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PepsiCo, Inc. (PEP)

Q2 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to PepsiCo's 2025 Second Quarter Earnings Question-and-Answer Session. Your lines have been placed on listen-only until it's 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.

Ravi Pamnani

Senior Vice President, Investor Relations, PepsiCo, Inc.

Thank you, Kevin. 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 plans, 2025 guidance and outlook. Forward-looking statements inherently involve risks and uncertainties and only reflect our view as of today, July 17, 2025, and we are under no obligation to update.

When discussing our results, we refer to non-GAAP measures, which exclude certain items from reported results. Please refer to our second quarter 2025 earnings release and second quarter 2025 Form 10-Q 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 Executive Vice President and CFO, Jamie Caulfield. 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.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] One moment for our first question. Our first question comes from Bonnie Herzog with Goldman Sachs. Your line is open.

Bonnie Herzog
Analyst, Goldman Sachs & Co. LLC

Q

All right. Thank you. Good morning, everyone. I guess, I was hoping for some more color on your accelerated productivity initiatives and your efforts to ultimately right-size your asset footprint. My sense is your business is built for faster growth. And as we're seeing growth moderate, I guess your understanding the need to shrink your asset base and an attempt to mitigate the impact that you might be seeing from some deleverage, moving forward.

So first, could you quantify the productivity savings you're hoping to generate this year and how much above the typical $1 billion run rate it will be? And then, second, could you frame for us how you're balancing your reduced asset footprint with ultimately ensuring your business will still be built for growth over the medium, long term? And I guess along those lines, how should we think about your long-term outgo and realistic category growth? Thanks.

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

A

Good, Bonnie. A lot of questions there. Listen, let me talk first about how we're thinking about productivity in a multi-year horizon. And then, maybe Jamie can give you a bit more sense of the numbers.

Now, we're thinking about productivity. You're asking about Frito, but think about PBNA as well, our International business. Every one of those businesses have been optimizing their cost structure for multi-years. Now, we've been investing in technology. We've been investing in AI. We've been investing in data. Those businesses now have opportunities to improve even more of their productivity as a stand-alone business.

When it comes to the North America market, we have one new layer of opportunity that is going to give us a lot of opportunities to improve our cost structure over the next three, four years, which is the North America integration. We have two large businesses, almost $30 billion each that have been operating almost a full value chain side by side. Now, with the investments we've made in technology, with the new data that we have in systems, we're going to start looking at those businesses in a more integrated way to perform some of the value chain tasks in an integrated way.

With that, we create both efficiency and cost reduction, but also growth opportunities for the business in a combined way. Think about rural areas in the country. Think about how we service small stores, or away-from-home restaurants. Think about some of those opportunities, how we lower the cost to serve and at same time, we can increase frequency, we can increase time to sell. So, those are standalone opportunities, combined opportunities as North America.

And the third layer is how we, as a company, have been investing for now multiple years in global capability centers around the world to service our businesses as one PepsiCo with one technology, with one set of processes, with one set of information. That is live, and that will also create a lot of value for our businesses going forward.

So, think about productivity not as a one-year event, but a multiyear opportunity for us to reduce our cost, invest in growth and obviously, the food business in North America that you're referring to is one of the obviously business, we're looking at improved cost structure in the coming months and the coming years.

Now, Jamie, do you want to talk a bit more about the details of the costs?

James T. Caulfield
Chief Financial Officer & Executive Vice President, PepsiCo, Inc.

A

Yes. Hi, Bonnie. So, yeah. In the second half, we're expecting to deliver about 70% more productivity than we delivered in the first half. Now, that's across the entire enterprise. But given the size of Frito in the portfolio and the particular need to rightsize the assets and some of the other fixed costs, it skews more to Frito delivering that stepped up productivity.

What we're going after, I think we've mentioned in the past, we've closed two plants. We do have excess manufacturing capacity given the volume performance over the past couple of years. We want to be careful not to your point of take out so much that we don't have room to grow. So, we're being very intentional about this. Within our other manufacturing plants, we've shuttered some lines, but we can bring those back into service when volume returns. And then, we're rightsizing the workforce and over time, you can flex the workforce up and down depending on the volume growth.

