We will invest in accelerating growth with investments in our brands, investments in our infrastructure.

We're trying to modernize our infrastructure, debottle our supply chain, debottle our go-to-market, modernizing our systems, modernizing our technologies, creating a culture of empowerment. And as I said earlier, elevating the better part of our company to make sure that we have sustainable long-term returns.

It all started with making sure that the investments in our brands and the investments in operations went up to elevate our performance. So we went from investing \$4.2 billion in our A&M [advertising and marketing] in 2018 to almost \$6 billion in 2023. Was a large growth. That marketing went against our large brands, but also against a lot of our smaller brands that are competing initiatives within our category. And of course, we're investing in capabilities to maximize the ROI of those investments across the world.

The other thing is we took our CapEx from about \$3 billion to \$5 billion, investing again, debottleing our infrastructure, our go-to-market, modernizing our operations, modernizing our technology, and investing as well in productivity. And I will go a little bit into details.

Not only did we invest in our brand, but also we elevated innovation. And a central capability to the company, very consumer centric innovation. And a few areas of focus that I mention here.

In beverages, functionality and hydration were big, big pillars of this strategy. And you see here, we've created meaningful platforms in energy and in hydration. These are global retail sales. So these are consumer value.

So both in energy, you see through multiple brands we're already selling \$6 billion. Our Gatorade, our Propel, our Muscle Milk, all that part of the portfolio is already \$11 billion. We invested a lot in developing our positive choices in snacks especially, but also in beverages. And a lot of reduce in sugar, reduce in sodium, whilst keeping a great taste. But also adding whole grain, changing the cooking methods to baking and popping, and some other choices that we're – that we call positive choices in the company. And you see also the size of our platforms already, \$9 billion in non-sugar cola, \$2 billion in whole grains or baked snacks – meaningful.

We also invested in giving the consumer optionality for portion control, optionality for portability. And you see some of the innovation around packaging, be it canisters, be it multipacks, or variety pack, which are already a big part of our business, \$3 billion in the US.

And of course, we continue to innovate in flavors and experiences, given it's one of our core capabilities. And you probably will enjoy some of them outside. But we keep innovating with local flavors, global flavors, and new trends.

Okay. The result of this has been – I mean, we're feeling proud of it. The business was growing 2% in beverages in the 2016-2018 timeframe, now it's a 7% for the last five years. The same with convenient foods, went from a 5% to a 10%. And it's been quite broad against all our large brands. So you see Gatorade, Pepsi, and Mountain Dew growing almost double digit. And the same for all our large snack brands. So good, good growth, translation of the investment into faster growth across multiple parts of the business.

And also geographically, the growth has been in the US and internationally. So the US went from a – say, a 2% percent growth to a 7% growth, and the international business went from a 6% to a double digit growth over the last five years. And look at the scale of our business again. The US business being a \$55 billion and the international business \$36 billion, which gives us a lot of resources, a lot of opportunities to reinvest, to continue to gain market share, and for capital development.

The US, I won't go too much in detail, but Frito-Lay has added \$8 billion since 2018. The Frito-Lay business has been gaining share consistently for the last four years, year after year, and continues this year, both by expanding packaging optionality. Also introducing, as I said, innovation, extending permissible offering. And through a combination of better execution and innovation, the Frito-Lay business continues to thrive above the category and above food.

And the beverage business in North America also expanded its presence across LRB with the increase in zero sugar, increase in energy. And we study this view, the part of our business which we call beyond the bottle. You've seen some of that examples there with SodaStream, but also powders and tablet. I saw that powders and tablets for Gatorade were gone in one minute. So clearly a consumer opportunity that we are increasing in capacity.

And we're going to give even more priority, because it is at the center of a consumer trend, but also a positive choice. As we eliminate plastic, we eliminate a lot of the emissions that come from moving liquids around.

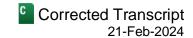
So this is the performance. And one thing for all of you, for the last four consecutive years, our PepsiCo business, the combination of our food and our beverage business, has been the number one growth contributor in US retail.

So clearly, there's a correlation between the role we play as a growth contributor and the recognition that our customers give us to the [ph] contributor (12:38) report.

