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# EDITED TRANSCRIPT

PEP - PepsiCo Inc Annual Shareholders Meeting

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## CORPORATE PARTICIPANTS

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

**Ramon Luis Laguarta** *PepsiCo, Inc. - Chairman of the Board & CEO*

## CONFERENCE CALL PARTICIPANTS

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

**Christy Spees** *As You Sow*

**Rebecca Falcon** *SumOfUs*

## PRESENTATION

### Unidentified Company Representative

Before we begin, please take note of our cautionary statement. This presentation includes forward-looking statements based on currently available information. Forward-looking statements inherently involve risks and uncertainties that could cause our actual results to differ materially from those predicted in such forward-looking statements. Statements made in this presentation should be considered together with the cautionary statements and other information contained in our 2018 annual report and subsequent filings with the SEC.

Also to find reconciliations of non-GAAP measures that we may use when discussing PepsiCo's financial results, please refer to the "Investors" section of PepsiCo's website under the "Events" tab.

And now please welcome, the Chairman and Chief Executive Officer of PepsiCo, Ramon Laguarta.

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### Ramon Luis Laguarta - *PepsiCo, Inc. - Chairman of the Board & CEO*

Good morning, everyone. On behalf of our Board of Directors and our management team, senior management team, thank you to all for joining us at this PepsiCo's 2019 Annual Meeting of Shareholders. Thank you to all our friends in New Bern for hosting us once again. It's always a pleasure to be here in the birthplace of Pepsi-Cola.

Let me begin by -- the meeting by introducing our Board members who are here with us today. I'll ask each one of them to stand as I read their names: Shona Brown, Cesar Conde, Ian Cook, Dina Dublon, Richard Fisher, Michelle Gass. Michelle is our newest Board member, and I'd like to officially welcome Michelle to PepsiCo. Michelle is the CEO of Kohl's Corporation. It's a leading omni-channel retailer, and we're very fortunate to have Michelle, her insights and her experience on our Board. So welcome, Michelle. Continue - Bill Johnson, David Page, Bob Pohlad, Dan Vasella, Darren Walker and Alberto Weisser.

With me on the stage is David Yawman, our Executive Vice President of Government Affairs, the General Counsel and Corporate Secretary. And let me also introduce the other members of our leadership team that are here with us today: Hugh Johnston, Vice Chairman and Chief Financial Officer; Laxman Narasimhan, Global Chief Commercial Officer; Kirk Tanner, CEO of PepsiCo North America Beverages; Steven Williams, CEO of PepsiCo North America Foods; Ronald Schellekens, Executive Vice President & Chief Human Resources Officer; Jon Banner, Executive Vice President of Global Communications and President of the PepsiCo Foundation.

Let me say also what a privilege it is to be joined, once again, by Paul Finney, the CEO of PepsiCo Bottling Ventures, our largest bottling partner in North America; and by Jeff Minges and his sons, Miles and Landon. Jeff runs Minges Bottling Group, our bottling partner here in New Bern and across Eastern North Carolina.



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So thank you guys what you do for our partnership and growing our business consistently. And thank you to everyone who is here today either in person or in -- on webcast. I want you to know I consider it not only a responsibility but a privilege to come here and tell you how we're making good on your investments.

I'm proud to tell you that as we head into in the summer of 2019, we're a very well positioned company. In the first quarter of this year, alone, we grew organic revenue of more than 5%, increased core constant currency EPS by 3% and we grew our core constant currency operating profit by 10%. This top line performance, which was very good, was broad-based with particularly strong organic revenue growth in our snack business in North America, which grew 6%. And our international divisions also grew very fast. ESSA delivered organic revenue growth of 8% and both Latin America and AMENA grew at 10%, very, very strong results.