But beyond the fixed cost, addressing the fixed cost deleverage, we've got a lot of other initiatives in play, where we've got the procurement savings, a lot of that is enabled by the investments we've made in the ERP system. We've got changes to our operating model where we're getting better leverage out of our management layer. We're going after everything. Travel and expense, we're looking at third-party contracts. So, we're pushing on every cost lever that is available and that's what's going to drive the incremental productivity in the second half.

Operator: Thank you. One moment for our next question. Our next question comes from Steve Powers with Deutsche Bank. Your line is open.

Stephen Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Great. Can you hear me?

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

A

Yeah. Hi, Steve.

Stephen Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Great. Hey, Ramon. So, if we stay on North America, but maybe pivot to the top-line, both PFNA and PBNA, your prepared remarks run through a number of initiatives that you have underway to leverage the capabilities that you just talked about in response to Bonnie's question to drive improved momentum. And I guess, my question is, if there's a way to distill those initiatives down to maybe the top one, two or three things that you would say are the most critical, the most important to get right as we run through the back half of the year to drive improvement?

And then, I guess, relatedly, what does success look like as we think about exiting the year in both those divisions? Where do you want to be? What does your outlook kind of assume that you will be in terms of the run rate exiting the year? Thank you.

Ramon L. Laguarta

Chairman & Chief Executive Officer, PepsiCo, Inc.

A

Yeah. Steve, hi. Listen, I'll give you a bit of a sense of what we're trying to do in the two businesses. We're – obviously, in the food business, our number one priority has been trying to stabilize the category. As leaders in the category, we're always looking at the health of the category. We're trying to make granular investments in value, make sure that consumers say within our brands, better entry points, better value every day, and that has been successful.

Also, obviously, we're trying to improve our competitiveness within the different subsegments of the category. So, we're happy at the progress in many of the subsegments of the food business. If you think about the performance of Cheetos in the extruded segment, if you think about the performance of Doritos in tortilla chips, if you think about our permissible portfolio becoming much more relevant in our overall mix, it's over $2 billion with brands like SunChips, brands like PopCorners, brands like Siete now, and the relaunch of Simply, which has been done now over the summer, and we're getting very, very good positive results.

Still work to do in potato chips, and we're very encouraged by the latest – last two periods performance in unflavored tortilla chips with Tostitos and the [indiscernible] (00:10:13). So, first priority to make sure the category is stabilized. Second, improved performance in each one of the subsegments. Success in some, more success come in, as you saw in the prepared remarks, we are relaunching Lays, is our biggest brand. We're trying to elevate the real food perception of Lays. If you think about the simplest and more natural snack is a potato chip. This is a potato, it's oil and is a little bit of salt, the most simpler, no artificials as we go into the end of the year. And also, we're relaunching Tostitos, because we think we can also elevate the food credentials of the brands, and that's what we're going to be doing in Q4 and Q1. So, that's food.

Now, one element that maybe is not captured in Circana so much, but it's been the focus of the business for many, many quarters now, a year is our away-from-home business. We've been putting a lot of emphasis on away-from-home. That's giving us a lot of incremental occasions to the category and where our products and our focus is giving us very good returns, both in foods and in beverages.

When it comes to beverages, the focus has been in improving colas. And colas is a good success for us. We've been focusing on the no-sugar colas, we've been focusing on food and Pepsi, and we've been focusing on the taste challenge. And those three elements have driven share – positive share performance for Pepsi, which is something we feel very good about, not only in the US, but globally.

Now, the other big focus for us has been sports, and make sure that Gatorade recovers share in sports, and that's – the first half of the year, we're gaining share. And then, adding some new platforms to the functional hydration with Propel being a great success, if you think about the last few years and how that brand continues to develop.

Now, what would be success for us? Success would be sequential improvement of our top line, sequential improvement of our share of market performance, with a goal to be back at the low end of our algorithm in top line over the next few quarters. That would be success. That's where we're really having a sense of urgency as an organization, and all the businesses are improving, all the operational metrics, are very focused on delivering that over the next few quarters. That's our goal, and we will try to be there over the next few quarters.

Operator: Thank you. One moment for our next question. Our next question comes from Filippo Falorni with Citi. Your line is open.

Filippo Falorni
Analyst, Citigroup Global Markets, Inc.

Q

Hi. Good morning, everyone. Ramon, I wanted to go back to one of your comment on the away-from-home, which is a bright spot, that's in the results. Can you give us a sense of how big is away-from-home, both for the beverage side and the food side?

