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PRESENTATION

Lauren Lieberman - *Barclays - Analyst*

Good morning. To start things off this morning, we're joined by PepsiCo. Representing the company are Al Carey, CEO of North America, Kirk Tanner, President of North America Beverages, Vivek Sankaran, President of Frito-Lay North America, and Jamie Caulfield, Senior Vice President of Investor Relations.

Al became CEO of North America in March of 2016 after having served as the CEO of North America Beverages and formerly Frito-Lay. Kirk and Vivek have also been leading their respective divisions since earlier this year.

The businesses have had a strong first half, delivering solid organic topline growth and margin expansion. We look forward to hearing Al, Kirk and Vivek's perspective on PepsiCo's North American operations including how they're dealing with changing consumer preferences and implementing ongoing productivity initiatives. To begin, Al will lead with a slide to sort of set the stage and then we'll transition into a fireside chat. And then we're going to leave 10 minutes for Q&A. So Al and team, thanks very much.

Al Carey - *PepsiCo, Inc. - CEO, North America*

Okay, well thank you, Lauren. Good morning, everyone. So I thought I'd start out just to set the groundwork on -- I carry this one slide with me since entering this new job four months ago as the head of North America. We ended up, the three of us, collaborating on what things do we want to do as PepsiCo North America. So here's -- that is not one of the objectives.

So the first thing I think you'll hear all of us talk about in this North America organization is that we're going to rapidly transform our portfolio. And what that means is we're trying to double down on our innovation bet through R&D and particularly on health and wellness brands. Taking out sugar, reducing fat and salt. And I think this is a very small example of some of the innovation that's being introduced right now. For example, on the beverage side, enhanced waters, probiotic Tropicana, pressed juices under the Naked brand name, high-end premium low-calorie tea called TeaHouse. And of course Kickstart which is normally an indulgent product, but with 60% less sugar in this Kickstart variety which is doing extremely well right now and we're adding to that portfolio.

So that's a big priority on the beverage side and also on the snack side. So you can see some of the items here, and Vivek will reference some of them later on, but more premium and more healthy snacks and you can see examples of that with Sabra, our new Simply line of chips that are some organic and all natural. We've got other products that you see up there like Veggie Chips under the Sun Chips brand name. That will be the trend that you see with PepsiCo in North America over the next several years. In fact, across all of PepsiCo globally.

The second thing, we are going to spend a lot of time talking about is One North America is the way we go to our customers. So one voice to the customer. And I think we've made some progress in the last couple of years on this business about treating the retailer as one PepsiCo. And when you meet with some of these big customers, they want one voice. They don't want to speak to three different companies, and we've structured



ourselves in a way that allows us to do that. Right now we are the largest supplier to the retail trade which doesn't mean good, but it gives you a seat at the table. And on the other hand, we're the fastest growing right now of the top suppliers. So I think we're starting to make progress because we're taking listening to the customer very seriously.

Also you see in the middle there, ecommerce. We're not doing ecommerce as separate organizations. We're going to do this as a PepsiCo, One PepsiCo approach, and I think it's already proving to be a positive and our growth continues to improve. And then finally, we're going as One PepsiCo on food service, so in food service and vending. And that's proving to be good as our food service business is outgrowing retail, and you can see picture down on the bottom there of this Hello Goodness healthy vending machine. And you'll see one in the breakout room. These products are moving rapidly as we place these in either schools or in vending locations in business and industry and healthcare. We'll probably place 20,000 to 24,000 of those this year.

The third is synergies, obvious synergies. Now this initial project has kicked off four months ago. Probably sometime next year we'll have some news to report. But the whole idea of how could we find synergies in North America. So we saved a significant amount of money as PepsiCo, but don't interfere with the execution of the individual divisions, Frito-Lay and the Beverage side. One example is one transport company. I mean why couldn't we have one transport company and it's quite a bit of savings if we can figure out how to do that? The middle is a truck that's called the sprinter vehicle. The sprinter truck gets 21 miles per gallon and it's used by Frito-Lay, probably has 3,000 or 4,000 of those trucks right now. And on the beverage side, initially our team said, well that truck is not going to work for beverages because the weight of the beverages. Well it turns out we have many places, like full service vending and other places that we could use that truck. And the trucks we have today might be getting 8 miles per gallon. So there's an obvious opportunity.

