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# PepsiCo, Inc. (PEP)

## Q4 2022 Earnings Call


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**Hugh F. Johnston**
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# OTHER PARTICIPANTS

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# MANAGEMENT DISCUSSION SECTION

**Operator**: Good morning and welcome to PepsiCo's 2022 Fourth Quarter Earnings Question-and-Answer Session. Your lines have been placed on listen-only until it is your turn to ask a question. Today's call is being recorded and will be archived at www.pepsico.com.

It is now my pleasure to introduce Mr. Ravi Pamnani, Senior Vice President of Investor Relations. Mr. Pamnani, you may begin.

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## Ravi Pamnani

*Senior Vice President of Investor Relations, PepsiCo, Inc.*

Thank you, operator, and good morning, everyone. I hope everyone has had a chance this morning to review our press release and prepared remarks, both of which are available on our website.

Before we begin, please take note of our cautionary statement. We may make forward-looking statements on today's call, including about our business and plans and 2023 guidance. Forward-looking statements inherently involve risks and uncertainties and only reflect our view as of today, February 9, 2023, and we are under no obligation to update.

As a reminder, PepsiCo's fourth quarter 2022 includes 17 weeks of results. And our fiscal 2022 year includes 53 weeks of results. When discussing our results, we refer to non-GAAP measures, which exclude certain items from reported results. Please refer to our Q4 2022 earnings release and 2022 Form 10-K available on pepsico.com for definitions and reconciliations of non-GAAP measures and additional information regarding our results, including a discussion of factors that could cause actual results to materially differ from forward-looking statements.

Joining me today are PepsiCo's Chairman and CEO, Ramon Laguarta; and PepsiCo's Vice Chairman and CFO, Hugh Johnston. We ask that you please limit yourself to one question.

And with that, I will turn it over to the operator for the first question.


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# QUESTION AND ANSWER SECTION

**Operator**: [Operator Instructions] We will pause for a moment while we compile our Q&A roster. Our first question comes from Dara Mohsenian with Morgan Stanley. Your line is open.

**Dara Mohsenian**
*Analyst, Morgan Stanley & Co. LLC*

Q

Hey. Good morning, guys.

**Ramon L. Laguarta**
*Chairman & Chief Executive Officer, PepsiCo, Inc.*

A

Good morning, Dara.

**Hugh F. Johnston**
*Vice Chairman & Chief Financial Officer, PepsiCo, Inc.*

A

Good morning.

**Dara Mohsenian**
*Analyst, Morgan Stanley & Co. LLC*

Q

So I just wanted to focus on the 2023 top line growth outlook after another very strong quarter here in Q4. Can you just give us a quick update on the business so far in 2023, given there are some concerns around macros and the consumer. Are you seeing momentum continue or any signs of incremental consumer weakness? And then second, how does that translate to price/mix? Obviously, very strong pricing in Q4. In theory, there is need for more pricing given the continued cost pressures in 2023. But as I just mentioned, there's some worries around the consumer and, in theory, core retailer pushback. So, just help us understand within that organic sales growth outlook how much is price/mix? Is a lot of that carryover pricing from 2022, or are you assuming more pricing in 2023? Thanks.

**Ramon L. Laguarta**
*Chairman & Chief Executive Officer, PepsiCo, Inc.*

A

Good morning, Dara. This is Ramon. Listen, the way we feel about the consumer is based on employment data and wage growth around the world is positive. In our assumption for the year, we're thinking elasticities might get worse going into the second half of the year based on multiple scenarios that we have. Obviously, they are very changing. We just had some recent changes in some other – in multiple parts of the world.

But we're feeling that that might happen, that there are worse elasticities in the second half of the year, and that's why we're guiding to a 6%. We feel comfortable with the way the business is going, as you could tell from Q4, a good momentum in our brands and good share momentum in many geographies around the world. But the key, the most important theme for you to think about, is we're going to keep investing in the quality of our products, we're going to keep investing in the strength of our brands. We'll keep making our go-to-market systems stronger. So, no matter what happens with the consumer, we're going to be I think preferred choice for a lot of the consumers and our customers, and that's how we are planning for next year.