And you called out into PBNA, it was up high-single digits in the quarter. Should we expect that to continue in the balance of year? And maybe also a little bit longer term, what's the opportunity longer term for your away-from-home business? Thank you.

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

A

Yeah. Listen, away-from-home for us is a way – obviously, as consumers move their consumption patterns to more calories away-from-home, it is obviously an opportunity for us to create more occasions, accelerate growth in our categories, growth in our brands. So it's been a focus for us for quite some time. It's been more of a physical availability effort. Now, we're adding layers of innovation, some other solutions that in terms of mini meals and some ready-to-eat solutions that we'll talk to you in the future. But that will be beyond physical availability. That's what we're trying to do.

Now, it is very sizable. It is more – it is a bigger part of the business in beverages than it is in foods. And it is margin accretive for both businesses. It's a higher-margin business for both beverages and snacks in – and away-from-home than it is in retail. So, growth opportunity, very incremental, a focus area and margin accretive. So, you will see us talking about it more in the future. You will see us putting more resources against that channel. And also, as I said, having more innovation beyond what is the physical availability of our products in those channels.

Operator: Thank you. One moment for our next question. Our next 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.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

So, Jamie, I just wanted to maybe extend Bonnie's productivity question a bit to full year earnings. Can you just help us understand your visibility and the assumptions behind the acceleration in the back half of the year relative to the first half? It's a pretty large magnitude. Obviously, currency is a big swing factor that helps. But I imagine a lot of that is eaten up by tariffs. So, just trying to understand your level of confidence there, what the key drivers are? Is it mainly productivity, or are there other factors there?

And then, also just longer term, Ramon or Jamie, as you think about investing behind the business, I'm not hearing a ton about reinvestment on this call. So just, can you talk about the decision to sort of drop that to the bottom line versus reinvest behind the business? Obviously, some nice growth internationally, opportunity to continue to invest there. You're looking to drive better trends in North America, still below long-term goals from a top line standpoint. So, just curious how reinvesting behind the business fits into your plans and the ability to accelerate organic sales growth as we look out beyond this year?

James T. Caulfield
Chief Financial Officer & Executive Vice President, PepsiCo, Inc.
A

So, Dara, I'll start on the confidence level with productivity. I'd put that at high. When you look at the phasing of this, as we've got into 2025, I would say, became increasingly clear that the external environment was going to be pretty challenging. So, end of Q1, into the beginning of Q2, we doubled down on identifying incremental initiatives to drive the ramp up in productivity, which will start to accrue – incremental productivity really accrues in the second half of the year.

So, we've got all the actions I identified, some we've already executed on. So, a very high degree of confidence there. On tariffs, we factored that. Obviously, it's a bit volatile, but we feel good about the mitigating actions that we've already taken. We have some other mitigants we have under consideration. So we've factored that into the back half.

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

Yeah. When it comes to reinvestment, there are a few areas that were obviously – first is technology, and we've been investing in technology for a long time. We'll continue to take a lot of our productivity, put it back into technology as we – obviously, that gives us additional intelligence and additional efficiency. So that's one area.

We're investing a lot in value. We're doing that, although very surgically. And I think we're getting better at understanding the return on the investment in value. Right now, our biggest investments have been in entry points, have been in everyday low price across most of the key categories. And then, we're investing, as I was saying, in away-from-home. We're investing in building new capabilities, so that we can drive physical availability outside of our retail channels, and also innovation that will drive.

Now, our A&M levels have been pretty high over the last five years. We've been putting a lot of A&M against the business or incremental A&M. We keep those levels going forward. I think the brands levels have been plans. We have better productivity as well in the A&M, media space. So, we feel we're – we have enough resources there to defend the core and also build some incremental platforms for growth.

So, those are the big areas where we're thinking about the reinvestment. I think we've been driving the company for the long-term since I started, and that continues to be the way we're looking at the business. Good levels of productivity to fund good levels of investment in the business going long-term.

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 so much. I wanted to talk a little bit about portfolio transformation. And you've been pretty active on the permissibility side of things and you spoke about the Simply restage. I can tell you, I've seen a ton of more incremental merchandising and display for ...

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

A

[ph] Well, I'm glad to hear (00:19:26).

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

...to the Simply lines in store. Yeah, a lot. And I was just curious, I guess, first specifically how that's going, because I know that on Simply something that that you've spoken about in the past is that the impediment was not having the products are making them available, was frankly, consumer engagement and interest in them. So, I'm curious on what kind of uptake you're seeing on that front?