And the final one I listed on the chart at the bottom is we have collapsed our customer marketing and customer insights group into one. Each of the divisions had their own separate insights team for the customer and now we are standing up this one group called the Demand Accelerator. And I can tell you right now that's having a significant impact with our customers and we're only having it in one spot, so we've saved some money doing that and we've increased the caliber of the individuals on that team.

The last thing I'd say before we turn it over, and this is one that I'm very passionate about, it's dear to my heart. And after a 35-year career at PepsiCo, I can tell you that one of our greatest strengths is our frontline organization. Particularly in sales and customer service. And where we've spent time in North America beverages in the last 12 months, we've spent time going out to talk to thousands of frontline employees and ask them, what is it that we could do to remove obstacles so that you can improve your business? And you can't believe the amount of positive feedback we get from this process. And it really boils down almost, no matter what part of the country you're in, there's probably three or four things that our frontline people need to be better. So we've gone out and aggressively addressed those issues. We've spent the money against the things that they need help on, and we can see an immediate improvement in our business when we do that.

So this is something we're going to do across PepsiCo. And I think when you have your frontline motivated and inspired, you can add points to the board. And one of the things that's going to be part of this is developing more of a recognition culture. I firmly believe that the people most important in our company are the ones that are closest to the customer, that are on the frontline. These are the folks that get up at 3.30 in the morning every day and they are really getting the job done. If those people are motivated, it is an absolute advantage, particularly in an environment where the retail trade is looking at these minimum wages going up to a significant level. And that will have an impact on labor at the store level. So I think this is a real positive and I think it's one of those reasons why you'll probably ask later about the refranchising. We don't want to refranchise. I'd love to have a frontline organization at Beverages that is equal to Frito-Lay and both of them being at the top of the list on the advantage survey in terms of the way we serve our customers.

So that's kind of the one-pager I've been carrying around with me, but there's lots of details inside of this and in the individual divisions as we're going after the business. I just thought I'd start out with that.



QUESTIONS AND ANSWERS

Lauren Lieberman - *Barclays - Analyst*

That's great. I was going to ask you how it is that the business is performing so well in such a sluggish environment. But I feel like you just maybe gave us the answer key to that. Unless there's anything you want to add that you think in terms of the first kind of 6 months of this year, there's something that you've hit an inflection point on some of these initiatives that has really driven the performance this year.

Al Carey - *PepsiCo, Inc. - CEO, North America*

I'd just add one thing and then turn it to the team of Kirk and also Vivek. But I'd just say that innovation has a big part of it. It's now about 9.5% of our gross sales. And the other thing I'd say is our single serve business on both sides is doing very well, that's where the consumer is going. And those are two highlights from the first part of the year.

Lauren Lieberman - *Barclays - Analyst*

Great. Vivek, so Frito-Lay has been a very steady and consistent performer for many years. What is it that you've done to kind of create this momentum? Why do you believe it can continue and the confidence and sustainability of the growth?

Vivek Sankaran - *PepsiCo, Inc. - President and COO, Frito-Lay, N.A.*

Let me start with the categories. I think we are in a very vibrant category. And I think about, when I think about our category I think of macro snacks. It's over \$100 billion in the US. And we play in -- we have about a 15 share of that very large category. And people are just snacking more, that's the reality. Lifestyles are changing, people are snacking more. We're going to get more of our calories through snacks as we go forward here. So we are in a good category. And the way we think about it, if we can maintain category growth and just gain a little bit of share, we've got plenty of upside and momentum.

The things we have done to take advantage of this nice category that we are playing in is over many years now we've worked on separating our brands. Doritos really has, stands for being bold and has a clear message and a set of innovation that comes with it. Lay's now stands for flavor and we just keep celebrating flavor. It's a drumbeat of flavor every year. Tostitos is all about the party and we keep coming back with innovation and messaging that celebrates that occasion.

And so we have separated these brands and we're driving the innovation and the brand messaging very, very sharply against what we think are very different demand occasions for our products. And that has helped. And what we are finding is that we have just scratched the surface on that. We continue to develop that.

