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## PRESENTATION

**Hugh F. Johnston** - *PepsiCo, Inc. - Vice Chairman, Executive VP & CFO*

Good afternoon, everyone. For those of you who may not know me, I'm Hugh Johnston, PepsiCo's Vice Chairman and Chief Financial Officer, and I've been with the company for more than 30 years. I'm happy to be back at CAGNY again this year and would like to thank you for the opportunity to discuss our company's vision and strategy. Before I get started, I would like for you to please take note of our cautionary statement.

I'll spend time today providing a background on our business, our value-creation proposition, our financial priorities and long-term growth targets and conclude by briefly discussing our outlook for 2021. Before we get into the presentation, I'd like to take this opportunity to thank our employees who worked tirelessly through a challenging and uncertain environment to service our customers, communities and consumers. Our employees are the backbone of this organization, and we could not be prouder of how they continue to manage through the pandemic. While most of you listening probably know us quite well, I will start with an overview of our company and businesses.

PepsiCo is one of the largest food and beverage companies in the world with more than \$70 billion in net revenue. Our foods and beverages are consumed nearly 1 billion times each day in almost every country around the world, and we have a diverse portfolio of brands that consumers know and trust with 23 brands in our portfolio, including Pepsi Cola, Quaker, Tropicana, Lay's and Gatorade that generate more than \$1 billion each in estimated annual retail sales.

Our mission is to be the global leader in convenient foods and beverages by winning with purpose. How we get there is comprised of a framework that involves 3 simple priorities: becoming faster, stronger and better.

Faster means winning in the marketplace, being more consumer-centric and accelerating investment for top line growth. Stronger means developing capabilities that can give us a competitive advantage, building a differentiated organization, talent and culture and funding these investments with what we refer to as holistic cost management. And better means integrating purpose into our business strategy and becoming leaders toward building a more sustainable food system. We also have a balanced geographic mix with strong positions in large, global growing categories.

Geographically, greater than 60% of our revenue comes from North America with the remaining amount coming from our international markets. But over time, we would expect our international markets to become a bigger part of the business on a currency-neutral basis as the runway for growth remains significant in developing and emerging countries.

Categorically, our business primarily spans across snacks and beverages, which we believe have complementary characteristics. We have a #1 position in snacks with significant runway for growth as per capita consumption opportunities remain vast. And we're a strong global #2 player in beverages and seek to grow in markets where we have scale and competitive advantages and compete rationally in other markets.

Our company generates approximately 62% of our net revenue and approximately 68% of our core division operating profit in North America. With our North American beverage business being the largest contributor to revenue, while Frito-Lay is the largest contributor to our core division operating profit.

Our international businesses make up the remaining 38% of our total net revenue and 32% of our total core division operating profit with Europe and Latin America being the biggest contributors.

Our core division profit margin is greatly influenced by category mix and if we choose to own or franchise our modeling operations. For example, our strategic decision is to own and operate a substantial portion of our bottling operations in North America and Russia are important factors to consider when analyzing our core division operating margin at PBNA and in Europe. Within North America, most of our snacks and beverage products are primarily distributed via our company-owned direct store delivery system, while certain products are distributed via a warehouse

delivery system. Product velocities, market share and scale, category dynamics and, of course, return on investment are all important factors that are taken into account when considering go-to-market distribution systems.

I'll start with PepsiCo beverages, which is a scale business that continues to be the market share leader in the liquid refreshment beverage category with a great product portfolio of some of the most iconic brands, Pepsi, Mountain Dew and Gatorade.

These brands, along with many more, help balance its portfolio mix between both carbonated and noncarbonated beverages. And as I mentioned earlier, we own and operate a substantial portion of the beverage bottling system in North America.