Internationally, we also feel very proud about the growth in the last five years. We've gone from a \$25 billion business to a \$36 billion business. And we're building scale in many, many countries around the world, developing and developed markets around the world, where focus is in developing market.

And look at the scale of some of our businesses in developing markets. And I put – I chose here a few, Mexico, China, and Brazil, already very sizable market. And that scale gives us the opportunity to continue to gain market share consistently. As we have more resources to invest in our brands, we can attract better people. We can build better go-to-market model. And also, it helps us invest in what is the critical opportunity, which is the per capita development of our categories internationally.

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Now not only did we invest in growth, but also we elevated productivity. Productivity was elevated over the last five years, culturally, mindset, but also capability wise.

And here you see some of the result. We focus on driving excellence at the basics that we call. So we tried to become better at all the critical things that we do in the company from sourcing to moving to making to selling. Those are the critical cost elements of our P&L.

And you have here some examples of how we've elevated transportation productivity, making – packaging productivity, and some of the other elements of the – of the productivity journey.

Now as I said, for us, we believe that elevating Pep Positive to the center of the strategy will give us sustained long-term performance over time. So if we're better at the way we farm – or we work with the farmers to source our products, that will give us sustainable performance.

If we eliminate the amount of water or reduce the amount of water, reduce the emissions in our supply chain, that will give us a legitimacy to continue to participate in many communities around the world. And obviously, by moving the portfolio to positive choices, that will be recognized by consumers as a positive way to stay connected to our brand.

So this is central. We've made a lot of progress. You see some of the numbers there. We feel very proud about the water reduction, the Scope 2 reduction. We feel very good about the progress we've made with our positive choices portfolio.

And then this is, I guess, the consequence of all this is we've been growing very fast. We've been growing 11% over the last three years. And our EPS has been double digit, 12% EPS consecutive for the last few years. Clearly, the consequence of all these investment, great work by our people, long-term perspective in delivering a superior, superior financial performance, way above our long-term target and what we have been able to deliver in many years in the past.

But what makes us also very proud is the recognition that we're getting externally from our customers. Clearly, we'd say that with a lot of value. But not only our customers, we are seen as one of the more high-integrity companies. You see 100 best corporate citizen, the – one of the most – world's most ethical companies. And also, we're being recognized by the way we treat our people. And that is clearly a – to me, a sign of the sustainable performance as well for the long term. So this is our last five years.

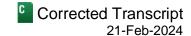
Now, let's spend a bit of time on where are we going from here? How do we take in this momentum that we have, this stronger foundation that we have in our technology, our people, our brand, our capability in general, to continue to deliver outstanding performance for all our stakeholders?

The first thing is growth. And we're very excited about the growth opportunity for the company. Mainly because we operate in two very large, very fast growing categories, globally relevant, where we participate at scale.

But if you see, we're still a very small part of those two categories. So we're less than double digit both in convenient foods and LRB globally. And those are categories that are growing around 5% around the world. So if we are able to leverage the strength of our brand, the strength of our people, the strength of our infrastructure to continue to grow these categories and build market share, as we think we will, this is a great opportunity.



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The second one is, we are well-scaled international company, but we have a lot of opportunities to continue to grow internationally. And you see there, there's not only an opportunity from the demographic point of view. Obviously, we have a big business in the US, population is outside of the US, but in the US as well. But big, big part of it outside of the US.

And look at the category development in the US, outside of the US, both for LRB but also for our savory business. So you have the combination of demographics plus the opportunity to develop our category. And the scale that those international business are starting to have already in terms of capacity to invest, capacity to attract the best talent, to innovate, you see the opportunity that we have over the long term.

Now we have very clear priorities on how we plan to do that. For every one of the businesses in the organization, be it the beverage business, be it the food business, be it in North America or international. But the things that I want you to focus on is the capabilities that we plan to scale in the company that I think will make us successful.

Number one is consumer-centric innovation, and I'll talk about it. Second one is, how do we leverage our brands beyond what they are today into an ecosystem of solutions that drive consumer occasions in multiple parts of the day? And this ability to be always everywhere, through our go-to-market system, through our innovation, we can be in every day, in every single day-part of the consumer journey. But also being everywhere, in-home and away from home, to capture that consumer.

