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# PepsiCo, Inc. (PEP)

Consumer Analyst Group Of New York Conference

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## MANAGEMENT DISCUSSION SECTION

**Bonnie Herzog**

*Analyst, Goldman Sachs & Co. LLC*

Good morning, everyone. It's a pleasure to welcome PepsiCo back to CAGNY this year. Joining us today we have Chairman and CEO, Ramon Laguarta, and Executive VP and CFO, Steve Schmitt. Also, please join me in thanking them for providing us with all of the amazing snacks and beverages today.

So PepsiCo is the world's largest convenient food and beverage companies with more than \$90 billion in revenue. PepsiCo is on a transformation journey to improve its competitiveness and financial performance by refreshing its existing portfolio, including Lay's, Tostitos, Gatorade, and Quaker, as well as introduce an expansive slate of innovation, sharper affordability initiatives at their North American food business.

So with that I'm going to turn it over to Ramon to hear more about their efforts. Thanks.

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**Ramon L. Laguarta**

*Chairman & Chief Executive Officer, PepsiCo, Inc.*

Thank you. Good morning, everybody. And thank you . Thank you, Bonnie, for your introduction. Hopefully you guys have the opportunity to try our products. They're there for you. [indiscernible] (00:01:17) so thank you.

Before we start the presentation, let's read the Safe Harbor statement.

Great. So, we'll spend about 35 minutes between Steve and myself. We'll cover a little about PepsiCo. Most of you probably know the company about who we are. And then what are we doing to accelerate the business performance. A couple of messages for you before I go into the details.

One is we're playing offense to transform the company, to accelerate net revenue growth, to get back to our algorithm as soon as possible. Two, be elements. One, we're transforming the portfolio for the long term. And I will focus a lot of the presentation on our innovation strategy, and also how we're elevating away-from-home as an opportunity to capture many more locations.

And second message, we're in a multi-year acceleration of our productivity. Last year was a record productivity year. This year will be a record productivity year for us. And that gives us the optionality to invest and to accelerate [indiscernible] (00:02:25) we committed to externally.

So, let's talk a little about PepsiCo. Bonnie mentioned we're one of the largest food and beverages companies in the world. Last year, we closed about \$94 billion and \$15 billion in operating profit. We have a portfolio of over 30 billion – 30 brands that are over \$1 billion. Very strong position in convenient foods around the world. About 58% of our revenues are [indiscernible] (00:03:00) with leadership in savory snacks but also our food business plays in many more occasions throughout the day. And a very strong position in LRB. In some countries we're leaders, some countries we're strong number two, competing well in this category.

We're very diversified. We play in 200 markets which gives us the opportunity to balance, to hedge one market against the other as the year progresses.

Now, our North America business is a \$56 billion business, almost 50/50 foods and beverages. It has an operating profit of \$10 billion, a combined margin of 18%. And it has been growing for us very nicely at a 35% over the last – since 2019. Over \$14 billion in growth during that time period.

You're familiar with many of our brands. A lot of them are, as I said, over \$1 billion brands. They help us to participate in multiple categories, have a strong presence in faster growing segments of our categories. Some of them are multibillion-dollar brands playing globally. Some of them are new billion-dollar brands like in the chart Propel and SunChips are new \$1 billion brands this year. And some of them are smaller brands in our portfolio that are growing very fast and will become eventually billion-dollar brands like poppi or Siete or Sabra.

Now international, and I will not talk a lot about international today, but it's clearly a jewel in our portfolio. It's been a business that we've been scaling over the last 10 years. It continues to grow at mid-single digit. We continue to build scale in many of our geographies around the world. Those businesses are becoming more profitable. If you look at the operating margin of our international business, it's 18%. It's 3 points higher than three, four years ago. And the business keeps growing very nicely at 48% combined growth since 2019. That's \$12 billion. And as you can see, geographically, we're quite dispersed in Europe, Latin America and also parts of Asia.