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**Operator**: Thank you. One moment for our next question. Our next question comes from Lauren Lieberman with Barclays. Your line is open.

**Lauren R. Lieberman**
*Analyst, Barclays Capital, Inc.*

Q

Great. Thanks. Good morning. I was curious. In the release, there were a couple mentions of two things; one, brand exits and portfolio management, and the other was there were a number of impairments. And I know anyone who acquired a business pre-pandemic is pretty much taking an impairment, so that's kind of due course. But I thought it might be a good opportunity to get an idea on how some of these businesses have been faring in the sense of what they've added capability or portfolio-wise, or maybe where they've fallen short, again, notwithstanding the pandemic dynamics. And then, just color on what some of those brand exits and portfolio management mentions were in reference to. Thanks.

**Hugh F. Johnston**
*Vice Chairman & Chief Financial Officer, PepsiCo, Inc.*

A

Yeah. Hey, Lauren. It's Hugh. I'll handle that one. It was really a couple of things that drove it. Number one is, obviously, as you mentioned, pre-pandemic interest rates were awfully low and prices were pretty high for a number of these assets. And as we've sort of moved forward, we've taken a hard look at the cash flows sort of in a post-pandemic world. Combine that with the fact that interest rates are obviously materially higher, so we're discounting those cash flows at a different rate.

The couple that I'd point to during the course of the year, Mabel in Brazil was one, Pioneer a little bit as well. And then, SodaStream where SodaStream is more of a consumer discretionary type of purchase compared to the balance of our portfolio and, as you would expect, behaved more like a consumer discretionary purchase. So we took the opportunity to look at the numbers going forward on that and the investment posture we were going to have in that business. And as a result, we wrote down a piece of that business as well.

So I think we put ourselves in a spot, now, where in a higher interest rate world, we're in a better position in terms of where we've marked those assets to.

**Ramon L. Laguarta**
*Chairman & Chief Executive Officer, PepsiCo, Inc.*

A

Yeah. Lauren, strategically, SodaStream continues to be very central to the transformation of the beverage category. We think that there is a huge opportunity to enable consumers to personalize their drinks and have a type of consumption where there's no plastics and where there's a lot of convenience for consumers at home or in offices or even on the go. So, continues to be very central, but as Hugh was saying, there was obviously a situation, especially in Europe, with inventories and the discretionary consumption that we took this opportunity to reassess the value of the asset.

**Operator**: Thank you. One moment for our next question. Our next question comes from Andrea Teixeira with JPMorgan. Your line is open.

**Andrea Teixeira**
*Analyst, JPMorgan Securities LLC*

Q

Thank you, operator. Good morning, everyone. If you can talk about how to think about operating leverage, you have historically been able to use about $1 billion per year in productivity to offset inflation. And now coming into this year on top of like a very strong inflation, but also really healthy carryover from pricing, how should we be


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thinking in terms of like the ability to flex your P&L? Any particular – you invested – I think we all appreciate that you invested a lot more in A&P, strong double-digit growth in the last quarter. How to think about A&P investments into 2023? Thank you.

**Hugh F. Johnston**
*Vice Chairman & Chief Financial Officer, PepsiCo, Inc.*

A

Yeah. I'll take care of that one, Andrea. A couple of comments on that. Number one, obviously, inflation is still out there as a factor for us, partly the fact that inflation is still high. It's not as high as it was before, but the numbers are still relatively high. Number two, in terms of the way we are approaching the year, we're looking to drive a lot of productivity this year. And at the same time, we're looking to continue to put investments back into the business because we think that's what's driving the top line. And consumers are clearly responding positively to it.

So if you net all of that out, my expectation is that our gross and operating margins will be at least in line with where we were in 2022, and perhaps a little bit better.

**Operator**: Thank you. One moment for our next question. Our next question comes from Bryan Spillane with Bank of America. Your line is open.

**Bryan D. Spillane**
*Analyst, BofA Securities, Inc.*

Q

Hey. Thanks, operator. Good morning, guys.