And then, also in the release, you had mentioned some upcoming innovation for Frito around fiber, and protein and other things in ingredient profile. And I was just curious if you've done anything in terms of like consumer testing? Because when I think about the brand equities, I would think an open question is whether or not some of your brands have the right to play, if you will, in a space like protein, in a space like fiber? And just how you're thinking through kind of the risk of diluting brand equity by stretching them too far? Thanks.

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

A

Yeah. That's a good question. So, the permissible portfolio in foods and obviously, no sugar in beverages, and some functional platforms and beverages, have been a focus of the company for quite some time. Permissible snacks, which is where your question was going, has been – it's over a $2 billion business already. We're by far the largest permissible snacking company in the US with multiple platforms. So, SunChips, a very successful platform, based around multigrain. We have PopCorners, more focus on baked, never fried. We have multiple – now, we have Siete obviously, as a new member of the family. And then, Simply, trying to address the no-artificials and is natural in the big brands.

Those platforms continue to grow, I'm very happy that you're saying you're seeing more physical availability of Simply. That was the bottleneck for consumption. It was not really consumer appetite for the product, but more availability of the product and the right affordability, the right price points that drive the trial. I think we've worked on both availability and affordability, and that will drive trial. We're seeing increased trial in Simply. And those are great products that a lot of consumers that were kind of sitting on the fence of some of our large brands, Doritos, Cheetos and Lays and Ruffles, are now opting to come into the brand. So, good feelings and that will continue to be a focus of our A&M, of our sales force, as you saw, and our customer plans.

Now, going into the future, a big – a couple of big innovation ideas. One is the relaunch of Lays and relaunch of Tostitos. Those are two huge platforms that we want to elevate the real food credentials of the two brands. These are very – these are [ph] anchor (00:22:29) on potatoes, (00:22:30) on corn. Very traditional cooking methods on both, very simple ingredients. Great food for our consumers. We will relaunch them. We'll put a lot of resources against. We'll eliminate artificial from those two big brands, and that will happen Q4 and Q1 and then into next year.

Yes. We're also – in our remarks, we're talking about some innovation in more functional spaces with our food business. Yes, protein. In some brands like PopCorners, some brands like the Quaker snacks and eventually in some of our larger brands. And to your question, we've been very surprised – positively surprised how consumers are seeing our brands expanding into those more functional spaces with credibility. So, we'll push hard.

The big push to protein though is going to be on the – on our beverage business where we have some big launches coming up in Q4 and Q1. We will be participating in the liquid protein space with, I think, superior propositions that have no artificials, that are great tasting, and that I think will give us the return on what is clearly a consumer trend that is scaling up in the US and it's part of the repertoire of our consumers. So, those are the areas. We will obviously talk more in the coming quarters. It's a little bit early, and we obviously, for confidential reasons, competitive reasons, we don't want to disclose too much at this point.

Operator: Thank you. One moment for our next question. Our next question comes from Michael Lavery with Piper Sandler. Your line is open.

Michael S. Lavery
Analyst, Piper Sandler & Co.

Q

Thank you. Good morning. Just maybe shifting gears a little bit to International. It's done quite nicely. And just maybe – you gave some color in the prepared remarks, obviously, but hoping you could maybe call out a couple of the key drivers? Just some of what's really driving – working there? And then, maybe if there's any watch-outs for the second half, or even opportunities for further acceleration you can flag and just unpack that a little bit for us?

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

A

Yeah. I mean, yeah, International has been a success story for us. It's been a focus of the company. Obviously, we're very developed in the US and International is a big opportunity for growth, a lot of consumers and a lot of opportunities for [indiscernible] (00:25:08) and frequency build in most of the markets develop and developing. So, we continue to invest in International, both foods and snack – foods and beverages. Both categories are doing well, mid single-digit growth. That's where we're trying to continue balance of the year, and that's what's in our guidance, and our long-term, how we think about the business long-term.

So, yeah. In terms of specific markets, I would say, we're very pleased with LatAm. We're very pleased with some parts of Europe where we see strength. We're pleased with some parts of the Middle East. China, a little bit weaker. As you think about the Chinese consumer, post the Chinese New Year, a little bit softer. India continue to be a double-digit growth. So, overall, I would say our business, strong competitiveness. We continue to invest in category growth, which at the end is the long-term driver of business. And the important thing for us is this was a business that had – the profitability was below PepsiCo average in the past. Now, it is accretive to PepsiCo. So, it is a very good investment opportunity for us.