This was one of our best quarters in years. And it shows that the plans we're executing, the investments we're making in the business, which I will tell you more about it shortly, are working very well. We're accelerating growth and investing in capabilities to drive sustained performance long into the future. These strong Q1 results build on the positive business momentum that we started to gain in 2018. Last year, we met or exceeded each one of the financial targets that we outlined at the beginning of the year. We grew organic revenue by 3.7%, we grew core constant currency EPS at 8%. We generated \$7.6 billion of free cash flow excluding certain items. And we returned approximately \$7 billion to shareholders through dividends and share repurchases. And on top of that, we increased the dividend for the 46th consecutive year. This success was powered by several key traits that have long been at the heart of our business. We compete in attractive and growing categories with leading brands and a broad product portfolio. We have a global footprint with strong market positions in our largest markets. We have many capabilities from brand building to route-to-market to R&D that have been built and strengthened over decades. And we have very large scale that enables very efficient operations. And most importantly for me, we have dedicated associates who are passionate about our business. These traits have enabled PepsiCo to consistently perform well over time, both financially and in the marketplace.

Now for the past several months, my leadership team and I have been focused on how can we build on this extremely strong foundation that we have to take PepsiCo to even greater heights. We united behind a new mission: To Create More Smiles with Every Sip and Every Bite. It is our call to action for all of us to run our business in a way that is simultaneously satisfying and advancing the interest of our consumers, our customers, associates and communities, planet and the shareholders. We also united around a new vision, a new vision that captures our competitive spirit, our intense focus and our shared values, which is: To Be the Global Leader in Convenient Foods and Beverages by Winning with Purpose. We're energized by both this mission and this vision because we see a very good organization that can be great. In particular, we believe we can accelerate top line in a very sustainable way. We can compete more effectively to win in more of our markets. And we can more rapidly evolve our capabilities to widen our advantages versus competition.

To achieve these aims, we are committed to 3 clear priorities: becoming Faster, Stronger and Better in everything we do. We'll become Faster by being much more consumer-centric and accelerating investments for top line growth and winning in the marketplace. We'll become Stronger by transforming our capabilities and our culture. We have already introduced what we call The PepsiCo Way, a new approach rooted in 7 key behaviors from being consumer-centric and acting as owners to raising the bar on talent and diversity. And we'll become better by continuing to integrate Purpose into our business strategy and doing even more for the planet and for our people. Under my predecessor Indra Nooyi's leadership, Performance with Purpose became a cornerstone of PepsiCo, guiding our strategy and serving as a point of true differentiation for us. We're proud of the progress we've made and we're equally excited about the continued evolution of our purpose agenda. With this in mind, we're committing to Winning with Purpose, which will elevate our sustainability agenda even higher.

Our priorities are clear and your company, from our Board of Directors to our frontline, is fully committed to achieving those priorities. We are moving forward with urgency and have fierce competitive drive. And we look forward to writing the next exciting chapter in this -- in the history of this very iconic company, a history that begun right here in New Bern, North Carolina.

Thank you very much for the confidence you have placed in us with your investments and for your continued support of PepsiCo and its leadership. With that, I'll turn it over to Dave, who'll serve as a Secretary of the meeting and lead us through the agenda.



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

Thank you, Mr. Chairman. And I'm pleased to report that a majority of the votes entitled to be cast at this meeting are represented today in person or by proxy and therefore, we have the necessary quorum under state law and our bylaws. If you've previously voted by proxy, you do not need to vote today unless you wish to change your vote. If anyone has not yet voted and would like to do so by ballot during the meeting, please raise your hand.

Our staff assistants will distribute the ballots to you. Please keep your hands up until you do receive a ballot. The ballots must be completed and turned in before the Inspectors of Election announce the closing of the polls and a bit later we will make a call for outstanding ballots. Please remember to vote all items on the ballot. Please also remember to print your name clearly and sign your ballot. And if you have a legal proxy, please hand that in with your ballot.

The ballots and proxies will be held in the possession of the Inspectors of Election, Beth VanDerbeck and Matthew Criscenzo, who are with us from Broadridge Investor Communication Solutions. They've previously taken their oath as Inspectors of Election at this meeting. And Ms. VanDerbeck and Mr. Criscenzo, please stand up or raise your hands so that you may be recognized. Great. Thanks to you both.

Consistent with North Carolina state law and our bylaws, a list of the shareholders entitled to notice of this meeting is available for inspection at the registration desk throughout the meeting. And now that we have a quorum, I declare this meeting to be duly convened for purposes of transacting such business as may properly come before it in accordance with state law and our bylaws. And would the Inspectors of Election, please open the polls?