Now I'll turn to Frito-Lay, which is a leading player in the macro snacking category. Currently Frito-Lay has a strong portfolio of salty and savory snacks and aspires to increase our scale and presence across key adjacencies within macro snacks, such as increasing presence for nutritious stacks and extending our existing brands into meal occasions. In addition, Frito continuously innovates and refreshes its flavor lineup by localizing taste profile for different demographic cohorts and also increasing its presence in emerging growth channels, such as e-commerce by investing to support our retail partners and our direct-to-consumer offerings.

Rounding out North America, Quaker Foods includes well-known and trusted brands such as Quaker, Cap'n Crunch and Rice-A-Roni, which accounts for most of its total net revenue. While Quaker and Frito-Lay are reported as separate divisions, these businesses report to the FLNA CEO internally. We believe this reporting structure has and will continue to unlock innovation, growth and productivity opportunities over time for this highly profitable business with strong cash-generative capabilities.

Moving to our international businesses. Our divisions operate on a regional basis and incorporate both snacks and beverages. Approximately 65% of our international net revenue is derived from snacks, while the remaining 35% is derived from beverages. Our snacks business has leading market positions across many key markets in both salty and savory snacks, and we feel significant per capita consumption opportunities remain in developing and emerging markets.

Our international beverage business primarily competes within carbonated soft drink, juice and dairy categories. Apart from our company-owned bottling operations in Russia and a few other small markets, our international beverage business is primarily franchised to strong third-party beverage partners that have greater scale and strong local execution capabilities. While all of our divisions have local decision-making power to better serve customers in the regions, they do so on the backbone of the principles we set out 2 years ago.

Our set of principles, what we call the PepsiCo Way, primarily involves taking consumer-centric lens into everything that we do and empowering our employees to act like owners. The heart of this agenda involves investing in our people and it is something that we will continue to build on in years to come. I won't read every item on this slide, but the key elements include: being consumer-centric by constantly innovating and factoring the end consumer into every decision we make; acting as owners of the company; and focusing to get things done fast.

Our culture and values also extend to what we call winning with purpose, which is a framework that incorporates helping our communities grow. We believe there is an opportunity to change how the world produces, distributes, consumes and disposes of food and beverages to address the shared challenges we face. During the pandemic, thus far, PepsiCo has worked with more than 60 partners to support more than 1,000 communities across the globe, providing more than 130 million meals and \$60 million in COVID-19 relief. We also remain committed to helping our communities grow in the future.

Let me take you through some of the goals and initiatives we have in line. With respect to our environmental initiatives: we strive to make advancements in building a world where plastic packaging need never become waste; sourcing ingredients through a more sustainable and resilient agriculture; being even more responsible stewards of water; and doubling our climate goals by setting new goals this year and targeting net zero greenhouse gas emissions and sourcing 100% of our global electricity through renewable energy by 2040.

With respect to our social initiatives, one of our biggest focus areas includes reaching gender parity in management roles by 2025. Currently, women make up approximately 41% of our managers globally, and we look forward to advancing that figure in the future. Another big area of focus for

us is our \$845 million racial equality journey initiatives, which seeks to impact racial inequality and uplift under privileged communities over the next 5 years.

And lastly, we continue to look for ways to diversify our portfolio and improve choices for our consumers by reducing added sugars, sodium and saturated fats in many of our products. Our goal were at least 2/3 of our global beverage portfolio volume is to have 100 calories or fewer from added sugars per 12-ounce serving by 2025.

And with respect to governance, our director nominees bring diverse opinions and perspectives with a well-rounded range of attributes, and approximately half of our director nominees are women and/or ethnically diverse individuals and all but one of our Board members are independent.

Our geographic mix, category brand positioning, and our culture and values allow us to prioritize how we drive results for our stakeholders, including our shareholders.

With that, let me move into our value-creation proposition. Over the long term, we have delivered an average 4% organic revenue growth. Our organic revenue growth has accelerated since 2018, as we ramped up investments in our business and brands in accordance with our framework to become faster, stronger and better.