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. Ramon, I wanted to go back to your response to Steve's question on just what success looks like. And I think you mentioned potentially returning to the organic growth at kind of the low end of the algorithm. Can you maybe just give us a sense in terms of your level of confidence, or visibility, into getting to that today, where we sit today, versus maybe where we've been over the last kind of 12 months? It sounds like you're more confident today versus where we've been. I'm not sure if that's a fair statement or not. But if so, what kind of drives that improved confidence? Thanks.

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

Yeah. The confidence comes from – we see sustained International growth, and we see a sequential improvement of our North America business. When you put that together, yes, we should go back to the lower end of our long-term algorithm. Whether this is three quarters, four quarters, I don't know. I don't have the magic ball, but clearly, the business is working on this. We're becoming much more competitive in multiple sub-segments of the category. And we'll continue to be very granular on our investments, continue to increase our productivity, so we can reinvest back in value and portfolio innovation. And the away-from-home business, which, as I said, is giving us a lot of great returns, and we'll continue to do that.

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. Good morning, everyone. So, Ramon, you spoke about permissible offerings. And I know how much effort the company has been putting into these offerings for a very long time. But you're getting to $2 billion out of like close to $27 billion to $30 billion in sales in North America for convenience foods. And assuming that includes also CRE, your acquisitions, why do you think – I mean, just as a step back, that why do you think the consumer – if the consumer is searching for healthy snack, the share of healthy snacks for you did not improve that much relative to what I think the consumer desire is. So, perhaps in this high single-digit percentage of total, how can you kind of improve that as you go forward?

And do you think, like this is more of a form situation where you obviously have a massive market share, which, I mean, benefit to you? And obviously, kudos to that effort in chips. And then, the consumer is more looking for different forms and perhaps the right to win. It's in forms like shakes, or nuts, or fruits, or protein bars that you may not have any. And if that's the case, why not lean in towards more of that and perhaps for acquisitions? So, I just want to take a step back and think about strategically.

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

Yeah, yeah, Andrea. It's a good question. I think, when you think about permissibility in our category, I would include, I mean, some of the levers we have obviously, is innovation and portfolio, as you were referring to. So, a lot of the multiple choices that we're giving consumers and we'll give that platform – those platforms much more visibility and affordability, because those were drivers that maybe we were not emphasizing enough in the past. Now, clearly, there is.

But think about the other lever of permissibility in our category is portion control. I think portion control will be critical going forward and our brands will be in consumer lives more and more that in smaller portions. If you think about the efforts that we've been putting for many, many years now, in building a multi-pack business, a variety pack business, a single-serve business. Right now, over 60% of our volume in the US, food business is in smaller formats. That will continue to grow. I think it's a great way for our brands to participate in what is a very healthy diet, and improve the permissibility of our category in general.

So, think about permissibility probably in broader sense. Obviously, there is – it is an ingredient element. It is a cooking method element. It is a format and a number of calories per serving. So, there's a lot levers that we're playing, because I think the number of occasions will continue to grow for our category, we want to participate in those occasions as on-the-go lifestyles will continue to develop. And that is the long-term opportunity for our categories. Participated on-the-go lifestyles with permissible solutions, affordable solutions that are in consumers' life in multiple occasions. That's what we're trying to do.

So, I'm very optimistic about the growth opportunities of our food business. I'm also extremely obviously optimistic about the growth opportunities in our beverage business, where clearly the permissibility within the no-sugar offerings and the functionality of the category, both with hydration, with energy, with the protein is already more developed than it is in the food business.

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

Peter T. Galbo
Analyst, BofA Securities, Inc.

Q

Hey. Good morning, Ramon, Jamie. Thanks for the question. Ramon, just going back through your comments on kind of sequential improvement expected in the food business over the rest of the year, and maybe even into next year, just maybe wanted to put that into context of Q3 in particular, as you kind of lap some of the promotional efforts from last year, the volume compare is a bit more difficult. So, is it possible that we see maybe a step back in that volume trend before it reaccelerates or kind of how we should think about it there again over the course of the of the year? Thanks very much.