If you think about the opportunities for us, given the per caps, given the demographics of this business, given the scale that we're building and the capabilities that we have in all these markets, we expect international to continue to be a great source of growth for us, a great compounder, and we keep generating even more margin in the future.

Now, summary of our performance. Since 2020, we grew our net revenue, organic net revenue growth 7% above our long-term guidance. Clearly, the last two years, we're below and we're working, as I said, very intensively to accelerate that performance. And our EPS growth was in line with our long-term algorithm and 8%, so growing 47% since 2019.

So now, let me move into what are we doing to accelerate our business, make sure we have a business that generates consistent top line performance and accelerates the profit as well. Now, there is a consumer context and there is a macro context for us to think about how the – how to play the business.

Now, there is clearly a few consumer trends that are very relevant for our business. Consumers are giving more importance to health and wellness and functionality in food and beverages. Consumers at the same time are becoming more diverse, which means that in multiple markets, we have to play to multiple cultures as we develop flavors for our products or taste.

Consumers are shopping differently, and clearly omni-channel is growing very fast. And consumers are spending a lot of their time and a lot of their calories outside of home, which creates a big opportunity for away-from-home. These are all changes that will create data insights for us as we evolve the portfolio. And I'll talk about the portfolio later. And also the capabilities that we build to have better customer service and making sure that our partners are growing with us.

Now, on the macro side, there's a few trends that are also relevant for us as a global company. Geopolitics clearly play a role in how we're thinking about the resilience of our supply chain. And technology also obviously informs the way we run our operations and we create new capabilities to be more competitive.

So in that context, though, our categories remain very attractive scale at category. These are categories that are very large, about \$1 trillion combined. That's only the retail part of our categories. If you think about our convenient foods and LRBs, if you add the away-from-home, it's almost double. These are categories that are growing at a very healthy mid-single digit globally. And our participation in those categories is very small. It's only high-single digit share of market if you take all drinking occasions and convenient foods, which clearly tells you that we have a long runway to grow and that those are good categories to participate. And if we have the right portfolio, the right capabilities, we'll be able to capture structural growth over time.

Now, where are we focusing on? And this is probably the most important chart in the presentation. Where is the company focusing on to accelerate growth, to improve productivity, and to have a sustainable, resilient supply chain? So this is where we're going to spend most of the time. The company's very focused on accelerating revenue growth by transforming the portfolio and building the away-from-home business. Two simple priorities the whole organization is very focused on. I will tell you what are the details of that.

Second, we want to become more efficient and more capable. Two big levers on top of the things that we've been doing for the last few years. One PepsiCo maximizing the scale of the company across everything we do from procurement all the way to consumer understanding, consumer execution. And then adopting technology into our processes in a way that we become more capable, more efficient. We've invested a lot in the data backbone. We've invested a lot in systems. We've invested a lot in capabilities that now we can really take advantage of technology in a way that we couldn't do before.

And the third pillar, very important for us, we're an agro company. Without agriculture, we cannot really provide any products to consumers. Positive agriculture, making sure that farming is done the right way, that we invest with our farmers to be resilient. And also positive value chain. And there, we're focusing on plastics. We're focused on reducing waste on plastics. And we're focusing on water. Water is a scarce resource around the world, and we have continued to invest in making sure that we have enough water. We give back to nature the water that is required.

Now let me take you through the Faster pillar, which is probably the most important. And it encompasses – it covers two things; innovation, to make sure that our brands connect with consumers and the new needs of consumers around the world. And second, building new occasions, because our brands can participate in many more occasions, away-from-home especially, but also some occasions in home around mini meals and convenient meals.

Now, the first thing we're doing is restaging our large brands. Two years ago, we started with Pepsi. We changed the packaging of Pepsi. We focused on non-sugar. That has been extremely successful for us. You think about performance of Pepsi around the world for the last two years. This year we're going after four of our top brands: Lay's, Tostitos, Gatorade, and Quaker. We're going to do this through the year and we're going to do this globally. These brands are over \$15 billion for us in total.