**Hugh F. Johnston**
*Vice Chairman & Chief Financial Officer, PepsiCo, Inc.*

A

Good morning, Bryan.

**Bryan D. Spillane**
*Analyst, BofA Securities, Inc.*

Q

Hugh, I wanted to ask you a question about cash flow and capital allocation. And I guess, in terms of cash flow, just the free cash flow this year, it stepped down versus last year, so if you could talk a little bit about just what's happening in cash from operations. Is it a timing thing? It looks like working capital has ticked up a bit.

And then, second, the dividend going up 10% this year, just what you announced today. So, can you just remind us, again, just how you're thinking about capital allocation as part of a total shareholder return model and just how that factors into decision-marking in terms of capital allocation going forward?

**Hugh F. Johnston**
*Vice Chairman & Chief Financial Officer, PepsiCo, Inc.*

A

Yeah. Happy to, Bryan. Let me start broad, and then I'll sort of narrow it in. Very broadly, the capital allocation principles we have are no different than what we've had in the past, the four basics of: make sure we invest in the business, pay the dividend, tuck-in acquisitions and share repurchase.

If I zero it in a little bit more for the environment that we're in right now with some of the changes, I think our biggest priorities right now are going to be continuing to invest in the business and growing the dividend. And that's not just a today statement, although obviously 10% dividend growth is a pretty healthy growth in our current environment. But I think those are our bigger priorities relative to perhaps tuck-in and relative to perhaps share


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repurchase. The 10% dividend growth is bigger than what we've done in a number of years, and I think you'll see us prioritize that a bit more over time.

So – oh, I'm sorry. And then the last piece was about working capital. Yeah. We basically had a timing issue on that. You know we're doing some IT implementations. And in terms of the IT implementation, essentially we paid forward about two weeks' worth of payables just to take some pressure off the IT systems because we had some freezes at the beginning of the year. So that's what pulled that number down. That was probably worth about $500 million or so right at the end of the year. It's not a material change in cash flow. It's a two-week timing issue. So, I think you'll see that bounce back as we get to the end of 2023.

**Operator**: Thank you. One moment for our next question. Our next question comes from Bonnie Herzog with Goldman Sachs. Your line is open.

**Bonnie Herzog**
*Analyst, Goldman Sachs & Co. LLC*

Q

Hi. Thank you. Good morning.

**Hugh F. Johnston**
*Vice Chairman & Chief Financial Officer, PepsiCo, Inc.*

A

Good morning.

**Bonnie Herzog**
*Analyst, Goldman Sachs & Co. LLC*

Q

So you rolled out a new and improved Pepsi Zero Sugar, so just hoping for some more color behind this initiative and really how incremental you think this can be. I mean, maybe you guys could give us a sense of how big your Zero platform is currently and what percentage of your portfolio this could be in the next few years. And then finally just maybe some insight in terms of how big of a push you plan to be making behind the rollout in terms of marketing spend, activation, et cetera. Any color on some of these initiatives would be helpful. Thank you.

**Ramon L. Laguarta**
*Chairman & Chief Executive Officer, PepsiCo, Inc.*

A

Yeah, Bonnie. Yes. Listen. Zero is clearly a segment of the beverage category that is growing much faster than kind of full sugar all over the world. And Pepsi Zero has, or Pepsi Max as we call it in some markets, has been a very strategic product for us in Europe and in other parts of the world. In the US we were investing in other parts of the Pepsi brand. Now this is going to be the center of the strategy for the Pepsi brand. We think that the non-sugar segment of colas will continue to grow very fast in this country. We're seeing consumers pivoting.

I think the R&D in our company has done a great job in giving consumers zero sugar choices that are as good as full sugar choices or better from the taste point of view, and we're asking consumers zero sacrifice to pivot to zero sugar version. So that's the principal why we think that the category will continue to pivot and why the brand will continue to invest in moving consumers into that space. How big it's going to be? I think eventually it's going to be a large part of the brand not only here in the US but all over the world.