The second thing, what Al said, there is nobody who drives more traffic, more dollar growth and more profit growth for our retailers than us in our portfolio. I mean we are a critical part of holidays and any retailer and that virtual cycle helps. So we've got very good channel development. And it's not just the depths of the relationships, but also the breadth of relationships. And that is not just a Frito, it's a PepsiCo strength I would say. And what that does is it allows us to -- we are not dependent on any one particular channel. We can play that portfolio very well.

And the third one is, we are getting better and better and better at execution. We continue to drive -- we find -- so the DSD system that we have, as we put more money into technology in the DSD system, we're able to do things with more precision than we ever did before. So the assortment becomes more specific to a store. Frankly a store across the street will have a different assortment because the traffic patterns are different. And so that, every time we do that, we find additional growth.

So if I just step back from that, it's a matter of getting all the fundamentals right. There's no magic to this, but getting the fundamentals right and getting better at each one of those three things that I talked about.

Lauren Lieberman - Barclays - Analyst

Great. Kirk, I know it's relatively recent that you assumed leadership of the North America Beverage business, but I think it would be great to get some perspective on what's changed the last few years, bought the bottlers in 2010. What was the state of the business back then and then how would you contrast that with today?

Kirk Tanner - PepsiCo, Inc. - President and COO, N.A. Beverages

I think if you think about our business before the acquisition, we were very focused on selling carbonated soft drinks and large take-home packs, driving volume. I think that has shifted towards selling the total portfolio and being focused on revenue management. That's kind of the big, overarching things. But I think if you look at the slide that AI showed, our focus on innovation has really doubled. Doubled in that time. Which is a tremendous progress on how we have tried to reach consumers with our innovation.

The other area is food service And food service, again, on AI's slide, it talked about that's where we sell the total PepsiCo portfolio. And it allows us to focus on growing our customer with all the tools that we have, giving our customers kind of a full access pass to PepsiCo. I think Vivek talked a little bit about kind of the last 4 or 5 years around execution and speed in our market. Our speed in our system to get alignment and to grow our customers' business. And that's I think a really big change over the last 5 years.

But if you sum it up, a strong focus on revenue management, innovation, food service, and growing our customers' business I guess would summarize what's changed over the last 4 or 5 years.

Lauren Lieberman - Barclays - Analyst

If I can follow up on revenue management and innovation, a component of that is going to be package mix. So how do you feel about package variety today? Are you where you need to be and want to be competitively?

Kirk Tanner - PepsiCo, Inc. - President and COO, N.A. Beverages

We're very -- we've made a lot of progress around package size. Our price-sized architecture, all of us call it that, that's a big priority for us. But our strategy is really grounded in consumer insights, on meeting consumers where they're at. And AI talked a little bit about single serve, but our development of our single serve packs across the different channels has allowed us to grow the single serve business. In addition we've launched, you've seen them in the marketplace, mini cans, smaller packages. It's all about capturing consumers where they're buying our products and delivering and exceeding their expectation with the pack size. So it's not just pack size to drive revenue, it's pack size to drive revenue and to reach consumers in what they're looking for. We've made a lot of progress. Still a lot of work to do in this space, but it's a big focus of ours.

Vivek Sankaran - PepsiCo, Inc. - President and COO, Frito-Lay, N.A.

We've seen the same thing, Lauren. The consumers just seem to be willing to pay more for convenience, some form of portion control. So the multipack business is growing for us, the single serve business is growing for us. And that I think clearly serves a consumer need but also is a better financial outcome for us.

Lauren Lieberman - Barclays - Analyst

And also, health and wellness trends, Vivek, and how that is impacting your side of the house and also dealing with the premium end of the category and what you're doing to respond.

Vivek Sankaran - PepsiCo, Inc. - President and COO, Frito-Lay, N.A.