What are we trying to do? Lay's and Tostitos, two of our largest food brands, we're trying to change the food in the brand, making sure there are simple ingredients based on nature. The best potatoes. The freshest potatoes. No artificials. No [indiscernible] (00:11:51) that's on one side. New cooking methods, alternative oils: olive oil, avocado oil. And that is something that consumers are already looking for.

Tostitos as well, Tostitos is – we're going to be talking more about the masa, how we produce, how we manufacture, how we cook the masa in Tostitos. We're changing the image. We're making it more natural, no artificials.

Now Gatorade, there's an insight that probably you guys know. About 75 of us are dehydrated sometime during the day or most of the day. Now, that is an opportunity that we're going to be trying to solve with Gatorade and Propel. Gatorade in particular, we'll take the science of sports and we'll make it available to everyday occasions throughout the day for every consumer, no matter where we do sports, or don't do sports. We're going to provide solutions in liquids, solutions in powders, much more functionality. And that is a huge opportunity for us as we address the hydration opportunity.

Now Quaker is another jewel in our portfolio. Quaker is a brand that is one of the most trusted food brands in the US. It's a brand that can be a great source of fiber, great source of protein, great source of nutrition for consumers. And we're going to be relaunching Quaker to provide benefits around gut health, heart health, energy and weight management in a way that very few other brands can do, on the go and in-home consumption. And this will happen in the second half of the year.

Now, on top of that, let me you spend two minutes on Lay's. Lay's is the one that we started. You probably will see some packaging out there. We were very prominent in the Super Bowl. The idea of Lay's is, we have the best potatoes grown by farmers everywhere in the world; the freshest potatoes we can get from the farm to the consumer in very short period of time. We want the consumer to understand that. We want the consumer to understand that we have no artificials, that these are natural products that is cooked in our factories at scale in a way that is like doing it at home. So these are all messages that Lay's will be resonating with consumers. We want to have cooking methods like Baked or Kettle. We will have olive oil. We'll have avocado oil. We'll have multiple partitions of the brand that I'm sure consumers will love as we go forward.

Now we have the sponsorship of FIFA this summer. We're going to leverage that event to maximize trial of the brand globally. And this will be a big source of growth for us as we go along this year.

Beyond that, we're also, as you probably have heard from multiple interactions with us, we're accelerating our innovation to make sure that our brands participate in new territories where the consumers are telling us, I prefer food or beverages in that space. Now you have some examples here.

We've been working on sodium, reduced sodium for a long time. As population age within this will be a great space. We're having not only less sodium in our products, but also specific offerings with reduced sodium. We keep pushing zero sugar as a big growth lever, whether it's with soft drinks, whether it's sports drinks or some others. Now, low sugar is also a consumer preference. So we will be participating in low sugar with poppi. Pepsi Prebiotic is a low sugar, and we're launching Gatorade with no artificial and lower sugar is hitting the market now as a big idea.

Now, no artificial colors and flavors is a big consumer demand. So we are eliminating artificials in our brands by the end of 2027. But already we're launching new innovation that has either no artificials, but even no colors. If you think about NKD and you have the opportunity to try NKD outside, it's been a great innovation that helps moms, in this case, give to the children a product with no artificials. And that is been a huge incrementality to the brand from the data we have. It's still early, but we think this is going to be a very incremental way to grow the category.

We're using alternative cooking oils, as I mentioned; olive oil, avocado oil. The consumers are willing to pay more. They're willing to experience with our brands in those segments. And then portion control, something that we've been talking a lot. We think portion control will be critical for our categories to continue to increase frequency of consumption. Consumers are telling us, I love your products, but I want it in 100 calories. I want it in 125 calories, 150 calories. We're expanding that. It's public, the number that 70% of our units in the US are already in single serve for the food business, 70%. That's something that has grown from very low numbers to 70% in just a few years.

We'll continue to innovate in multipacks. We continue to give consumers the right portions so that they can stay in our categories for the future. I think the beverage category has done a better job historically. So we'll continue to drive that trend.