We improved the formula. We've moved the formula closer to the formula we have in Western Europe and some other parts of the world. It's a more refreshing formula. It's closer to our original flavor, and I think – I mean the initial results are very good. The consumer testing was excellent. We're going to be investing now in the Super


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Bowl, while we continue throughout the year. It's going to be one of the pillars of growth of our CSD business in the US.

**Hugh F. Johnston**
*Vice Chairman & Chief Financial Officer, PepsiCo, Inc.*

A

And, Bonnie, just to give you a data point, Pepsi Zero Sugar grew 26% volume in the fourth quarter. So that business is really growing.

**Operator**: Thank you. One moment for our next question. Our next question comes from Peter Grom with UBS. Your line is open.

**Peter Grom**
*Analyst, UBS Securities LLC*

Q

Thanks, operator. And good morning, everyone. So I wanted to ask about the long-term organic revenue algorithm of 4% to 6%. And recognizing that a lot of the upside the past few years has been driven by pricing, but this is now the third straight year that you're expecting to be at the high end or above the high end of the range.

And I guess as you take a step back and look at your performance and think about the path ahead, has anything changed in how you think about that target? You mentioned increased spending is driving the top line. Do you have a higher degree of confidence that Pepsi can consistently be at the higher end of that range longer term? So just like any perspective on whether you feel differently today about the building blocks of that algorithm versus maybe 2019 would be really helpful. Thanks.

**Ramon L. Laguarta**
*Chairman & Chief Executive Officer, PepsiCo, Inc.*

A

Yeah. Of course. We feel good about the return that we're getting on our investments that we've made both in our brands, and you see our A&M has gone up significantly since 2019 and the same with our CapEx. We've added a lot of capacity, a lot of go-to-market strength to our business, and we see the consumer reacting to that very positively. We've also invested a lot in quality and our brands. Our products are better, are more consistent, are better tasting.

So, yeah. From that point of view, we're happy to be – where we're winning market share in many markets around the world. So, yes, we're feeling good that we can be close to the top end of our long-term growth algorithm for the continuous future.

Now obviously the last two years there's been a bit more pricing that we would expect going forward long term. But if you think about the mix of growth between developed and developing markets, I think we have tremendous opportunities for growth in developing markets. The per capita is still very, very low, and we have good playbooks to develop those per caps in a lot of those consumer bases. And we know how to grow developed markets as well.

So, you will see us continuing to invest in our brands, continuing to invest in our go-to-markets, in what drives the top line, what makes consumers stay with our brands. And we'll guide, every year, to the particular circumstances of volume and pricing that we see for that particular year.

**Hugh F. Johnston**
*Vice Chairman & Chief Financial Officer, PepsiCo, Inc.*

A


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And, Peter, just as a reminder, both Ramon and I have said in the past that our goal is to be at the high end of that guidance. And also, as a reminder, recall five years or so ago our long term guidance was 4% to 6%, but we were struggling to get to 4%. We were averaging somewhere in the low to mid-3s. So it's obviously a material acceleration where we've been as recently as five years ago.

**Operator**: Thank you. One moment for our next question. Our next question comes from Kevin Grundy with Jefferies. Your line is open.

**Kevin Grundy**
*Analyst, Jefferies LLC*

Q

Great. Thanks. Good morning, everyone, and congratulations on the strong result this year. I would like an update on PBNA, please, on two fronts, Mountain Dew, and then segment margins more broadly. So market share, nice to see Gatorade performing well, though the company's market share continues to slide here a bit in CSD, most notably with one of your power brands in Mountain Dew. So, Ramon, perhaps an update there on your investment plans behind Mountain Dew to try to turn around some of the share loss?

And then just relatedly, how does the scope of your investment, not just in Dew, but broadly in PBNA – how does that impact your other key priority within that segment of restoring margins towards the mid-teens? So thank you for that.

**Ramon L. Laguarta**
*Chairman & Chief Executive Officer, PepsiCo, Inc.*

A

Listen – thank you, Kevin. We feel good about – or very good, actually, about the progress that PBNA is making in this triangle of growing the top line, improving the margins and keeping share. And that's the balance we're trying to strike every year as we go forward.