Looking ahead, we believe we have the right portfolio and strategies in place to maintain our long-term 4% to 6% organic revenue growth target. We believe we can sustain this level of growth by evolving our portfolio to meet the changing needs of our consumers by focusing on 3 strategic levers. First, it's about growing with our largest brands. We accomplished this by revitalizing our large well-known brands on an ongoing basis like trademark Lay's, Doritos, Mountain Dew and Pepsi through flavor extensions, diverse package mix offerings and strong brand activation campaigns, which continuously refresh these trademarks to meet the changing consumer preferences.

Next, it's about delivering big ideas via consumer-centric innovation. A few examples of this include: expanding our presence in the sports drink category with Gatorade Zero and Bolt24 which, in aggregate, delivered more than \$1 billion in estimated retail sales in 2020; creating and introducing a new successful sparkling water brand with bubly, which delivered more than \$350 million in estimated retail sales in 2020 and continues to maintain a high single-digit value share of the category.

We're also lifting and shifting innovation by doubling the number of international markets for our Flamin' Hot flavor profile and significantly expanding the presence and availability of our Pepsi Black or Zero Sugar innovation and working closely across existing assets and brands to expand into new adjacencies, such as Cheetos Mac 'n Cheese and Off the Eaten Path.

And finally, we've also addressed key strategic gaps in our portfolio through M&A. Our acquisitions over the last few years, most notably ROCKSTAR, Pioneer Foods, Be & Cherry, SodaStream, BFY Brands and others help fill demand spaces where we needed them the most. Currently, we are very happy with our portfolio and are focused on maximizing the growth and returns from our assets. As we move forward, we remain encouraged about our growth prospects as the categories we compete in are very large and are expected to grow at mid-single-digit rate. Specifically, we only command an approximate 9% share in a \$570 billion global LRB addressable market and an approximate 7% share in a \$550 billion global macro snacks addressable market.

I'll next address how we're prioritizing our growth objectives. Starting with North America. Our primary objective is to outpace category growth within both snacks and beverages by: expanding our presence across macro snacks in a disciplined and value-enhancing manner to capture our fair share of daily occasions by rationally competing and evolving our product and package mix offerings across beverages to meet the changing needs of consumers and expanding our presence in the highly profitable energy category; by evolving with our customers to invest and expand our presence and capabilities within the e-commerce channel; and by advancing our digital capabilities and modernizing our value chain and go-to-market systems to continuously improve our demand forecasting and market execution. This seems to deliver greater precision and value at the shelf for the consumer.

With respect to our international markets, our priorities for snacks versus beverages vary to an extent. For snacks, it's about increasing per capita consumption and gaining market share. Much of this opportunity still lies within developing and emerging markets, such as Mexico, Brazil, Russia,

China and India, to name a few. To support this ambition, we're investing in our snacks and foods growth capacity and in digital capabilities to enhance our go-to-market and supply chain systems to increase our speed to market and productivity.

For beverages, we're taking a more selective approach across markets and categories by better balancing between growth and returns by market. In markets where we don't have leadership or stronghold positions, we tend to operate with an asset-light franchise model with partners who have scale. Examples include Latin America, China, India and the U.K. with an emphasis on carbonated soft drinks.

However, in other beverage markets where we do have scale, such as Russia, we own our bottling and distribution operations to compete effectively across both carbonated and noncarbonated beverages. Overall, in our largest markets where we have strong leadership positions, such as Mexico, Russia and the United Kingdom, we will continue to grow our core categories and strategically expand our portfolio offerings to capture growth in attractive categories, channels and occasions.

For key growth regions such as China, India and South Africa, we will invest to increase penetration and per capita consumption by ensuring affordability, affinity and availability. With respect to affordability, we will deploy business models that enable us to hit key price points specific to each market. As it relates to affinity, we will focus our biggest global brands and product ranges with selective tailoring to maximize relevance to consumer preferences. And for availability, we will build distribution and improve in-store execution using service models enabled by technology.