I'll address both. Let me talk about the premium end first. The premium end is about 10% of the marketplace. And we are I'd say about a 39%, 40% share of that premium marketplace. We have gained share year to date. I think it's about 60 basis points of share gain. The way we play that, we've done two things. One is, we've got brands, we've had brands in the premium Better For You space for a while, like Smartfood and Simply and such. We have doubled down on those. We have increased our investment there. And those, that portfolio of brands for us is growing 4 times faster than the core. So there's a lot of momentum on that front. And we are finding that there is a segment, a large segment of consumers who want Better For You and premium but also want a brand they can recognize. And that's playing to our strength.

The other thing we are doing is we're also incubating. We are incubating brands you won't recognize it as a Frito-Lay product in the marketplace. And as we see something sticking, we'll amplify it, so we're starting to play that.

Now the health and wellness, now much like AI said, we reconsider it's a reality, consumers want healthier products in the mix. And so we are doing a couple of things. First is you will see choice. You will see Doritos, but you'll also see in a school reduced fat Doritos. You'll see Smartfood, you'll see Smartfood Delight. Smart Food Delight is 35 calories a cup. So first of all, we are giving choice to consumers on pretty much all our portfolio. Lay's, reduced salt Lay's, which does very well by the way.

And the second thing we are doing is we don't talk about it too much to the consumer, but we consistently take out salt, we've taken out all trans-fat, we keep reducing trans-fat from our portfolio. So we keep taking out what consumers might perceive as negatives in the portfolio. So in essence we are making sure we have a wide enough portfolio to play the game as it evolves.

Lauren Lieberman - Barclays - Analyst

Do you advertise those changes or do you choose to kind of keep them on the down low?

Vivek Sankaran - PepsiCo, Inc. - President and COO, Frito-Lay, N.A.

When we make changes to the core portfolio, we keep it -- we make -- if the changes are small, we don't want to make that a big deal to give any perception of taste changes or anything. But there are places where we would call it out. So we actually called out a reduced salt Lay's, reduced salt Ruffles. We called that out because there's a segment of consumers who really wants that. It's a great tasting product, but they just feel better with that product.

Lauren Lieberman - Barclays - Analyst

Kirk, I think also, everyone is talking about portfolio transformation, so just some examples there. And I think also earlier we were talking about some of the due diligence that you all do on what millennials are eating and drinking and I thought that was really interesting how you're kind of trying to get a step ahead of where the market is going.

Kirk Tanner - PepsiCo, Inc. - President and COO, N.A. Beverages

Yeah, absolutely. We see it across. When you play a portfolio strategy, you can see across your portfolio where you have growth, explosive growth, and no growth. And we talked about carbonated soft drinks, that's in the low to no growth area. But we've seen explosive growth around teas, coffees, our sports portfolio with Gatorade, the water portfolio across enhanced waters and premium waters to everyday water. There's a lot of growth in the category out there and we're watching where consumers are going. And you can really -- if you pay attention to what consumers are buying on college campuses, what Generation Z is buying, and you're trying to meet those consumers' needs with the innovation platforms, I think that's where we're aligned. We're aligned with having a broad portfolio strategy and then we're innovating against that.

Some innovations that are pretty interesting that AI talked a little bit about, products like Kickstart. Kickstart is a product that you build from scratch and you go, what would a modern day product like this, it is carbonated soft drink, but it delivers on 60 calories per 12 ounce, it's sweetened a little bit with juice, 5% juice. Some of the formulations have coconut water. And it just hits the mark on what consumers are looking for. And that's been an example of a product that's been a real hit from an innovation standpoint.

AI Carey - PepsiCo, Inc. - CEO, North America

To answer your question earlier, we don't talk about the lower sugar. It's 60% less, but we just don't talk about it.

Kirk Tanner - PepsiCo, Inc. - President and COO, N.A. Beverages

Yeah, we don't shout it. It tastes great. I mean it's a great tasting product. But there's a lot of innovation that we focus on in this space around our tea business. This is an example of PureLeaf, it's our Tea House from our PureLeaf brand, premium product. Our coffee portfolio partnership with Starbucks is also a great place for innovation. We're also innovating against a platform across our sports nutrition platform that really meets consumers and athletes where they're going. And that's the focus. Again, it's just a portfolio approach, watching where there's explosive growth, high growth and no growth and innovating towards that space.