Now, there are things of the portfolio we feel very good and things that we have to do work. Things that we feel very good, as you mentioned, all this sports nutrition category; Gatorade, obviously, but Propel and some of the other brands are doing very, very well. That's a big area of investment. We're getting the returns.

We feel very good about the Pepsi brand. Pepsi brand is growing well. Now, we're investing behind Sierra, as we discussed. We feel good about the coffee portfolio. Finally, we've gone beyond some of the supply chain challenges, and that Starbucks range is going to be very, very good for us. And already we saw it in Q4 and it's going to continue this year.

We feel good about energy. We feel good about energy, the steps we're making to improve Rockstar to, as I said, the coffee portfolio. And then, the Celsius integration into our portfolio has gone very smoothly, and that brand keeps gaining market share behind our improved distribution and, I think, the attractiveness of the product. So that is a very strong set of growth opportunities that we're going to continue to dial up in our investments and our execution and our customer plans, which are very strong for 2023.

Now, as you mentioned, an opportunity is Mountain Dew. Mountain Dew, we keep refining the positioning. We keep refining the product, and we're going to be investing. But this is just a small part of a very large portfolio, and there's a lot of positives in that portfolio.

Now, when you see the triangle, we're trying to improve the margins as well. As we said, we're not deviating from our long-term goal – actually, not so long-term goal – to go to mid-teens with this business. You saw we're


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progressing in Q4. It was a good, good step forward, and that continues to be the plan for 2023 and beyond. So we're going to dial up efficiency; we're going to dial up investment behind the key brands; and we're improving our execution, which has been painful throughout the COVID and subsequent year, especially as the labor market was very tight.

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**Hugh F. Johnston**
*Vice Chairman & Chief Financial Officer, PepsiCo, Inc.*

A

And, Kevin, just to add a few numbers to that, for the year, PBNA grew revenue 11%, which is obviously quite strong. And operating profit grew strongly as well. As Ramon mentioned, the mid-teens margin thesis is still very much intact and the drivers are still very much intact. For the year, we improved operating margins 43 basis points in the business, and in the fourth quarter margins were up 110 basis points. So we're making good progress and good momentum on both fronts. Top line has obviously been terrific. And we're making good progress on the cost side as well, and I expect we'll continue to see improvement into 2023.

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**Operator**: Thank you. One moment for our next question. Our next question comes from Vivien Azer with Cowen. Your line is open.

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**Vivien Azer**
*Analyst, Cowen and Company*

Q

Hi. Thank you. Good morning. I was hoping that we could dive into the Frito-Lay margin expectations, please. Obviously, the top line has seriously benefited from very effective advertising, but we have seen a couple of years of margin compression there. So how should we think about that going forward, please? Thank you.

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**Ramon L. Laguarta**
*Chairman & Chief Executive Officer, PepsiCo, Inc.*

A

Yeah. Listen, the Frito business is the jewel of PepsiCo, and this business, we've put a lot of investments in the last couple of years, and continues to respond even every year better to those investments. Investments went into quality of product, investments went into increased advertising, broader portfolio of brands that we're supporting, investments went into go-to-market, even some infrastructure bottlenecks that we had in our distribution systems. The truth is that we feel very good about this business growing very close to 18%, I think, for the full year. And the operating profit growth of Frito this year is in the double-digits, which we haven't seen in like – in the history almost.

So we're feeling good about the balance of growth, top line/bottom line that we see in Frito. And as you can imagine, we will continue to invest in Frito-Lay in the coming years because that's the highest margin business in PepsiCo and the highest ROIC that we can have in our investment.

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**Hugh F. Johnston**
*Vice Chairman & Chief Financial Officer, PepsiCo, Inc.*

A

Yeah. And again, just to put a few numbers to the points Ramon was making, we have a Frito business with a 27% operating margin for the full year, which is a really wonderful operating margin, obviously. And when you have a margin that high, your goal should be, grow that business as fast as you possibly can. We grew at 18% in the fourth quarter and 17% for the full year. This is Frito-Lay, and 17% full year revenue growth, so. But obviously, you can't continue to see margins go down, but at the same time, with 11% dollar operating profit growth for Frito-Lay, that's terrific operating profit growth. That's an equation we're certainly happy with for the year. We feel like Frito had just an outstanding year and would love to have a couple more like this one, yeah.