Sustaining or accelerating our organic revenue growth with the set of priorities I've mentioned today is just one component of a profitable growth operation. To drive further operating leverage, we are committed to delivering at least \$1 billion of annual productivity savings through 2023.

Our revenue growth and productivity initiatives are expected to more than offset ongoing pressures associated with wage inflation, geographic and channel mix complexities, and ongoing capability investments in digitalization, information technology systems and automation. In addition, we are also focusing on maximizing the return and margin potential of recently acquired assets, which have also pressured the margin mix within our portfolio.

Netting these factors, we believe that mid-single-digit organic revenue growth can translate into 20 to 30 basis points of annual core operating margin expansion over the long term. So let's dive a little deeper into the operating margin discussion as it varies quite significantly across our businesses.

As a result, we must address our business priorities separately. Starting with PepsiCo Foods North America or Frito-Lay and Quaker Foods, our priority is to invest wisely to sustain or accelerate growth and enhance our competitive advantages. Our North America snacks and foods business is highly profitable and well funded. So it's more about capturing new consumer occasions, increasing productivity from automation and digitization, investing in our brands through targeted marketing and focusing on fewer bigger bets when it comes to innovation.

For example, we will look to sharpen our net revenue management initiatives through personalized pricing and promotions, increase productivity initiatives by optimizing our network, increasing automation and digitalization and utilizing new service models and investing in additional capacity to fulfill demand for our multi and variety packs across snacks.

When it comes to PepsiCo beverages North America, we will compete rationally and look to improve its core division operating margin by: evolving our product portfolio mix to improve growth and profitability over time; by doubling down on our net revenue growth management framework to drive affordability; by reducing our nonworking A&M and shifting our working A&M to lower cost digital platforms; by addressing manufacturing efficiencies and focusing on end-to-end integration within our selling and distribution network; and by leveraging our global business solutions template to reduce our general and administrative expenses.

As it relates to our international markets, we believe investing to increase scale for our snacks business and investing selectively in beverages will help deliver compelling growth in some core operating margin expansion. Scaling our international snack strategy means focusing on building more manufacturing facilities and local innovation to drive per capita consumption. It also means offering greater value in select markets and building facilities around a lower cost operating model in order to maximize profitability.

For international beverages, we will compete rationally by strengthening our bottling network in order to drive a higher-margin concentrate model in most of our international markets. However, when it comes to our international operating margin, it's important to note that certain variables outside of our control, such as foreign exchange movements and geopolitical uncertainty can alter the margin trajectory.

Now that we've laid out our growth and profit agenda, I'd like to spend some time on capital allocation and cash flow. To keep matters simple, our capital allocation priorities remain unchanged and include: investing in the business; paying and growing our dividend; strengthening our portfolio through bolt-on M&A; and repurchasing shares while maintaining ample liquidity and access to the top-tier commercial paper market.

However, given our strategic framework and growth aspirations, we expect to prioritize capital spending and dividends over acquisition activity and share repurchases in 2021. Additionally, we do not expect any further share repurchases in 2021.

With respect to capital spending, we expect our investments to remain elevated and then moderate in a few years. To provide clarity on where we are spending, approximately 45% of our spending is geared towards growth capacity. More than 45% of our spending is towards operational necessity, digitization and generating future productivity, and the remaining 10% is related to our ESG initiatives.

Unpacking this a bit further, we are adding manufacturing lines to capture new demand spaces while also unlocking capacity for constrained products in both snacks and beverages. We're also automating and digitizing our supply chain to ensure greater agility and speed to market for breakthrough innovation while ramping up investments in our e-commerce channel.

For example, we're leveraging our additional manufacturing capacity to rebrand and reposition our Lay's Kettle Cooked chips around bigger flavors. For beverages, we're looking to secure additional capacity and are developing plan to increase speed to market in order to meet higher service levels for our Gatorade brand. With respect to our supply chain, we're accelerating transformation in our much needed digital capabilities in North America.