AI Carey - PepsiCo, Inc. - CEO, North America

We have a great deal of consumer research that tells us where the GenZ consumer is going and the millennial moms. Those are two we watch real carefully. But at the end of the day, it's simpler than that. Just go on a college campus and see what are the highest selling products on campus. Water, Gatorade. Third, which is a surprise, Lipton PureLeaf tea. Then we've got Starbucks and we've got Mountain Dew. Those are the five selling. So if we're not hitting where that consumer is going in the next 5 years, we would have a tough time. But I think we are making some progress in that area.

Lauren Lieberman - Barclays - Analyst

Let's switch gears a little bit to profitability. So AI, if you take a look at PepsiCo North America in the top, what are -- you mentioned a little bit, but some of the examples of synergies and specific examples between the two. And also, where does kind of Quaker fit into that mix?

AI Carey - PepsiCo, Inc. - CEO, North America

Yeah, so Quaker has been a brand that hasn't grown very much over the last several years and I think it has great potential. Because if you think of grains and you think of oats, it's almost -- it's a super grain. And what I found really interesting, I've only been involved with Quaker now for about 4 months, but Google Overnight Oats and see what comes up. And it's this absolutely beautiful array of different overnight oats that millennial moms have invented. I mean the idea if you put oats in a jar overnight, pour in milk or yogurt, put in fruit, some people put in chocolate, some people put in peanut butter. And what you get at 6 hours later in the morning when your kids wake up for breakfast, is this wonderful, healthy product. And when I heard about it, I said I'm not interested in eating that And then I tasted it and it's amazing. And I thought, I've showed it to some of the top retailers and they start out negative and they taste it and they say, how can we get this? I think there's a great opportunity for Quaker to brand overnight oats. We have the dominant share and I think this is an example of how you can take oats and turn it into something really healthy and on trend. And there are several ideas like that. And it's a very profitable product for us. Very profitable overall margin as well as cash flow and return on invested capital.

Lauren Lieberman - Barclays - Analyst

And how about just some synergies across the broader portfolio?

Al Carey - PepsiCo, Inc. - CEO, North America

Well the biggest one is to make sure that Quaker is represented on our customer visits. So we have one PepsiCo team going in to see one of our big customers. Getting them on the agenda is really good because the smaller Quaker Oats company isn't going to command a seat at the table with the biggest customers. But that -- we can make that happen. That's the thing that could use a little work.

The second thing is, on the food service side, as Kirk was mentioning Quaker, breakfast is increasing in overall importance in the food industry today and Quaker should be a much bigger part of that.

Lauren Lieberman - Barclays - Analyst

Vivek, talk about margins. Extremely high margins at Frito-Lay, among the highest in the food industry. Are you concerned that margins might be a little too high, particularly given what some of your larger customers are up to these days? Or to the contrary, is there further runway for margin expansion from here?

Vivek Sankaran - PepsiCo, Inc. - President and COO, Frito-Lay, N.A.

There's only one answer to that which is it's not too high. So the way I think about it is, we think about two -- we think about it as price realization and cost. We continue to do things on both and I'll give you examples. So price realization, first of all, our innovation. Every time we bring out innovation, we get a better price realization. So out there you've got Indian Tika Masala chips, right? And those -- so we bring out these new things that people want to try and are willing to pay just a little more for it. The price point may be the same, but there's less ounces in the bag. And we have this constant drumbeat of innovation coming in all the time to give us that little extra pricing.

Second, we are very good, we continue to improve, but very good at managing revenue on a week to week basis. So by retailer, by customer, we are always trying to think about how to manage the revenue. And then the third piece there is mix and I mentioned the mix working from a consumer demand standpoint to our advantage. The single serve and the multipacks. And recognize that in both single serve and multipacks, we've got two advantages that many others don't. In the multipack we've got a variety in the portfolio. So when you buy that multipack, you buy something for everybody in the family. In single serve, it's hard to beat a DSD system when you want to win with single serve. So we've got those price realization mechanisms going well for us.