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

What we feel very strong is about the quality of our commercial execution in a broader sense from the way we're innovating to the way our brands are coming in front of consumers, both our large brands, right, Doritos, Lay's, Ruffles, Cheetos, but also the smaller brands, small portfolio that we're building, beautiful small brands like Smartfoods or PopCorners or Off The Eaten Path and some others that are completing that portfolio to convey to multiple occasions, different type of cohorts. And I think the team is doing a fantastic job.

**Operator**: Thank you. One moment for our next question. Our next question comes from Robert Ottenstein with Evercore ISI. Your line is open.

**Robert Ottenstein**
*Analyst, Evercore Group LLC*
Q

Great. Thank you very much. Just wanted to kind of circle back to Dara's first question. And maybe if you could give us a little bit of sense, I mean the 6% sales growth, is there – are you contemplating any volume in that? Or, is it all – it could almost be almost a roll over pricing from 2022. So just trying to get a little bit more granular on that. And then how does the – in the US, how does the promotional environment look? Are you seeing any sense or any pull from retailers to do a little bit more promo? Thank you.

**Hugh F. Johnston**
*Vice Chairman & Chief Financial Officer, PepsiCo, Inc.*
A

Yeah, Robert, it's Hugh. Let me try to take a shot at that. Look, obviously, 6% revenue growth in consumer products is still a very healthy growth rate, and we certainly feel good about that as the guide. Would we expect volumes to be down? Perhaps, they'll be down little bit. Let's see how the year plays out. Right now, the consumer is still quite good, but we also have to plan for multiple scenarios. And in the back half of the year, given interest rates are as high as they are, it wouldn't be shocking if there were a mild recession in the US and in some of our developed markets.

We've taken actions in terms of productivity to make sure in a recessionary environment, we're still well insulated to hit our numbers. But we've got to plan the business such that with interest rates as high as they are, you could certainly see some impact over time on the top line. So that's kind of the way that we're thinking about this one.

And then let's see how the year plays out. If the year plays out better, then that's great. We'll invest back and I think we'll – everybody will be happy with that outcome.

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

Yeah. I think we discussed in previous conversations, the way we do this process is we have multiple scenarios of things that could happen. Actually, the last few years if we've learned something is that we should expect the unexpected. So all these scenarios we feel good about delivering our guidance in any of those scenarios. Now, the role of each one of our business unit leaders is to beat the plan. So that's how we're starting the year and how we will play the year.

**Operator**: Thank you. One moment for our next question. Our next question comes from Nik Modi with RBC. Your line is open.


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**Nik Modi**
*Analyst, RBC Capital Markets LLC*

Q

Thank you. Good morning, everyone. Two quick questions. First, Hugh, on China and just the reopening, just wanted to get your thoughts on how we should be thinking about some of the implications and if it's been kind of contemplated in your guidance. I mean obviously, oil and gas pricing could – is the obvious. But is there anything else we should be thinking about?

And then Ramon, I wanted to ask kind of how PepsiCo thinks about various substrates within the Frito-Lay business, right, so you think about cauliflower, rice, I mean Frito-Lay dominates corn and potato. And just given long-term, consumers seem to be kind of adopting some of these new substrates. Just wanted to understand the plans PepsiCo have in terms of capacity build or if you don't think these substrates are actually going to be meaningful in the future. Thanks.

**Ramon L. Laguarta**
*Chairman & Chief Executive Officer, PepsiCo, Inc.*

A

Yeah. Let me just take that. I'll cover the China. I think China Consumer business. Well, I think – listen, China, obviously we're seeing the consumer kind of happy to be free kind of, and the consumer will obviously spend more. I think that's obvious. So there is an opportunity in reassessing the China demand and what it means for all the businesses in that country now. So, obviously, we have two meaningful businesses, snacks and beverages, and we will – I think we will benefit from that increased demand. Will it change the PepsiCo growth? No, I think that it's an important market but not to that extent.