So let me spend a bit of time on how we plan to do that. When you think about innovation, there's a few spaces that we want to double down. One is, as I said, positive choices. We will continue the journey of positive choices through superior R&D, be it reduction of sodium, reduction of salt, a reduction of sugar, positive ingredients, whole grain, lentils, et cetera. So we're working on a lot of innovation around foods and beverages that – around positive choices.

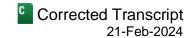
Second is new occasions. We want to make sure that consumers can find us in many more locations than today. That will come through packaging innovation, as you see there. Minis, that has been a great opportunity for us to have portable snacks throughout the day. Powders and tablets, as you saw there outside. But also make your own beverages, giving the consumers the opportunity to personalize their beverage through the SodaStream ecosystem, plus other solutions. So consumers can have beverages throughout the day as they please with their own personalization.

We are also moving – we're planning to move our food business beyond snacking into meal occasion. And we're going to do that at home. We think our products belong, and we're seeing that already in at home, both as side dishes but also as ingredients in the meal.

And we're also going to double down on providing the consumers with food experiences that are away from home. If you think about consumption is moving away from home, consumption of calories, especially in developed market. In developing markets that's always been there with street food. We plan to participate much more in meal occasions. You have there are some examples, like walking tacos and some other ideas that we're working on becoming a solution for consumers that want convenient away from home.

And of course, we're thinking about other categories, whether it is sweets in our variety packs that we already do. Or testing how do we expand our brand into spaces like alcohol? And we're – as you know, we're – we've been playing with different models for the last few years.

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Now when you think about what I was saying, the other big opportunity for us is to take our large brands and build them from just one or two solutions into an ecosystem of solutions.

And this is an example of Gatorade what I think will clearly illustrate it. Gatorade, if you think about it, five years ago, was a ready to drink hydration solution for high performing athletes. A great opportunity. We're doing a great job. We think about Gatorade and the brands that we're building around Gatorade as an ecosystem of solutions for both hydration and fuel that go way beyond their ready-to drink-solution. And you see here some ideas.

We take in basic Gatorade, Zero, or Gatorlyte. Gatorlyte being a rapid hydration. You take Fast Twitch is the convergence between hydration and energy. You then go into powders and tablets. So giving consumers the opportunity to find a Gatorade or to use Gatorade in a much different way. You go to equipment. And where the equipment business is flying for Gatorade, given the strength of the brand, the bottles or some other solutions for consumers to take home.

And now we're creating Gatorade iD, which is a digital solution for consumers to participate in this ecosystem. Being able to personalize their bottle, being able to have tested scientifically, how do you – what are your hydration needs? And we can provide you with personalized solutions of it. And also having special LTOs and special unique choices for you as you become part of the Gatorade Club.

So this is how we're thinking about brands. I'll tell you about Tostitos later, how we're thinking about Tostitos also as an ecosystem of solutions.

So it is about innovation, but it is also about taking our brands into many more spaces and create an ecosystem, digital and physical, too, for consumers to connect with our brand.

When you think about channels, we're also thinking about a very expansive channel evolution. Obviously at home is our core location. But within home, within that we can move into meals in a much more intentional way. And a lot of our innovation and our marketing is about our products going from snacking to meals. And within that is a big opportunity.

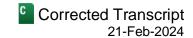
When you think about e-commerce, clearly a huge, huge growth opportunity, e-grocery being a big part of it. And we're obviously improving our capabilities to be participating in that opportunity above our fair share. But also we're creating direct to consumer solutions, be it with Gatorade, be it with SodaStream or be it with snacks.com, where we can personalize solutions for consumers. And those are starting to become scalable solutions already.

And now away from home is a big, big element of our future strategy. We're big in away from home. We're big in on the go. We're big in – on immediate consumption, both in our snacks and our beverage business. We want to provide more experience solutions to the consumer away from home, so we can capture more calories or more of the hydration needs for consumers away from home.

And you would see some executions like Doritos Late Night, where we show up with Doritos trucks in universities, with Doritos full meal solutions, or other brands that will participate in away from home, higher value locations as we go forward.