Now, there's a lot of consumer spaces that are going to grow multi-year because consumers see the need of this nutrition in their bodies, and we will offer those solutions.

Clearly, energy has been growing for many years. So we're participating in energy with Celcius, Alani and some other brands globally. Protein is clearly a big trend, right, and we're participating with some innovation that you see there. The relaunch of Muscle Milk, coffee and protein. Those products are hitting the market. Doritos Protein will be in the market in the springtime. And then some solutions like Propel powders, where we have fiber and protein at the same time. And obviously that's higher nutritional density.

The two trends that we plan to capture at scale are fiber and hydration. Fiber is – the number one deficiency really in our diet is fiber. It's not only in the US, but in majority of countries around the world. And we think we have a huge right to succeed with fiber, whether it is products like SunChips, Fiber Pop Smartfood, Stacy's and some others, but also giving whole grains in our large brands, whole grains being a big source of fiber.

So you will see us innovating both in fibers and in whole grains with our food portfolio. And we believe that this is going to be a big multi-year opportunity for us. And as I said, hydration is a big opportunity. We're all dehydrated. We need to drink from the moment we wake up to the end of the day. We need much more liquid in our bodies.

And not any liquid. We need certain levels of functionality, electrolytes and some other solutions throughout the day, depending on the activity we're performing.

Within that with Propel and Gatorade, we're very well positioned. We want to take the science of sports into the science of everyday. We're going to have medical communication educating consumers on the needs for hydration. And this will be another multi-year growth opportunity for us.

So fiber, hydration, protein, and energy, four big areas of growth, higher value per consumption, and areas where we will participate. You'll see a lot of our innovation coming in that space.

Now, affordability. We talked a lot in the last earning. We think there is some friction with consumers, especially lower income consumers and middle income consumers around the world, not only the US. And we're adjusting our offerings, make sure that it's very surgical. It's disciplined execution, discipline of use of resources to maximize the ROI, but keep those consumers in our brands and reignite the volume of the category.

So that's our innovation. And there's a lot of good reasons to believe that that is working for us. And we see it in our numbers.

Now the other big idea for us is away-from-home. If you think about our business, we're very well developed in in-home and retail. That's a pretty strong part of our capabilities. We're less developed in away-from-home, and in some of the occasions that consumers are telling us, hey, we're more and more moving there because we don't like to cook. We don't like to spend time on preparing our food.

So obviously, there is – you've seen the four buckets on the left. This is about our current products being available, being more present in more outlets. That's kind of simple for us to do. We're putting more feet on the street, more capabilities, better technology so we can have better solutions for consumers to consume our products outside of home.

Now, there are two areas where we think that we can also participate in more elevated experiences where the consumers are willing to pay more, and it's part of their repertoire of solutions. One is crafted beverages and the other one is mini meals, ready-to-eat meals throughout the day. And I'll give you a couple of examples.

The crafted experiences, we have some tests going on already for some time where we have this concept DRIPS by Pepsi. Basically it's many of solutions, both on the indulgent side, but also on the functional side, where we can give our customers – we can have our own consumer-facing model where we provide our best drinks, sensory ups and some functionality in the form of powders or foam or whatever. And the consumer can have a set of solutions that they don't have with our ready-to-drink portfolio. This is something we're betting on. This is something that we're building more product solutions, better menu solutions and we see our customers very excited. And you will see more scale of this this year in the market.

The second one on the food side, and I'll give you a concept here, Doritos Loaded. Doritos Loaded is a Doritos where you add protein in the form of meat and then veggies. You create your own personalized combination. And we're creating new product solutions, but also new business models to make sure that consumers can buy our Doritos Loaded, a mini meal perfect solution for the day in different ways.

Now we have brand experiences. So just make sure that the consumers are aware of these. Food trucks, imagine a Formula 1 event. So we Doritos trucks there [indiscernible] (00:23:18) we have Doritos Loaded consumer awareness, Instagram, et cetera. We're building scaled D2C solutions.