Now with regards to the Frito-Lay innovation portfolio beyond our potatoes, our corn, our wheat, we have already large businesses in rice snacks. For example, you think about the Quaker snacks. We have a pretty sizable business that is in rice snacks and it's growing very fast. Within the Frito portfolio, there are also different substrates that we're playing. Off the Eaten Path is a great example. You have multigrains. You have smaller substrates.

One substrate that we like a lot is chickpea. Chickpea has high nutritional values, and it's a – I think a substrate that we are starting to work on agro, and we're starting to work on different layers to create advantage in that substrate.

So, yes, we see that strategically as a incremental opportunity to broaden our portfolio beyond the more traditional substrates where we've built a lot of supply chain advantage and innovation advantage and brand advantage. But I think our brands can expand into other spaces, especially some of those smaller brands, but also we're thinking about some of our bigger brands as well.

**Hugh F. Johnston**
*Vice Chairman & Chief Financial Officer, PepsiCo, Inc.*

A

And, Nik, just to put a finer point on Ramon's narrative around China, while it's strategically quite an important market for us, obviously given the size and potential there, currently, it's about 3% of PepsiCo's sales. So it's not going to be a major driver in the numbers for a few years.

**Operator**: Thank you. One moment for our next question. Our next question comes from Kaumil Gajrawala with Credit Suisse. Your line is open.


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**Kaumil Gajrawala**
*Analyst, Credit Suisse Securities (USA) LLC*

Q

Hey, guys. Good morning. Can you elaborate a bit more, perhaps, on the beverage alcohol strategy? It's been a bit of time, now, since you first kicked it off. And maybe the big question is – you talked about Frito-Lay. You have several very large, very profitable businesses. This isn't yet one of them, but how big or how far does it have to get before it can be more relevant to the overall Pepsi story?

**Ramon L. Laguarta**
*Chairman & Chief Executive Officer, PepsiCo, Inc.*

A

Yeah. Listen, we see an opportunity in expanding our distribution capabilities to other spaces in the US and maybe, eventually, in other parts of the world in beverages, and also in snacks. So the alcohol distribution strategy that we have is one that it's – I would say, embryonary in the way that both geographically and from the amount of brands that we carry in our portfolio.

We are very focused in getting it right, in getting the learnings, getting the execution right. It's different, right, than selling our soft drinks or sport drinks or other brands. There are more nuances regulatory-wise and execution-wise.

So we are in that process of learning. I think, strategically, you should see this becoming an important part of our business in the US, but we're going to learn before we scale up.

And I wouldn't think about this as a – we're going to be a alcohol distributor. I think we're going to choose a few partners that will create brands with us and products, and we will be distributors of a small portfolio of high potential brands rather than just a lot of brands in our distribution system, which would be too complex and, probably, little value for us.

**Operator**: Thank you. One moment for our next question. Our next question comes from Chris Carey with Wells Fargo. Your line is open.

**Chris Carey**
*Analyst, Wells Fargo Securities LLC*

Q

Hi. Good morning.

**Hugh F. Johnston**
*Vice Chairman & Chief Financial Officer, PepsiCo, Inc.*

A

Good morning.

**Ramon L. Laguarta**
*Chairman & Chief Executive Officer, PepsiCo, Inc.*

A

Good morning.

**Chris Carey**
*Analyst, Wells Fargo Securities LLC*

Q

Hugh, I wanted to actually ask about just SG&A. Certainly, investment has been a key topic for the company, as ever, but including this year and, especially, in Q4 with how the year ended. But I'm also looking at your filings this morning, which show that distribution costs have probably been the one line item where the SG&A increases


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have been most significant. Clearly, marketing is growing, but not as big of a contributor. And so, I'm just trying to understand what's going on here, specifically.

Is this you're being offensive with investments into your shipping and handling network? Is this natural inflation? Should this level of inflation on that line item, specifically, continue? Or, as freight rates are starting to ease, should we start thinking about inflation here, do you think, and perhaps you can start investing in other areas?