Now I would say, Tostitos, so similar to Gatorade, Tostitos was also a packaged corn-based solution. Now this is real in Mexico today. Tostitos is way beyond a corn meal dipping solution. It is already – we have specific executions of Tostitos that go with meals, local rituals in Mexico with Tostinas, or we participate in Mexican breakfast. It's in food service, we have Tosticenters, which are the street food – street vendor solution. So Tostitos

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is today – we have over 10,000 street vendor trucks or whatever you call it that – where consumers come by a solution, which is Tostitos with veggies, with tomatoes, with their own personalized solutions. And that's already a big business for us.

And we – obviously trying to move into restaurants, some other solutions for the brand to participate much more holistically in what is the – a full food experience. Where we want to be always, everywhere for the consumer, wherever they are.

Now we're excited not only for our growth opportunities. And you saw that in the categories where we participate, the scale of our brands, the international opportunity, and the innovation opportunities. But we also feel very excited about where we can take the productivity of the company, based on the foundation we built for the last five years. We've invested in technology. We've invested in data. We have our data, much better place to be leverage. We've invested in the mindset of our people and the capabilities of our people.

And there's four big areas where we plan to elevate productivity. One is network optimization and making sure that we accelerate the automation in our plants, in our warehouses. That's a big pillar. Is already underway and will give us a lot of good returns. And will create better jobs for our people.

The second one is, how do we do work across the company? We do work in a probably too complex way. So we're streamlining processes. We're simplifying and standardizing our processes through the leverage of global business services, which is a capability that we built over the last four years. Now it's at full scale.

Obviously we plan to use data and AI in a much more scaled way. And we were not able to do that five years ago, four years ago, because our data was not in a way that our people could be empowered to use the data as they are today. I'll give you some examples.

And the other thing is just an example of a capability that we're building, is how do we make sure that our costs are in the areas which are valued by the consumer? So it's the consumer backed way of value engineering everything we do. We call it design to value. But it requires a lot of capability, so that our people can understand what do consumers really value in our products or in our processes? And then go back and put — make sure the cost of the product or the cost of the business is against those areas that consumers really value.

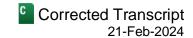
And so we're going to elevate productivity, and productivity that we need to invest in growth. We want to be the best performing company from the top line point of view. And these are just some examples of how we plan to use digital and AI, now that we're ready for it, across what are the core capabilities of the business: how we innovate, and how we go to market, how we plan.

So if you think about an integrated business planning process that goes all the way from automatic forecasting to automatic purchasing, integrated visibility of that process, that was not something we had in the past. We want to have that.

Al forecasting. For example, we forecast all our cash flow today almost through Al. We don't have a lot of human intervention in how we forecast our cash flow. Obviously in the – how we make our products agile. Agile networks that are much more ready to pivot against what have been complex supply chain situations in the past.

Selling, I think we are – as you know, we have a DSD model in the majority of the countries, the large markets where we participate. That's a great opportunity for us, both for growth and productivity, if we make our front-line

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associates more intelligent with real-time data of where they're selling, how they're selling. That would elevate both their ability to sell more, but also will help us with productivity.

So we're planning to execute a much more aggressive data and AI strategy against the core capabilities of the business. And that will drive both more growth and more productivity.

And then lastly, we remain very committed to Pep Positive. Pep Positive, as I said earlier, it is central to our strategy. We're planning to change the way we do agriculture. We're changing the way we do our value chain, the amount of water we consume, the emissions we have, the amount of waste, packaging waste, that we have in our system. And obviously how we upskill our people, how we develop our people in our value chain, so they can fulfill their potential in life.

And then positive choices, the portfolio strategy being critical for us. And positive choices being critical to how we evolve the portfolio to remain center to what consumers will prefer; prefer today and will prefer in the future. And it's not only about packaging reduction, but it's critical. But it's also, as I said earlier, reducing sodium, reducing sugar, increasing positive ingredients, like whole grain or plant-based proteins in our portfolio.

So this is where we think we can take the company. I'm sure we can talk more in the Q&A. And now I'm going to pass it on to Jamie to take us through the capital allocation and the financial objectives. Thanks.