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

A

Peter, I will not go into the details. My question was, PepsiCo will get to the low end of its long-term top-line algorithm in the next few quarters? It's a combination of International business continuing to perform at a very high level and sequential improvement in our North America business.

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

Kaumil Gajrawala
Analyst, Jefferies LLC

Q

Hey, guys. Good morning. Ramon, that was quite the tease on the big launch in protein. Is there anything you could add, I'm sure we'd all be interested? Is it an existing brand, new brand? Any context?

And then, on – when I look at your comments in the opening remarks, many of the comments started with a focus on value as being responsible for this improvement in inflection. So, can you maybe just talk about, sort of, the journey and offering more value where you feel you are? Is there more work to do? Are things reset into a place that you like? Thank you.

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

A

Yeah. Listen, with regards to protein. I think protein is clearly a subsegment in our food and beverages categories that is growing fast. Consumers are adopting protein solutions in the diet at a pace that was not the case in a few months back, a few years back. So, we – as we always do, we follow the consumer, and we try to offer consumer solutions, not small solutions, but solutions with our big brands, because that's the beauty of our company, and we can provide democratized solutions at large scale. That's what we're trying to do. You will see more in the due time, and it's not too long from now. It's a few months from now, that we'll obviously make more detailed announcements of our new platforms.

And on affordability for sure. I mean, affordability, you said value. Value has a number of dimensions, one of which is affordability, but it's also availability. It's variety, and we pull on all of those levers. And we expect to continue to innovate and change in response to how the consumers are defining value in the marketplace. So – and we're able to do that. Our analytics are getting much sharper as we've invested a lot in data and IT. So, yeah, we'll continue to use value as a lever and affordability, we're addressing with a lot more precision. So by channel, by pack size, by time of the month.

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 ISI

Q

Great. Thank you very much. Just a couple of follow-up questions, if I may. Revisiting the International business, beverages did much better than food. Can you talk maybe about – a little bit about the drivers of why the beverages did so well? You mentioned Sting, I think for the first time that I can remember. I know it's an energy drink that's big in Southeast Asia. I think you got it from the Rockstar transaction. So, a little bit about your International strategy on the beverage side.

And then, a follow-up on the comments about North America and that integration. Is the integration that you're working on to such an extent that it would preclude any future consideration of refranchising, or would that be an option in the future even with the integration? Thank you.

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

A

Yeah. A couple of things. So, Sting is a brand that we created in – actually originated in Vietnam and now is available in multiple markets, in developing and emerging markets, and it's part of our Formula 1 now sponsorship and it's a brand that we think – I mean, we know it has opportunities in many markets across our portfolio of markets. Now, beverages has been a successful story for us. We've been gaining share in multiple markets. And basically, we have three big platforms that we're focusing on. One is no-sugar colas, no-sugar CSDs, but colas in particular, and no-sugar Pepsi has been an amazing success in many, many markets. In many markets around the world, we're leaders in colas because of Pepsi no-sugar.

Second platform is energy and Sting plays a big role in that portfolio, but not only we have other brands that are very successful in multiple markets. Third platform is hydration. And in hydration, Gatorade plays an important role and Gatorade can grow meaningfully around the world, and we're tweaking the American propositions to better fit the profile of International consumers in many markets. So, those are the – we're also – I think our bottlers are improving their performance. They're investing in their technologies and in their execution. And there is a good – very good partnership between us and our bottlers, and that obviously is resulting in better performance.

And that – we don't see any reason why this would not continue in the coming years. We have now a very dedicated organization, International Beverages Franchise. That is a great way of connecting end-to-end the whole world and making sure that we focus on the right platforms. We leverage platforms like Champions League, like Formula 1 and others to create growth for long term for us.

James T. Caulfield
Chief Financial Officer & Executive Vice President, PepsiCo, Inc.
A

The other point I'd make is on the International Foods business. In a number of D&E markets, we have what I'll call some basic food products. They tend to be very heavy, but low value per pound. They also tend to be pretty volatile. If you look at just our savory snacks within International and exclude those basic foods, the growth rate would be about 4 points higher.

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

Hey, when it comes to North America, what I said earlier, this is a big opportunity for us to – and it's not available to many other companies, to synergize two large operating businesses that are sitting side-by-side servicing the same geographies, the same customers and then the same consumers. And that, for us, is a huge idea to optimize how we do most of the task in our value chain, how we do this at low cost and a better performance. So, this will be our priority and where we will focus our efforts for the next three, four years to capture value and come out of this as a lower cost business and better performing business.