For example, we're testing in a couple of European cities to use spare capacity in restaurants that they manufacture or they cook our Doritos Loaded and aggregators go and deliver. So these are solutions we're testing in a couple of European cities.

Also we're seeing a lot of interest from some of our customers to have a store within a store in their supermarket. So the bigger store to provide that ready-to-eat solution to the consumer. We obviously have our away-from-home partners, QSRs and others that they want us to give them the solutions to give Doritos Loaded to the consumer. We're going to have retail solutions as well, where the consumer can buy that. And if they have a party, they can give their friends the full kit. So they have the Doritos. They'll have the salsa. They'll have some other elements and the recipes so they can create their own meal. And obviously, the biggest idea for us, if we get these consumers to prepare their own Doritos Loaded, obviously the sales of Doritos will go up.

So, these are opportunities. I'm giving you a sense of how we can do this across multiple touch points and generate additional value for our brand, in this case, Doritos. We have solutions for other brands as well.

Now, we're also testing mini meal solutions with some of our platforms. So, Sabra, Siete, and a brand that is very popular in Europe, Veggie brand, that we're going to start testing in the US. These platforms give us solutions to create mini meals; quick, nutritious, small, 200 calories, 250, 300 calories. Solutions on the go for consumers, because that's the lifestyle of the new generations. So you will see us innovating in Sabra, Siete, and launching Alvalle, which is a gazpacho soup, but also warm soups for convenient meal solution.

Now that's the portfolio on away-from-home. Hopefully gave you a sense that yes, we're going to be accelerating our our growth. Yes, we're going to be on our long-term algorithm by the end of the year, and that we will continue to grow at that level going forward.

The second pillar is Stronger. And stronger is critical for us to be faster. Productivity is critical. Productivity is the only way we can fund the investments that we need in the growth. And we've been doing a pretty good job. If you look at this chart, 2021 to 2025 we've doubled our gross productivity along multiple vectors. We're doing things more efficiently. We're redesigning work. We're redesigning the organization. We have global capability centers servicing the company in a much more efficient way. We're digitalizing a lot of our processes, value engineering our products. All the things that we've been talking about, including network optimization and you're familiar with – we closed some factories for beverages and foods in the US, but also in some parts of the world.

So, a lot of activity, a lot of focus. Multi-year strategies across every single market to become more efficient and accelerate our productivity.

We are ready for a much faster implementation of the technology in everything we do. We've been investing for five years. Our data is in the place that it needs to be. We have the backbone. We have cloud. We have all the partners that can help us now land all this technology into all the things that we do. And I put here some examples.

For example, the next generation go-to-market. Go-to-market is a core capability that we have. Now, we can do automated ordering. That facilitates a lot of the process that we were not able to do earlier. We can enable our customers to place orders digitally without our salesmen going there, which facilitates a lot of the processes. We're doing integrated business planning so we can forecast demand automatically and that goes all the way to procurement and that facilitates the way our operations work.

We're doing digital twins and we announced recently a partnership with NVIDIA and Siemens, where we are obviously creating a simulation of our supply chain or every factory. And then we can see where we have bottlenecks, we can increase capacity, and we can do a lot of optimization.

And then obviously on the consumer side we're getting better at insights. We're getting better at connecting with consumers, engaging with consumers, creating content, and personalizing our communication to consumers in a way that we couldn't do a few years ago. So all this is a way for us to become not only more efficient, but more capable, more granular, more personalized, ways that will drive growth.

The other topic we've been talking about is how do we make our North America operations more fit for the future, more optional, giving us optionality for future selling models. Obviously efficient, capturing the value of a large system that is duplicated. How do we create efficiency. But most importantly, how do we create a system of supply chain that allows us for growth in what is going to be the future of demand. We're working on this. We will give you an update towards the end of the year. This is a big opportunity for us to become more efficient, but also more competitive and drive faster growth in a way that very few companies can do in the US with our scale and reach.