Jamie Caulfield

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

Good morning, everybody. And it's great to be back at CAGNY after a four-year hiatus. And I've really enjoyed over the past couple of days reconnecting with a number of old friends.

So as Ramon mentioned, I'll just go through a few slides on capital allocation and our long-term financial targets. And we'll begin with our capital allocation priorities.

No change from what we've shared with you in the past. Our priorities are, number one, invest in the business. Number two, pay and grow the dividend. Number three, selectively consider acquisitions, divestitures, and partnerships. And in doing so with very strict, strategic, and financial lenses. And then number four, is to return residual cash flow to our shareholders through share repurchases within our capital structure framework.

As we look at the capital investments, really beginning in 2019, we had four priorities. One was expanding growth capacity. Number two was supporting productivity, largely through automation and the network optimization that Ramon referred to. Number three is modernizing our IT infrastructure that really creates the foundation for a lot of our digital efforts. And number four is advancing our Pep Positive sustainability initiatives.

Our CapEx peaked – if you look over the past five years, peaked in 2019 as a percent of sales. And has since moderated a bit. In the earlier part of that five-year framework, the emphasis on capital investment was more directed towards expanding the growth capacity and really removing some bottlenecks that had built up in the system.

And over that time, the investment in capacity has moderated a bit. But at the same time, that's – as we've ramped up our investments in IT, in sustainability, and in productivity. Expectation going forward is that as we complete a lot of the IT foundational work, that the CapEx will begin to moderate a bit more as we get into 2025 and 2026.

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On dividends, we have a very long, established track record of paying an attractive dividend and growing that dividend steadily over time. With our recently announced July 2024 dividend action, that'll mark our 52nd consecutive annual dividend increase.

And then finally, turning to our long-term financial targets, again, unchanged from what we shared with you in the past. Number one, mid-single-digit organic sales growth. Number two, core operating margin expansion of 20 basis points to 30 basis points a year. Number three, core constant currency earnings per share growth in the high-single digits. And then of course, the dividend plays a really important component of our overall TSR framework. And our dividend yield currently stands at about 3%.

And with that, Bryan, we're ready to go to Q&A.

QUESTION AND ANSWER SECTION

Bryan D. Spillane Analyst, Bank of America Securities	Q
Mike on? You guys hear me?	
Ramon L. Laguarta Chairman & Chief Executive Officer, PepsiCo, Inc.	A
Yeah.	
[indiscernible] (34:33)	
Bryan D. Spillane Analyst, Bank of America Securities	Q
Okay. We'll go, Dara, Andrea, and Bonnie. And then I'll come aro	und to the next round.
Dara Mohsenian Analyst, Morgan Stanley & Co. LLC	Q
Thanks. Dara Mohsenian, Morgan Stanley. So, Ramon, you talke in D&E markets over time. And I was particularly interested in sav America. Can you talk a little bit about what you can do internally capita consumption? Obviously some of that is external macro de internally?	ory, where there's a large gap versus North and the key factors where you can drive that per
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And the basics are simple. It is about affordability. It is about distribution, so being everywhere. And it's about becoming part of the local food rituals. So those are the three things that we work all the time.

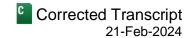
Yeah, so, thanks, Dara. I think – you got in the – what is the critical anchor for our growth internationally, which is

Ramon L. Laguarta

developing the per caps.

Chairman & Chief Executive Officer, PepsiCo, Inc.

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So affordability, normally in developing markets and emerging markets, there is an end-packaged, snacking habit normally, end-package. And there is a local, lower-value solutions that people use for snacking.

So affordability means that we're very – always measuring our products against those two big buckets of addressable markets, so the end-package and the low-value package.

And there's a lot we can do as we scale the businesses to become more efficient. Our agri programs become better, so we can grow potatoes, we can grow all our ingredients at lower cost. And that becomes a great way to move consumers from what is a, let's say, low-value snacking opportunity to much more higher value.

The second one is ubiquity. And we want to make sure that our products are everywhere. And scaling availability in developing markets has a lot of complexities. If you think about India and how do you get to 5 million stores, and then get to 10 million stores. And where I think we're very good is that one of our core competencies, how do you build ubiquity and affordable go to market?