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

We hereby declare the polls to be open.

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

Great. Mr. Chairman?

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**Ramon Luis Laguarda** - PepsiCo, Inc. - Chairman of the Board & CEO

Great. So we'll now proceed with the formal business of this meeting. As Chairman, I will be responsible for the conduct of today's meeting. You should have a copy of the Rules of Procedure that we'll follow and we appreciate your cooperation to follow those rules. I have asked Dave to address any issues that arise under those rules.

We'll introduce, first, all agenda items and then we'll open the floor to questions relating to the agenda items only. I ask you to hold all your questions on our agenda items until we actually open the floor and to please direct your questions only to me.

After we address any questions regarding the agenda items, we'll collect all the ballots and our Inspectors of Election will tabulate the voting results.

At the end of the meeting, we'll open the floor to general questions. I'll now turn it over to Dave to lead us through the agenda.

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

Thanks, Ramon. Because we did not receive notice of any additional matters to be considered beyond those items in the proxy statement, no other proposals or nominations may be introduced at this meeting.

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We'll begin with our first agenda item, which is the election of Directors. And I place before the meeting to serve as Directors for the coming year, the 13 individuals whose names and biographies appear in our proxy statements. Our Board recommends a vote "for" each of the nominees for a Director.

The second agenda item is the ratification of the appointment of KPMG, as the company's independent registered public accounting firm for 2019, which I place before the meeting. Brian Hegarty is here with us representing KPMG. Brian, where are you? There you go. Thank you, Brian. And he will be available to answer questions or to make a statement if he would like to do so later in the meeting. Our Board recommends a vote "for" the ratification of the appointment of KPMG as PepsiCo's independent registered public accounting firm for 2019.

The third agenda item is the advisory vote to approve the compensation of the named executive officers identified in our proxy statement, which I place before the meeting. Our Board recommends a vote "for" the advisory resolution to approve executive compensation.

The fourth item is the approval of amendments to the Articles of Incorporation to eliminate the supermajority voting standards. Our Board recommends a vote "for" the resolution to approve these amendments.

And we'll now move on to the shareholder proposals in the order that they appear in the agenda. Each of the shareholders or their representatives will have 5 minutes to present their respective proposals. After 5 minutes, you will hear this chime, as an indication your time is up. If you hear the chime, we would ask that you conclude your comments.

Now we'll turn to the first shareholder proposal requesting that the company adopt a policy and amend the bylaws requiring the Chair to be an independent member of the Board. The shareholder proponents' representative from SumOfUs will present the proposal, and would Rebecca Falcon, please introduce yourself and the proposal?

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### **Rebecca Falcon** - *SumOfUs*

Good morning. My name is Rebecca Falcon. And I'm a Campaign Manager at SumOfUs, which is a PepsiCo shareholder. I am presenting shareholder proposal #5 for an independent Board Chair, who is not CEO. SumOfUs as a community of 15 million people in 150 countries including at least 2,700 Pepsi shareholders and 2,700 individuals who recently wrote to their pension funds regarding this proposal.

SumOfUs members are committed to curbing abuses of power by corporations. We want to buy from and invest in companies that respect the environment and treat their workers fairly. The Board of Directors is supposed to represent us, the shareholders, and oversee management, but the structure where the top manager, the CEO, also chairs the Board, is not accountable. And we're not alone in thinking this. 50% of S&P 500 companies have separated the role of the Chair and CEO. This is especially important to PepsiCo, as Pepsi is facing mounting criticism over its association with conflict palm oil producer, Indofood, in Indonesia, which former CEO, Indra Nooyi and now Ramon Laguarta, have both failed to resolve. PepsiCo's joint venture partner Indofood was recently expelled from the international palm oil standards body, the RSPO, for exploiting workers, discriminating against female employees, using child labor, forcing its workers to work in dangerous conditions and paying below the minimum wage. These allegations are confirmed by an independent audit, which found over 10 legal offenses that were grave and methodical breaches of the RSPO Sustainable Palm Oil Policy, standards that PepsiCo has signed up to. Today is May Day, the International Workers' Day, to protect workers' rights. Pepsi has a policy on paper against the kind of worker discrimination happening on Indofood plantations. But in practice, it's not doing enough.