Then if I switch to the cost side, we -- it's initiatives that you are familiar with, like GES. We continue to roll it out, we continue to find more than we imagined as we roll that out. Second, and the nice thing about GES is a lot of these productivity initiatives are also helping us be more effective. So we carry more SKUs now in a GES location than we did in a typical distribution center. Get the assortment right for the store, like I mentioned earlier, gives you more growth. So then we continue to drive automation in all our factories and DCs, the DCs that remain. Now it used to be that we couldn't automate the multipack. If you think about the multipack in a sack, it's more difficult. And we couldn't find it anywhere so our engineering team invented it. So we now have automatic packing for our multipack.

We continue to drive -- we call it a smart spend initiative. We continue to drive productivity through that. And then we expect more productivity, like Al mentioned, working together. So we have a lot of confidence both in the topline and on the cost line which if we continue to do, we'll continue to expand margins. And the measure we use to gauge whether it's too high is, at the end of the day, are we gaining share or not? And we are. So we feel comfortable in the position we are in.

Al Carey - PepsiCo, Inc. - CEO, North America

Share is a good governor. But I left Frito-Lay probably 5 or 6 years ago and it had just started GES. It's remarkable how well they've done. And in addition to the margin and the effectiveness, the inventory levels have come down dramatically. And that's made a real difference. And now Kirk is taking a play out of their book and doing GES equivalent for the beverage business.



Lauren Lieberman - *Barclays - Analyst*

I was actually going to ask because I know on a recent call you had mentioned just this. So if you could give us kind of a one-minute recap of sort of what GES is and just how that model can be leveraged and mimicked in the beverage business, it would be great.

Kirk Tanner - *PepsiCo, Inc. - President and COO, N.A. Beverages*

I'll take it from the beverage side. I also spent -- I've been with PepsiCo for 24 years and 18 of those I spent on the Frito-Lay side. So I saw GES really come to life and get results as I was part of many rollouts in GES. On the beverage side, think about the efficiencies and the complexity managed upstream. So what we're trying to do with GES is drive simplicity at the store level, manage all the complexity up at kind of the distribution warehouse level. So that at the frontline, the simplicity is, I just have to order, I have the technology in my hand, I get the products that I want. I don't have to manage this massive assortment. And all that complexity is managed upstream. There's no touches. We're reducing the amount of touches our frontline have to have in the packages.

Now in beverages, the same thing. So it's really easy to think about a Pepsi truck pulling up to a convenience store and having to open up all the different doors and then build the order from that. Have to go around and build the order for what that customer wants. In GES, all that's done at the warehouse level. The salesperson pulls up to the store and that order is already pre-picked, sequentially in order so that the salesperson walks it into the store and merely puts it in the store.

It completely changes the dynamic of and just modernizes the entire go to market. It drives simplicity at the store level. It drives our safety agenda because the fewer times you touch the products, the better. It's just an overall better job for our employees. It's a real give back in driving the performance of our business and it's an efficient way for us to manage complexity. Again, as consumers want more choice, you have to have a system that manages that complexity and that variety upstream so that you don't manage it at the store level.

But I think that's it from a GES standpoint. We're really excited about. We work, our two teams work aggressively together to learn from each other on this and we've learned a great deal from Frito-Lay over the last couple of years in rolling this in the beverage business. We're real excited about it.

Lauren Lieberman - *Barclays - Analyst*

I think we'll open it up for questions. Jamie is managing, not me. So my work is done.

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

Any questions from the floor?

Unidentified Participant

Yeah, either AI or Kirk, on the portfolio transformation process, could you talk about the revenue growth outlook and how -- or maybe provide a roadmap of how the portfolio transforms and delivers a certain sort of low to mid-single digit revenue growth? And what I'm talking about is maybe half the portfolio is carbonated soft drinks. What's the trajectory for that in your transformation process? And then the non-carb side. Maybe just break it down a little bit how each piece is moving and where you expect it to be over time to get to your revenue growth outlook.