And the third one, which is very important, is how do you become part of the local ritual? So you're not an American product going into India or an American product going into South Africa or Turkey or Brazil. But you localize. You localize the brand, you localize the flavors, you localize the occasion where you participate. So consumers adopt it with less friction.

And those are the three things we're working on. As I said, as we scale the businesses, and we have, you saw Mexico, China, and India. These are very large businesses. But we have a lot of businesses already in that \$300 million to \$1 billion. And those are very resource rich businesses already, where we can invest to make our brands, kind of [ph] lost (37:35) and iconic in each one of those markets.

And I'm very optimistic that the more resources we have, the more scale those businesses are, the better we're going to be at transforming per capita into our – into savory snacks or convenient foods in general.

Dara Mohsenian

Analyst, Morgan Stanley & Co. LLC

Maybe I could just follow-up on that. International margins, exceptional performance in terms of year-over-year expansion in the back half of the year. How do you think about the ability to harvest that top-line growth to the profit line and margin expansion going forward? Can that continue? Or are you now at a scaled point where you can really drive margins more aggressively? Or is there more investment to come as you think about international and D&E specifically?

Jamie Caulfield

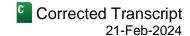
Executive Vice President & Chief Financial Officer, PepsiCo, Inc.

Yeah, I think it's a balance. We're really pleased with the progress we've made on our productivity initiatives around the globe, not just in international. And certainly see the opportunity for margin expansion in the international businesses as we go forward.

But there's a tremendous growth opportunity. And so we'll balance how much of that productivity flows to the bottom line versus how much we invest in a lot of the activities that Ramon talked about to continue to build out the per caps.



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Bryan D. Spillane

Analyst, Bank of America Securities

Yeah. Okay. We'll go to Andrea and then Bonnie.

Andrea Teixeira

Analyst, JPMorgan Securities LLC

Thank you. Andrea Teixeira, JPMorgan. I wanted to go back to that international opportunity, in the sense of having - also balancing the affordability. Ramon, you mentioned one of the key affordability and also localized space.

How can you think about as we go into this high inflationary environment that continues in certain parts of the world where you're very present, how can you continue to, number one, tackle that in terms of affordability? And then second, be able to expand and take those other countries, except for Brazil, China, and India, what are the next level? Is that a high group of company – of countries that you can leverage? And then use that CapEx that you're putting into 2025. Is that a CapEx that we are putting in mostly to those international capabilities as you go

forward?

Ramon L. Laguarta

Chairman & Chief Executive Officer, PepsiCo, Inc.

I'd say the levers of affordability and being able to scale the businesses are related to scale in many cases, right? So if you think about a big element of our cost is agriculture. So we have – as we get into a market, we basically build potato growing capabilities in the market. And in some markets, that's already established, in many are not. So as time goes by, we build more capability. The yields of potato go like 4 times, 5 times, right? So that's a big element.

And the second one is the manufacturing capabilities and how we can cover a large market like Brazil or a large market like India or like China or Turkey, whatever. And obviously you first establish that footprint. And then you need to fill those factories. There is a huge element of volume related or per capita development and scale that impacts your cost per unit and the - your affordability.

And the same with go to market. So there is a high value of as our businesses get bigger, businesses get more profitable and also have more resources to invest in the per capita development.

So it is – to your question on what is the next level, the next level is countries like Turkey, Saudi Arabia, Thailand, China, India obviously, those are the markets – if you think about Poland, Romania, some of the CIS republics, those are the countries that are in the \$300 million to \$500 million already and that can attract the best talent. We are large for those markets. Talent makes a huge difference in our business. And that we can deploy everything that we know from all the other markets into those particular geographies. And we take it to the next level.

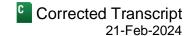
So that's how we're thinking about the market. And it's not – international foods is not margin dilutive to PepsiCo.

And international beverage is neither of course because it's a franchise business.

Andrea Teixeira Analyst, JPMorgan Securities LLC

The CapEx question for the US vis-à-vis international, is that something?

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Ramon L. Laguarta

Chairman & Chief Executive Officer, PepsiCo, Inc.