Okay. And then let me finish with Better, because this is a topic that is very critical for us. We've been consistently working on multiple levers of our Better strategy, especially farming. And farming, as I said earlier, farming is very critical for us. If we have good farming practices with our farmers, we can continue to have good soil, healthy soil; healthy soils, healthy potatoes. Healthy potatoes is a better business for us. And the same applies to corn, applies to the tomatoes, applies to the oats and everything else.

Positive value chain. We see water as a scarce resource, and we have now 100% replenishment of the water that we use in any single watershed. We give it back to the community. So this is something we take it very seriously. Otherwise, communities will not want our factories there. And the same with plastics. We continue to reduce the amount of plastic in our products, and we're taking very seriously that we need to reduce plastic in our supply chain.

So we're going to continue to invest in this area. This is an important area for our resilience of our business. And I'm sure this will be, long term, a good equity investment for PepsiCo.

So that's all for me. And now we'll turn it over to Steve to go over the financial side of the business.

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## Stephen Schmitt

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

Thanks, Ramon. Good morning, everybody. It's great to be here. In my time today, I want to cover three things. I'm going to talk a little bit about the momentum that we have in the business, as you saw in our Q4 results. I want to talk about our capital allocation priorities, and then I'll finish with how we're thinking about our long-term growth algorithm.

So let's get into the slides.

So from a momentum building standpoint, you can see on the left-hand side of the slide that we began the year in Q1 with just about negative 2% growth and we finished the year with over 5.5% growth. It was really driven by three things. The next bar chart talks about organic growth that we drove. So we started the year about 1% and we finished with over 2%. The net revenue growth was also driven by some acquisitions we made in the previous 12 months, as well as some positive foreign exchange translation benefit that we saw build in the fourth quarter.

But as Ramon talked about, the three pieces that really drove the performance was we have a large and profitable as well as resilient international business. And this has been pretty consistent at growing the top line in mid-single digits. We saw a strengthening North America business. And I was particularly pleased with the acceleration that we saw from Q3 to Q4 in our North America Foods business.

And I mentioned with acquisitions we're actively reshaping the portfolio, and we'll talk about that in a few slides.

But it wasn't just top line momentum that we saw build in the fourth quarter. We saw really nice flow through to the bottom line. You can see on the slide that our core operating margin jumped over 100 basis points and EPS growth grew double digits.

Ramon talked a little bit about the productivity we have in the businesses, and this is really important because those tailwinds that we have from a productivity standpoint should carry through, a good portion of them, into 2026. And why that's important is it's going to help us play offense, as Ramon mentioned. So this is going to help us play offense from surgical price investments. It's going to help us play offense from more brand messaging. It's going to help us play offense from new innovation as well as new technology that'll help us down the road. So encouraged with the Q4 results.

Now let me pivot to capital allocation priorities. So it's pretty straightforward on how we allocate capital. And this is an area obviously that I'm very involved in. We're going to invest in the business. And with the global brands and businesses that we have, we have ample opportunities to invest and grow the business. We have a meaningful and growing dividend. So we're going to pay, and we expect to continue to grow our dividend, which we know is important to our shareholders. We're going to selectively consider acquisition partnerships and divestitures, and we have share purchase to round things out. And I'll talk about each of these in turn.

So first, from an overall capital spending standpoint, we had been at about a 6% capital spend as a percent of net revenue from 2019 through 2024. Last year, that was a little bit less than 5%, and we think that's a pretty good place to be for 2026 and the near future. And we allocate that capital between growth. You can see the green part of the pie chart on the right-hand side of the slide. So we're going to invest in growth in innovation and capacity. We have a large infrastructure we need to make sure we continue to keep modern. So that's the operating necessity. And we'll continue to invest in productivity. And Ramon talked about our sustainability goals that are very important to us. So we'll invest to make sure we lead in sustainability.

So let's talk about free cash flow conversion. This is a 2027 goal to be over 90%. So how do we get there? We also have an ambitious goal to improve our core operating margin at least 100 basis points over the next three years. We're going to have tighter working capital management, and we talked a little bit about moderating capital spending that should be about – less than 5% is how we're thinking about capital spend overall.