These investments look to unlock real-time inventory visibility, split sourcing and machine learning capabilities in order to minimize complexity in a rapidly evolving marketplace. And as a company, we're continuing to harmonize and simplify our technology systems and business processes, which will drive productivity and help enhance our trade promotion management, forecast accuracy and financial planning.

We believe our capital spending investments behind our brands will better position PepsiCo for the next phase of growth. However, the higher levels of investment have pressured our free cash flow conversion ratio in recent years, and we are working diligently to reverse this trend over time. We feel we have an adequate amount of capital and flexibility to sustain these levels of investment. Should these investments not show the desired returns we seek, we will not hesitate to adjust our plans.

In addition to investing in our business and building a better company for the future, dividends remain an important component of our total shareholder return proposition. And we have demonstrated our commitment on this front by consecutively increasing our dividend over the last 49 years. I want to emphasize that we remain confident today that we will maintain adequate levels of flexibility to pay and grow our annual dividend over time.

Beyond capital investments and dividends, we have also increased our M&A activity over the last few years to fill key portfolio gaps in the business. These gaps have addressed key growth opportunities in snacks and beverages in both developed and developing markets.

For example, our SodaStream acquisition has benefited our global beverage business growth, as it addressed a key gap in our portfolio to offer more environmentally friendly choices and customization to consumers. Our Pioneer acquisition expanded PepsiCo's geographic footprint to uniquely position itself in the attractive food space in Sub-Saharan Africa, an area with a growing middle class and rapid urbanization.

Our BFY Brands acquisition was complementary to our Frito-Lay product portfolio as it expanded our winning with purpose agenda to offer consumers more nutritious options, while enabling popping technologies to produce non-fried crispy snacks. And most recently, our ROCKSTAR acquisition expanded our reach in the fast growing and highly profitable energy category at a time when consumers' lives have become busier.

Strategically, this acquisition also provided PBNA with the flexibility to establish a broader portfolio of energy offerings with both existing brands such as Mountain Dew and partnerships that can leverage our existing distribution capabilities.

But as we had anticipated, our recent acquisitions have pressured our core net ROIC. However, I would like to emphasize that we are very pleased with the composition of our portfolio and our priorities have shifted towards maximizing growth and returns from these assets in a disciplined fashion that would be beneficial for PepsiCo. As a result, we do expect our core net ROIC to improve and follow a similar pattern to our free cash flow conversion trajectory after the next few years.

So to conclude our discussion on capital allocation, we aim to preserve our financial flexibility and liquidity to meet the needs of our business and return cash to shareholders while maintaining an investment-grade credit rating and access to Tier 1 commercial paper.

And as I mentioned earlier, we are prioritizing capital spending and dividends over share repurchases and M&A in 2021 as investing in our business is expected to unlock additional growth, improve financial returns, and build a better company for the future and paying our dividend is an important component when considering the decomposition of long-term total shareholder returns.

As it relates to our long-term objectives, we continue to aspire to deliver a good balance between growth and income to drive value creation, which includes: mid single-digit increase in organic revenue growth; 20 to 30 basis points of core operating margin expansion; high single-digit increase in core constant currency earnings per share growth; and a current dividend yield of approximately 3%.

And finally, our priorities for 2021 remain consistent with the framework we discussed today. We will continue to strengthen our marketplace competitiveness by investing in critical capabilities, while continuing to focus on delivering our financial targets.

To reiterate what we communicated last week when we reported our fourth quarter and full year 2020 results, we expect to deliver mid single-digit organic revenue growth and high single-digit core constant currency EPS growth in 2021. Additionally, we expect our capital allocation priorities to focus on investing in our business for growth and productivity and returning approximately \$5.8 billion in dividends to shareholders.

With that, I'd like to conclude this presentation, and thank you again for your time and attention today.

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