The CapEx, as Jamie was saying, we're going to be investing in growth. That will be mostly international market.

We're going to be investing in technology that is global, but the US will take a lot of our technology investments to become a much more digitalized business. And I think there's a lot of growth and productivity initiatives that come from applying digital in the US.

When you think about sustainability, that is across the world but also the US. So there's elements of the CapEx that are more international. There's elements that are cut across both domestic and international.

Bryan D. Spillane Analyst, Bank of America Securities	C
Bonnie?	
Bonnie Herzog	

Analyst, Goldman Sachs & Co. LLC

Hi. I wanted to stick on the same topic of international and the opportunities to build scale. So I guess my question is, it seems like you have great capabilities given the portfolio you have and your ability to continue to innovate as you discussed.

So trying to understand if you think you have the right infrastructure and partners in a lot of these markets, as you try to expand your distribution further. Or do you see opportunities to either make improvement, make changes? How do you think about that in terms of just further distributing your business in these markets?

Ramon L. Laguarta

Chairman & Chief Executive Officer, PepsiCo, Inc.

Great. The food business is mostly ourselves, right. And the partnerships come from agri partners to scale up agriculture. That is – the rest is us, end to end. And I think we have the know-how from obviously the US being a big source of know-how, Mexico being a big source of know-how, on how we expand globally the low cost capital solutions, low cost go to market solutions, and innovation.

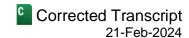
When it comes to beverages, obviously we rely on local partners. And we have very strong partners in some parts of the world. We have partners that we're working together to become more capable. So some of our operating capabilities, we're working with our partners to make them more capable. And in some cases, we're also working on scaling up our partners by, let's say, taking three or four markets and aggregating into one larger bottler with contiguous geography.

So you will see in beverages a combination of aggregation of bottlers and transfer of capabilities. In the food business, we feel more confident about leverage in Frito and our Mexico business to deploy capabilities globally end-to-end from agriculture all the way to consumer and go to market and manufacturing.

Bryan D. Spillane Analyst, Bank of America Securities

Okay. We'll go to Filippo, [ph] Robert (44:59), and Nick. And then I think we'll go to the breakout.

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Filippo Falorni

Analyst, Citigroup Global Markets, Inc.

Thank you. Filippo Falorni, Citi. Sorry, I'm on – going back to the US business, you also made a lot of investment there since you became CEO.

Can you give us an update where you think there's more areas to invest? And particularly on PBNA, there's – you've laid out a target on improving margins. But also to improve market share for that business. So how do you balance those conflicting priorities?

Ramon L. Laguarta

Chairman & Chief Executive Officer, PepsiCo, Inc.

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Yeah.

Filippo Falorni

Analyst, Citigroup Global Markets, Inc.

Thank you.

Ramon L. Laguarta

Chairman & Chief Executive Officer, PepsiCo, Inc.

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Yeah. I think for the US business, investments will be in the form of systems and digitalization, new technology platforms.

So you think about Frito is investing in some – a new cooking method, so it's scaling popping or scaling baking. And those are technologies that we don't have.

It's not so much in the beverage business, where I think we have all the technologies pretty much there. And there will be a lot of investment in productivity, basically through automation. I think automation will be a big driver of our – creating better jobs for our people and it's improving the efficiency of the system. It applies to both businesses, the food businesses and the beverage business, both in the manufacturing part but also in the move and – warehouse and move.

Bryan D. Spillane

Analyst, Bank of America Securities

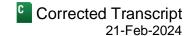
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[ph] Robert (46:28), and then we'll wrap it up with Nik after [ph] Robert (46:31).

Hi. Thank you. I know it was just a couple weeks ago when we talked on some of this. But I'd love to get kind of any better clarity on the state of the US consumer. There was a lot of weather noise in January. So any better insights?

And particularly, the lower-end consumers, let's say the bottom 20%. And tied to that, obviously a lot of pricing taken over the last two, three years. As you look to provide more value to lower-end consumers, how do you feel your tool kit has developed in terms of packaging, promo targeting by ZIP Code, and other abilities to target that group? Thank you.