Al Carey - PepsiCo, Inc. - CEO, North America

So we want to stay away from forecasting. But let's just -- I think you'd be safe to say if you just look at the syndicated data, it would say that the carbonated soft drink business is flat to slightly growing. And then you've got double digit growth on the non-carb and the teas, coffee, sports drinks and all that kind of stuff. And that mix works. When I got into the beverage business about 5 or 6 years ago, I didn't know if you could sell enough tea and sports drinks and coffee to make up for the depressed business on CSDs. And the answer is now, yes you can, and I think the consumer is sending it in that direction. So we're optimistic about the portfolio transformation and these healthier products that we're introducing are definitely hitting the mark. Most of them, as Kirk said, are single serve products, more than these multipacks. And it commands a better margin for us and the retailer gets a better margin for us, so there's some pull from the retailer side. Anything else to add?

Kirk Tanner - PepsiCo, Inc. - President and COO, N.A. Beverages

Yeah, I'd just say yeah, we look at the business as less than half of our business is in carbonated soft drink, the other half is in NCBs. And we manage the growth in that regard. And I'd say, again, similar to the snack category, the category is in good health when you look at the total category. And that's how we look at it. We don't look at just carbonated soft drinks. We look at the total liquid refreshment beverage category. And we're very, I'd say that's in good shape.

Al Carey - PepsiCo, Inc. - CEO, North America

Beverages right now are growing the fastest of any category. We call it new Lo-C, which is the retail component of IRI. And it's significant growth compared to the rest of the sub cats that are in the retail stores.

Unidentified Participant

Hi. I had a question about sports drinks and the innovations in that category. Obviously it's a great category for you. Over the years you've had various innovations. Where do you think the consumer will evolve, how will the consumer evolve in that category? Does the category need to evolve to lower calorie, more focus on sugar, etc.? Or is it thriving so much now that you don't see the need for that?

Kirk Tanner - PepsiCo, Inc. - President and COO, N.A. Beverages

We treat this category like the sports fuel category. So it's to fuel athletes, to complement their activities and enhance their performance and support their performance. So that's how we look at the total business. And across that portfolio, we have a set of products that meet the different needs of that athlete, all the way from Propel which has the electrolytes of Gatorade but doesn't have any calories. It's zero calories. All the way to out G2 performance, a lighter offering for Gatorade, all the way to the platforms that are intended for athletes, the Gatorade platform around our Fierce stuff for us in our core line. All really intended, backed by science, to work with athletes to enhance their performance. And that's how we think about the business. We have offerings across the range to meet the different consumer needs, but really the primary focus is to enhance an athlete's performance. And that's the focus of the sports nutrition platform.

I'd say there's really interesting innovation off of that. There's a lot of growth in shakes, protein, bars, shoes, all the areas that enhance an athlete's performance is a great space and we're working on that. We're also launching a product called G-Organics and that's going to be in the market -- it's in the market now, just starting to roll out. It's another offering to give consumers that are looking for that offering and that's three great tasting G-Organic products. I think there are some outside in the breakroom or out in the break area as well, so if you want to try that.

Al Carey - PepsiCo, Inc. - CEO, North America

It's all about athletes and their performance, but we also include in there people doing a lot of labor, manual work. So labor workers in construction and lawn care, I mean those people burn up a lot of calories and they need to be rehydrated. The one I'm most excited about that we'll get started



in next year, start to roll it out slowly, but it's the idea of a different customized Gatorade pod. So you get a Gatorade container that we'll sell at retail, you fill it with water and you put this little pod in the top and shake it. And you have a customized Gatorade. And the way you find out what kind of Gatorade you want is you're wearing a patch and you take it off and it will measure the kind of sweat you have and it will guide you towards a certain formula of Gatorade. And we think that -- we've worked with some NFL teams and some college teams and it seems to be -- and the Brazil soccer team, and this seems to be a great idea for the future, but we've got to roll it out slowly and make sure we do it in a good way.

Unidentified Participant

I just wanted to follow up on the question about the retailer and their sort of their competitive landscape and how you guys fit in that. I mean we have seen what seems to be a bit of a deceleration in the in the pricing, especially on the beverage side. Could you speak to how much maybe that's a retail phenomenon versus you guys just passing out lower cost of goods and whatnot? Just trying to get a sense for your pricing flexibility which has been a hallmark over the past year or so.

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

Alec, I think if you look through our first half, we had pretty good and consistent price realization trends. Our quarter just ended this past weekend so we really can't comment on the third quarter. We'll report on September 29th and you'll see what the pricing trends are when we report the third quarter.