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, everyone.

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

Hi, Chris.

Chris Carey
Analyst, Wells Fargo Securities LLC
Q

I wanted to ask about PBNA. Well, actually, and just in the context of the global beverage business. The President made some comments last night about ingredient changes, or ingredient evolution in one of your competitors. And it got me thinking in a way is, how flexible is the system to responding to ingredient changes? And I'm really asking this in the context of the prepared remarks, talked about removing artificial flavors from a number of – ingredients from a number of food offerings.

And it really got me thinking about the beverage side and where you see this portfolio today and that kind of evolution toward healthier, cleaner ingredients, and kind of how you see your North America versus International businesses on that journey of x percent today, but we think we can be at x percent in the coming years, and whether our North America and International business. So, really about the evolution of cleaner ingredients within your beverage portfolio and how flexible the system is to respond to those changing requirements? Thanks.

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

A

Listen, same journey that we have in foods, we're following in beverages. This is a consumer-centric strategy. We're following the consumer. If the consumer is telling us that they prefer products that have sugar and they prefer products that have natural ingredients, we will give the consumer products that have sugar and have natural ingredients. So, this is a journey of following the consumer, trying to be a little bit maybe one step ahead of the consumer, but not too many steps. And it applies to both beverages and food.

In particular, we have a journey to – and a technical roadmap to eliminate artificial colors and artificial flavors from our beverages the same as we do for our food business, and we'll be able to execute as the regulations evolve, or consumer preference evolve.

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

Kevin Grundy
Analyst, BNP Paribas Securities Corp.

Q

Great. Thanks. Good morning, everyone. Thanks for taking the question. Ramon, I wanted to come back to North America beverages and energy drinks. It's an area we haven't spent a ton of time on, but it was certainly an area when you took over, you kind of drew a line in the sand. I think if you'd agree with that characterization, so you wanted to see PepsiCo play in a more substantial way. I think Rockstar has probably proven to be a little bit more difficult [ph] of a turn (00:43:52), kick start sort of same deal with Mountain Dew, and sort of difficulty gaining traction.

So, I'd like to get your updated thoughts on sort of overall satisfaction with the energy drink strategy, kind of how you see the role of Celsius potentially a lot of new, not asking to make any comments, of course, if you can't. But just looking out over the next three to five years, what would you share with investors? What would you share with the market success in energy drinks look like from a PepsiCo perspective? Thank you.

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

A

Yeah. Listen, we continue to see energy as a large and growing category in our beverage business and consumers are adopting those beverages in their lifestyle, and I think that will continue. [ph] That what (00:44:39) we're participating is multiple, right. We're participating in ownership of some businesses like Celsius. And we're also creating value by distributing some of those brands in the marketplace, and that makes our business stronger with our customers, but also, obviously, we create value from our infrastructure and our assets. So, that's the way we're participating.

On top of that, we have a JV with Starbucks that is very successful and will continue to provide energy solutions, energy plus solutions, not only energy in the coming years. And that's another way how PepsiCo strikes value, both from the ownership of the JV and also obviously, the distribution of those beverages in the marketplace. And as the consumer evolves and there might be different spaces that get created, how maybe sports drinks and energy get combined in the future, we'll be able to create as well solutions with some of our platforms that satisfy those needs for consumers.

So, I think it's both from an innovation point of view, from an ownership of – in the case the JV with Starbucks, or participating in the ownership of Celsius. And then, obviously, leveraging our vast distribution infrastructure for both away-from-home and for a small format, basically, where these drinks get a lot of consumption and where a lot of value gets created, we will continue to participate. So, think about our long-term value creation in energy, which I think is a long-term growth part of the category in that way.

Ramon L. Laguarta

Chairman & Chief Executive Officer, PepsiCo, Inc.

Yeah. Okay. Thank you. Thank you for a good call, and thank you for joining us today. And as I – as we were saying during the call, we're very pleased with our performance in Q2. Also, we have the right tools, and we're taking the right steps to deliver on year and create a very stronger PepsiCo for the long-term. And we see a lot of opportunities for growth across our categories, and we're making the right investments to deliver on those opportunities. Thank you again, and have a great summer.

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