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Ramon L. Laguarta

Chairman & Chief Executive Officer, PepsiCo, Inc.

That's great. We really don't have too much to share other than what we shared two weeks ago, other than it was a good Super Bowl. So that's what happened between then and now. And so – and we capture good, good – it was a good Super Bowl for us.

Now in terms of the – our capabilities to disaggregate consumer and how do we – are able to execute more granularly against the beginning of the month and the end of the month and entry price point, I think we have a business that is quite flexible in terms of packaging solutions versus other categories.

If you think about our food business clearly has multiple entry points and a lot of flexibility on price and sizing. The same with beverages. The beverage business, a bit more rigid when it comes to price packaging. But I think both businesses are quite flexible.

We have developed a lot of capabilities over the last few years in terms of granular understanding of the consumers in different parts of the country. And obviously our DSD gives us an advantage in terms of executing quickly those nuances by ZIP Code and otherwise together with our retail partners. So I think we're advantaged in that respect, [ph] Robert (48:53), in how we can execute granularity and agility, both in beverages and foods in the US in particular.

But in all other markets around the world, that's a capability we've developed globally. And if you think about businesses like Mexico, where the consumer is even more challenged than here, we're able to execute a lot of price points in the same rack or in the same cooler and give the consumer the opportunity to be connected with our brands throughout the day, depending on the cash money they have in their pocket. So I think we feel good about that, in terms of relative performance and also to where we were five years ago.

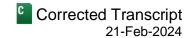
Bryan D. Spillane Analyst, Bank of America Securities	Q	
Okay. We'll take one more from Nik Modi, and then we'll go to the breakout.		
Nik Modi Analyst, RBC Capital Markets LLC	Q	
Thanks. Ramon, can you just talk a little bit about Gatorade? Just the kind of more holes going to be very – I think a very competitive year with obviously Coca-Cola trying to	0,	

BODYARMOR back on track.

And just talk a little bit about the marketing pivot, when you think about athletes to everyday hydration and the consumer insight that was kind of driving that change. Because Gatorade has had a - it's been a great brand over time. But we've had pockets over the last two decades where the positioning kind of might have gotten out of

sync.	
Ramon L. Laguarta Chairman & Chief Executive Officer, PepsiCo, Inc.	A
Yeah.	

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Nik Modi

Analyst, RBC Capital Markets LLC

And you went back and forth.

Q

Ramon L. Laguarta

Chairman & Chief Executive Officer, PepsiCo, Inc.

We continue to see active hydration as a big, big growth space in the LRB. If we can help consumers move from tap water, regular water into other, more functional experiences, this is a big opportunity for everybody participating in LRB. And that's what we're trying to do.

It's not only going to be Gatorade, but it's going to be combination between Gatorade, Propel, and some other solutions that we have. It's not only going to be ready-to-drink bottles, but it's going to be powders and tablets. And we're making big investments in the supply chain of those powders and tablets. We think that especially new generations, they think about beverages in a different way. And they prefer to have their own bottles, and they create their own drinks. So those are the peoples that we're thinking about.

Now Gatorade as a brand continues to be super healthy. We continue to be investing in Gatorade meaningful amounts of dollars, and I think in the right way with the right messaging.

Science is still at the basic of Gatorade. And we now have opportunity for consumers to be tested on their hydration needs and then personalized solutions. So I think the brand continues to be above, I would say, many of the competitors in that space.

But the most important thing is that we keep the category growing above LRB. I think that's the real job to be done by the marketing teams is make sure that we keep bringing more consumers from tap water and bottled water into more complex hydration solutions that provide other benefits than just – so electrolytes, selling the value of electrolytes, selling the value of other functionality that we need as we play a football game or we just go to the gym for 30 minutes, as most of us do every day.

Bryan D. Spillane

Analyst, Bank of America Securities

Okay. With that, we're going to join the – go to the breakout.

Ramon L. Laguarta

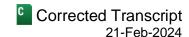
Chairman & Chief Executive Officer, PepsiCo, Inc.

Thank you.

Bryan D. Spillane

Analyst, Bank of America Securities

Please join me in thanking Pepsi for their sponsorship and Ramon and Jamie for spending time with us today.



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