Independent Board leadership would be an important first step to begin to address these risks. On behalf of SumOfUs members in 150 countries, I'd also like to take this opportunity to deliver a petition of almost 1 million signatures demanding the PepsiCo cuts ties with Indofood. Under his leadership, CEO, Ramon Laguarta has kept Pepsi in a damaging relationship with a company that is notorious for abusing its workers, including children, and destroying the rainforest and peatlands. This partnership is having a toxic effect on Pepsi's reputation. And we believe an independent Chair could hold the CEO to account and protect Pepsi from further damage. We urge shareholders to vote for proposal #5. And we urge the Board to adopt to this policy. Thank you.

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**Ramon Luis Laguarta** - *PepsiCo, Inc. - Chairman of the Board & CEO*

Thank you, Rebecca. Thanks for your comments. From a governance standpoint, we have a strong independent Board oversight in our Presiding Director, Ian Cook, and specifically, as you said, I believe, on the matters such as the one you are referring to, palm oil, through our Public Policy and Sustainability Committee, led by Dina Dublon, who is -- comprised entirely -- that committee by -- of independent Directors.

I think we are also very transparent in our use of palm oil. And we'll talk more later, probably. But we provide extensive disclosure on our website including a progress report about our use of palm oil and then we have been recognized by the World Wildlife Fund for leading the way on sustainable palm oil. Our governance documents allow the Board the flexibility to determine whether the roles of the Chairman and the CEO should be separate or combined based on company's needs. And we believe it is critical for our Board to retain that flexibility to choose the most effective way for the leadership structure of PepsiCo. And that is the reason why we recommend a vote against that proposal. Thank you.

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

The second shareholder proposal on the ballot is requesting that PepsiCo disclose quantitative metrics that demonstrate that we are making progress towards reducing the use of pesticides in our supply chain. The shareholder proponents' representative from As You Sow will present the proposal. Would Christy Spees please introduce yourself and the proposal?

**Christy Spees** - *As You Sow*

Good morning. Thank you, PepsiCo Board members, shareholders and management team. My name is Christy Spees. And I'm here today to present shareholder proposal #6. This proposal asks the company to disclose data which demonstrate the long-term reduction in the use of chemical pesticides in the agricultural supply chains for PepsiCo products. As many of you know, after reading the proxy statement for this year, PepsiCo has developed a commitment to what they're calling Winning with Purpose, which builds on a foundation of sustainability. This strategy is based on the principle that environmental sustainability will lead to long-term financial sustainability for the company and its investors. We commend the company for making this commitment and we also thank the PepsiCo leadership for its continued efforts to do business sustainably and for engaging with shareholders on sustainability concerns. The issue of chemical pesticides specifically, however, currently represents a significant blind spot in the company's sustainability reporting. PepsiCo's Quaker Oats brand has been in the media spotlight multiple times after residues of the controversial chemical glyphosate has been found in Quaker products. Glyphosate is the main ingredient in common weed killer Round Up, originally marketed by the agrochemical industry as being "As safe as table salt". Science now demonstrates substantial risks posed by this chemical to human health and to the environment. In fact, glyphosate is currently classified by the World Health Organization as a probable human carcinogen and is classified by the State of California as a known carcinogen. Consumers are increasingly demanding clean, safe products that are sustainably produced. PepsiCo's -- if PepsiCo were to fail to adequately address the use of chemicals on its agricultural ingredients, this would pose a threat to the company's reputation and growth. Consumer concern about pesticide toxins has led to numerous class action lawsuits already against food manufacturers, petitions to the EPA to increase federal regulation and proposed legislation at the state, local and federal levels to restrict the use of these chemicals. PepsiCo has not yet demonstrated a committed effort to address this particular growing problem or the harmful effects of pesticide exposure to consumers, the environment and the farm workers and communities impacted by its agricultural supply chains. As long-term investors in PepsiCo, we seek to ensure that the company is adequately managing all public health and environmental impacts of its agriculture supply chains as well as the related risks to the company's reputation and business. By tracking and reporting data regarding chemical use on the company's supplier farms, PepsiCo can demonstrate to shareholders that -- as well as to consumers that it is successfully addressing these concerns. PepsiCo is one of the largest food and beverage companies in the United States, which I'm sure I don't have to tell you. We believe that the company would best serve all of its stakeholders by using its market power to promote a food system that is healthier for people, the environment and the long-term value of its brands. Thank you.