And an important part of 2027 is we do have our last payment for the Tax Cut and Jobs Act this year in 2026. That's nearly \$1 billion that'll go away in 2027. So we expect the 2027 free cash flow conversion to be about 90%.

I mentioned the dividend. You can see we have a long track record of improving our dividend. We announced with our Q4 earnings release that we increased the dividend again. We increased it 4%, marking the 54th consecutive year of increasing our dividend. And in terms of reshaping the portfolio, this has been a critical area that we've been allocating our capital as well. So we made some really nice acquisitions that have helped with our organic – with our net revenue growth. We've made strategic partnerships. And we've also had divestitures and transitions.

And if you think about how we think about this going forward, we'll always consider bolt-on acquisitions where they make sense. And our mindset is around every piece of the business today needs to continue to earn its place in the portfolio. That's how we think about the portfolio in general.

And so this all leads to our long-term growth algorithm. So over the long term, we expect to grow organic revenue in the mid-single digits. We talked about our goals over the next three years to increase operating margin over 100 basis points. And if we do these things, we think it leads to a high-single digit EPS growth.

Now you may have seen with our Q4 earnings release, in our guidance for 2026, we don't expect to get to these levels for the full year, but we expect to continue to make progress and build momentum throughout the year. And we think the combination long term of having a high-single-digit EPS growth plus a meaningful and growing dividend really gives us a nice investment return proposition for our shareholders.

And with that, we'll be happy to take your questions.

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## QUESTION AND ANSWER SECTION

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Great. Okay, is this on? Okay. Dara and Andrea. [indiscernible] (00:36:33)

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### Dara Mohsenian

*Analyst, Morgan Stanley & Co. LLC*

Q

Dara Mohsenian, Morgan Stanley. So, Ramon, we didn't hear much of an update on One North America today. I get it's probably early days, but can you give us any learnings you've seen from test markets so far? And as you think about the benefits from that longer term, break it down into productivity benefits versus commercial effectiveness. And just as you think about your vision over the next few years, maybe give us a sense of how much of North America regionally or how you think about the mix of North America in terms of what would be most effective in really combining convenient foods and beverages more from an integration standpoint.

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### Ramon L. Laguarta

*Chairman & Chief Executive Officer, PepsiCo, Inc.*

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So we've been consistent in our messaging. There's efficiency in what we see by combining the two portfolios, and we see a lot of growth. Now let me go deeper into that.

Warehousing, it's probably a very high-return opportunity. Warehousing, so having a single point of inventory at the higher level for our two categories is a big idea. That's something we're going to keep doing. Part of One, delivery and selling, this is where we're testing and where we're going to be more nuance because it works very well in some channels. It works very well with some density, geographical higher density populations. It works very well where we have low share of one category, high share of another category. So all those are the nuances that we're trying to test, and we'll give you a better update towards the Q4.

But this is a big idea from the efficiency, but most importantly, how we can have more optionality to give our customers much better service, as were some of these fulfillment modalities that are growing like delivery at home

or quick delivery. Those are going to be the demand signals of the future. And we can be better prepared with some of the infrastructure being combined versus separate.

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Andrea?

**Andrea Teixeira**

*Analyst, JPMorgan Securities LLC*

Q

Thank you. Andrea Teixeira, JPMorgan. So can you comment on PFNA, like the price reinvestments? And I know we discussed that in the earnings call and the follow-up. But in terms of how to measure success relative to the summer of Lay's last year and how this time around will be different, how the retailers, the key retailers where you tested, the test markets that you had relative to what it was last year and how deep we should see the first moment, the price decline and then the volume reaction to this.

**Ramon L. Laguarda**

*Chairman & Chief Executive Officer, PepsiCo, Inc.*

A

Yeah. I think the KPIs we should look at is volume share. So gaining volume share and increasing the penetration of our brands. So that's one big KPI that we're following.