Unidentified Participant

Indicated data?

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

Yeah, I can't comment on anything in third quarter, Alec.

Al Carey - *PepsiCo, Inc. - CEO, North America*

One thing I can tell you though is, over the last three years, we've worked -- you may have, last time I was here I think I mentioned this on the whole idea of hybrid EDV, the idea of -- I'm okay on that, right? I just wanted to make sure. So hybrid EDV was this idea we started rolling out about three years ago. And the idea was, we were selling so much product in 10 weeks of the year, during the summer holidays and Christmas and Thanksgiving. We'd sell so much volume, as much as 50% of our year's business on CSDs were coming in a 10-week period, maybe 12 weeks. It wreaks havoc on the whole system. The consumer is stocking up and loading their garages up and waiting for the next deal and then the supply chain is in trouble. So we've started moving to something that spreads out the bandwidth so you'll have more of an average price out there instead of these very highs and very lows. And that's made, I think the customer is starting to believe in that. So I would call it rational pricing in the last year or so and don't expect that to change, hopefully not.

Unidentified Participant

Hi good morning. You made a comment early on about consumers electing to take more of their calories in different ways, especially snacking. We've had dual income households for a long time, people have worked long work weeks for a long time. I can't believe it's just time compression. Is there some other secular change going on in consumption?

Vivek Sankaran - PepsiCo, Inc. - President and COO, Frito-Lay, N.A.

What we see is we think that the family structure has changed, like you said. There are smaller families, younger people getting married later. We have, we see lifestyles changing, a lot more commuting, a lot of people on the go. If I pick one category of snacks that I think are growing the fastest is we characterize it as on the go snacks. Things that people can just take with them. And these multipacks I mentioned, too, it's the same phenomenon. We think it ends up in lunch bags, we think it ends up in a car, and so it's that trend that we see happening. And as that continues, I think people who seek more substantive calories coming in through snacks. So you end up seeing, and it shouldn't be a surprise then, that you're starting to see protein based things that are working well, too, as snacks and drinks today.

Unidentified Participant

I know we're in a deflationary environment and maybe the need for cost saves is not critical at this juncture, but companies throughout the industry are kind of accelerating cost saves. What are you doing?

Al Carey - PepsiCo, Inc. - CEO, North America

Well I'll start out with we have significant productivity initiatives on both sides of this business and the idea that we keep the pressure on no matter what the deflationary environment is, because we need the money to put back against the business. We have a very disciplined approach about taking those dollars and reinvesting them back in the brands, in marketing, or in R&D. In fact, we -- it's a very rigorous process that Indra has us on, make sure you save the money and reinvest it back in the business. Any other comments on that?

Kirk Tanner - PepsiCo, Inc. - President and COO, N.A. Beverages

I think from the beverage standpoint, and Vivek talked a little bit about it, we are very dedicated to the things that are guaranteed on productivity, like automation. This route system that we're working on. Smart spending which we have got rolled across the entire organization just creates this mindset of total company productivity. All of these are critical components of our culture and our drive. We have long term productivity targets that we're all held accountable for and that resonates through our culture.

Vivek Sankaran - PepsiCo, Inc. - President and COO, Frito-Lay, N.A.

We have never, I can't recall any time where we tie our productivity aspirations to an inflationary or deflationary environment. Productivity is a must get under any scenario. I attended our summer intern presentations this summer and every one of them stands up and they've all found \$20,000 or \$15,000 of -- that's the conversation that's always, always the case in PepsiCo. Never tied to together.

Jamie Caulfield - PepsiCo, Inc. - SVP, IR

John, the only thing I'd add is that the productivity program we're on is really trying to carefully balance what I'd call appropriately aggressive productivity with not doing anything that interferes with our growth. I think if we were a company that was in categories that were in decline or not growing or had brands that were in decline or not growing, we'd probably have to adopt a much more aggressive productivity program. But the productivity we're delivering now, we're doing it in a way that it's not interfering with the growth.

Lauren Lieberman - Barclays - Analyst

I think we're over, right? Yeah, we're done. Anyway, thank you very much. We'll move to the breakout.



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