**Ramon Luis Laguarta** - *PepsiCo, Inc. - Chairman of the Board & CEO*

Thank you, Christy. And thank you for coming all the way here. We've had I think considerable engagement with your company -- your organization on this matter and some other matters. Let me take here just a minute to share with you what is the Board's position on this topic, which you can



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read also about it in the proxy statement. We think that we have robust programs and policies on food safety and sustainable agriculture to address the concerns that you're talking about, about pesticide using by farmers. We also provide significant disclosure on our website including a statement on pesticides that includes data on practices our farmers are using to optimize pesticide use. We believe our integrated pest management program reduces the use of pesticides on our supply chain. And we can track compliance with the program as a means of assessing our progress in reducing pesticides, addressing the reporting called for in this proposal. We also believe at the same time that the company should have the flexibility to further develop our policies and procedures in a way that we consider to be the most efficient and effective. So for these reasons, the Board believes that the reporting called for in this proposal is neither necessary, nor a good use of company's resources. I recommend that shareholders do not support this proposal.

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

Thank you, Ramon. We've now heard the 6 agenda items. Are there any questions about any of the 6 agenda items we just reviewed? And as a reminder, we will open the floor to general questions on other topics at the end of the meeting. If anybody does have a question, please raise your hand. Thank you. Has anyone -- has everyone voted who wishes to do so? I know we passed out a series of ballots before. If there are any ballots outstanding at this time, I see some being collected. Looks like we just about have them all. Thank you, everybody. We seem to have all the ballots and since all those desiring to vote have now done so. I will ask our Inspectors of Election to please close the polls.

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

I now declare the polls to be closed.

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

Great. Thank you, Beth. The responsibility of the Inspectors of Election is to tabulate the voting results. They will begin to do so now, while we have a brief break and enjoy some great PepsiCo commercials from the past year. This will just take a few minutes.

(presentation)

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**Ramon Luis Laguarta** - PepsiCo, Inc. - Chairman of the Board & CEO

Great commercials. So now Dave Yawman, the Corporate Secretary, will announce the preliminary results of the ballot.

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

Thank you, Mr. Chairman. I'd like to report the preliminary results of the voting. On ballot item #1, with respect to the nominees for Director, I'd like to report that all Director nominees have been duly elected by the affirmative vote of a majority of the votes cast. On ballot item #2, the appointment of KPMG LLP, as our independent registered public accounting firm for 2019, that item has been ratified by the affirmative vote of approximately 97% of the votes cast. On ballot item #3, the advisory vote on executive compensation, it has been approved on an advisory basis by the affirmative vote of approximately 93% of the votes cast. On ballot item #4, the amendments to the Articles of Incorporation to eliminate the supermajority voting standards, it has received the support of approximately 70% of the issued and outstanding Common Stock and thus received enough votes to pass. Ballot item #5, a shareholder proposal regarding independent Board Chairman has received support of approximately 25% of the votes cast and thus did not receive enough votes to pass. And on ballot item #6, a shareholder proposal regarding disclosure of pesticide management data, that has received support of approximately 11% of the votes cast and thus did not receive enough votes to pass.

Again, I remind you, these are preliminary voting results and final results will be available after the votes have been certified by our Inspectors of Election. The final results will be disclosed on a Form 8-K that will be filed with the U.S. Securities and Exchange Commission. Mr. Chairman?



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**Ramon Luis Laguarda** - PepsiCo, Inc. - Chairman of the Board & CEO

Thank you, Dave. So all of the proposals eligible for consideration by the shareholders at this annual meeting has been presented. The formal business portion of the meeting now is adjourned. I thank you all for your time and attention today.

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