Second, deliver on what we said would be the guidance for Frito, which is growing volume, growing net revenue, and growing profits this year. That's how I would think about it.

We're in the middle of the execution, Andrea, and we're executing with discipline and with rigor. And obviously, it's a combination of the execution of the pricing, but also all the space that is associated with Lay's. And that will take in, let's say, the normal restage of the planograms and so on will be P3, P4 in March, April. But the early signals are very positive. And the consumer clearly is telling us it was the right thing to do. And we have ways, with this strong productivity, we have ways to increase net revenue, increase volume, and increase profitability for Frito this year, and most importantly, gain market share, which is important.

Now, we're thinking about, between the innovation, the investments and affordability, the additional space, we want this next category to grow, right, to grow above food, to grow above micro snacks. That's a critical theme for us to do long term. We've been doing this for many years. It wasn't the case last year. And we're seeing signals that whatever we're executing, we're growing faster than food, we're growing faster than micro snacks as a category. And obviously our participation is increasing.

So those are the KPIs we'll be looking at. We'll obviously be informing you very transparently on what's happening because this is a very important bet for the company. But we're very confident. The truth is that the early data is very good. And yeah, we feel positive.

A

All right. I think we'll take two more. Michael, and then we'll wrap with Kevin.

**Michael S. Lavery**

*Analyst, Piper Sandler & Co.*

Q

Yeah. I just want to come back to – Michael Lavery from Piper Sandler. Just want to come back to the supply chain. You're testing integrating food and beverages. You're also considering or exploring potentially some refranchising options. Can you give a sense how much they're mutually exclusive, or are you being pulled in two directions? Or could this somehow work together? Is there a way mechanically you could combine and also refranchise? How do you think about what the options, what the possibilities are?

**Ramon L. Laguarda**

*Chairman & Chief Executive Officer, PepsiCo, Inc.*

A

I think – yeah. We will have a mosaic of solutions in the United States that will probably have some areas of the country more integrated supply chain, some channels, more integrated supply chain. And then some other regions, we might even decide to refranchise more portions of the country because within that we have the right partner that is aligned with our long-term vision of the category and execution. And we believe that the synergies, all the return on the investment of the integration is less positive.

A

Okay. We'll take the last question from Kevin, and then we'll move to the breakout.

**Kevin Grundy**

*Analyst, BNP Paribas Exane*

Q

Thank you. Kevin Grundy, BNP Paribas. Steve, question for you on the margin target. So, within the context of Ramon's comments a moment ago, just understanding that the return to volume growth, and we talked about this yesterday, is really critical to getting the flywheel spinning again. But the margin target of 100 basis points over three years is another area to unlock value. Not very different from Pepsi's long-term targets, not very different from what peers target in the context of big opportunities for structural cost reductions.

So understanding that advertising and marketing is going to move higher this year, understanding the big price investment that you're making, what are the key levers and what's the potential to exceed this 100-basis-point margin target over three years? Thank you.

**Stephen Schmitt**

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

A

Thank you for the question. I think about it, and you mentioned the first piece that we're very focused on, which is driving growth. So, one of the areas that we're focused on is the more volume we drive through the system, we know we'll get fixed cost leverage in doing that. And those fixed cost benefits are, in many cases, bigger than I think people model sometimes. And so getting volume back through the pipes of the infrastructure that we have is going to be very important to drive margin and productivity.

The other piece is the productivity that we already have in the pipeline and that's more of a benefit that we'll see carry over from this year. So we'll have more productivity than we need to go after.

We are playing offense though. You mentioned a couple things. You mentioned the investment we're making in value, the investment we're making in innovation, the investments we're making in marketing. But we think the combination of the sales leverage that we'll get, it's very important that we drive the top line. And the productivity we have in the pipeline will help us mitigate the additional investments and grow margin.

## Bonnie Herzog

*Analyst, Goldman Sachs & Co. LLC*

Okay. I think we're going to pause there and move things over to the breakout room. So, as we do so, please join me in thanking PepsiCo for a great presentation and again, providing the beverages and snacks today.

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