So I'm really just trying to understand the complexion of spending here just being a little bit different than where I would have thought it come in. So any context would be very helpful. Thanks.

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**Hugh F. Johnston**
*Vice Chairman & Chief Financial Officer, PepsiCo, Inc.*

A

Sure. Sure, Chris. Let me just share a couple thoughts on that. Number one, just as a reminder, distribution is obviously highly variable with volume and with revenue as well because we pay salesmen on commission. So that's obviously going to be a factor in the numbers.

Number two, the costs that are embedded in there also include the cost of creating displays in the marketplace, and that's part of what we represent as investments. So whether it's coolers on the beverage side, either in convenience stores or front-end coolers in supermarkets or in mass merchants and the like, and also some equipment in the foodservice channels where we're growing at a very healthy clip is a part of all that as well.

In addition to that, even on the food side, display racks and POS, all of those things that are really outsized contributors to growth that frankly we've created a ton of win-win solutions with our customers on that is part of what makes them continue to vote for us as the number one supplier in canter. Those investments are value-producing investments for both the customers and us. So without getting into the granular details of how much exactly is in each of those buckets, I think a lot of what you're seeing is a reflection of the things that we're doing in the selling and distribution system to drive the kind of growth that we've been seeing.

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**Ramon L. Laguarta**
*Chairman & Chief Executive Officer, PepsiCo, Inc.*

A

Yeah. And to your question on Q4, yeah, as we decided to invest both in consumer as you saw from our A&M growth in the quarter, and also as Hugh was saying in making sure our installed equipment base in the market, and this is very relevant in the US but also internationally, we continue to gain space, space being a key lever of – for categories like ours that are impulse-based categories.

Space is a critical lever of performance in the marketplace, and it is a driver of share of market. So those two were there. We also invested in systems and some of the capabilities, especially digitalization capabilities that we thought we had a window of investment in Q4.

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**Operator**: Thank you. One moment for our next question. Our last question comes from Gerald Pascarelli with Wedbush. Your line is open.

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**Gerald Pascarelli**
*Analyst, Wedbush Securities, Inc.*

Q

Hi. Good morning. Thanks very much for the question. Mine is actually on energy drinks. So now that the Celsius transition has been completed, I was just looking for some color around your market strategy for driving distribution for both Rockstar and Celsius in tandem. Are there any specific strategies or considerations around


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channel mix to be mindful of, in particular given how under-penetrated the Celsius products are at convenience? Any color you could provide on your strategy would be helpful. Thank you.

**Ramon L. Laguarta**
*Chairman & Chief Executive Officer, PepsiCo, Inc.*

A

Yeah. Very good question. And clearly as we said, we have four pillars in the energy strategy. They all become an integrated portfolio as we execute in stores. So having the set of solutions with Rockstar, Celsius, Mountain Dew Energy and Coffee gives us the opportunity to go to our customers and strategize within new space opportunities that we didn't have in the past.

So I think it's very positive for Celsius, and we're already seeing that. If you look at the Nielsen numbers or any distribution metrics that you want to check, distribution is improving, displays are improving, the same with Rockstar.

Rockstar was a brand that was very western-based and some parts of the US, and now we're expanding to other parts of the US. So I think there is a lot of synergies in the point-of-sale execution as we have a portfolio that is catering to different cohorts, complement each other and gives the – our customers the opportunity to get better return on their space.

So that's the strategy. It's working well. Clearly, Celsius is gaining market share. Rockstar is growing. As I said earlier, the Starbucks portfolio is growing very fast now that we have better supply chain opportunities. So I think we feel good about energy as a category that is growing ahead of LRB again, and we need to play it strong in that segment to gain share as we are obviously planning to do obviously this year.

## Ramon L. Laguarta
*Chairman & Chief Executive Officer, PepsiCo, Inc.*

Great. I think this is the end of our conversation. So thank you very much for joining us in the conversation today and especially thank you for the confidence that you've placed in PepsiCo with your investments. We wish you the best and hope you all stay safe and healthy. Thank you.

**Operator**: Ladies and gentlemen, that does conclude today's presentation. You may now disconnect and have a wonderful day.


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