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PepsiCo, Inc. (PEP)

Q4 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to PepsiCo's Fourth Quarter and Full Year 2024 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, 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 plans, guidance, and outlook. Forward-looking statements inherently involve risks and uncertainties and only reflect our view as of today, February 4, 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 fourth quarter 2024 earnings release and 2024 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 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] Our first question comes from Lauren Lieberman with Barclays. Your line is open.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

Great. Thanks so much. Good morning, everyone. I wanted to talk about Frito. Significant reinvestment in the business that really started over the summer, but we really saw it presumably step up in the fourth quarter, funded by the one-time gain you had, but volumes decelerated sequentially.

So just curious if you can talk a little bit more about spending and reinvestment in the fourth quarter in particular, how much you would describe as kind of tactical versus laying strategic groundwork for next year, because right now, just optically and super simplistically, the ROI on reinvestment doesn't feel great with volumes kind of taking a step in the wrong direction. Thanks.

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

A

Hey. Good morning, Lauren. It's Jamie. Yeah, look, we're working hard to get the momentum back into the Frito business and just as importantly, back into the salty and savory category. So that's working for us, working for our customers. So we're going to continue to invest and what enables us to invest is we're generating productivity. To your point, we did have some help from non-operating gains in the fourth quarter. And the investments are intended to improve the performance in the fourth quarter, but more importantly, to get us off to a good start going into 2025.

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

A

Yeah, Lauren, hi, this is Ramon. A couple of context how we feel about it. We're encouraged by the category, if you look at the Mordor plus the [indiscernible] (00:03:23) data, the category is starting to grow again in the last periods of the year, including P1. And that was the number one objective that we had. Get the category back into growth both in volume and hopefully starting to see some pricing, price mix, positive price mix. I think we are there. So consumers are back into the category. I wouldn't say a large number, but delivering growth. So that's very positive.

From here, we can build on the learnings that we had during the year, what are the best ROI as you were saying, ROI investments in value for the category. But most importantly, we understand the bigger trends where we can innovate, where we can bring to the category new spaces that will drive additional locations into the category.

Moreover, for our own business, the big opportunity we're also addressing is the away-from-home opportunity, which is a blue space, a blue ocean of opportunities for us. And as consumers are being less at home and more away from home, we think that's another area of opportunity.

So I would say category growth back to good levels. We're starting to see some pricing in the category. The consumer programs and the commercial programs for next year look very strong, addressing innovation spaces that have been unmet at this point, I would say.

And then obviously, for us, away-from-home is a big opportunity in our food business. We have more of our business in beverages away-from-home, but for foods is an underdeveloped opportunity.

So that's how we're thinking about investments that we put back into the business. In Q4, as you said, we reinvested most of the one-time gains in building the infrastructure to capture those opportunities in 2025.

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

Thank you. Good morning, everyone. I actually had a question on your guidance for this year. Your EPS guidance assumes some leverage, but not nearly as much as you've reported in prior years. So, just kind of wanted to understand the drivers of this?

I assume your productivity savings will remain robust, so should we assume that the level of investments in your businesses, are going to ramp a fair amount this year?

And if so, could you maybe give us a little bit more of a sense of the types of investments. For instance, Ramon, are you considering more price investments at Frito?

And then also you guided an EPS range versus your typical percentage increase. Is the idea there that you would ultimately like to have more flexibility this year to maybe push more aggressively on investment levels if needed? Thank you.

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

A

Yeah. I would say – and Jamie will add to this. I think the way we're thinking about the year is continuing with the systematic productivity, multiyear programs that we talked to you about, so automation, digitalization, global capability centers, simplifying the company, deduplicating. So there's a lot of – and we feel very strong about that.

We're reinvesting into price partitions that were not participating for Frito, if you think about the sub-$1, sub $2, there's multiple price partitions where we're not participating, where we're rethinking or we're redoing our price pack architecture on single serve, on multi-packs and multi-serve to make sure that we attract consumers. Depending on their disposable income during the month, they will be able to access our product across the multiple parts of the portfolio.

And then to your point, we're being cautious. Like the reality is that the world looks better from the unemployment point of view. There's very low unemployment around the world. There is, I think, better inflation in most of the markets. However, the world is very volatile. You think from the geopolitical point of view or some of the potential decisions that governments might take going forward.

So we think, it's prudent for us to give a guidance that reflects all that. And obviously, we can invest in the business and continue to invest for the long-term, as we always manage the business, but also give us flexibility to react to potential circumstances that might come our way in the coming months, especially, I would say, the first half of the year.

I don't know, Jamie, also in terms of ForEx.

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

A

Bonnie, yeah, I'd add, we have about a 3 point ForEx hit. Obviously, the dollar has strengthened recently. Peso is the biggest piece of that ForEx guide. And then below the line, we're expecting higher net interest expense. Part of that is as we've rolled over debt, we've issued at slightly higher rates and then higher debt balances with the acquisitions of Siete and the 50% of Sabra that we did not previously own.

On top of that, pension expense is going to be up a bit. So where we typically have maybe a little bit of leverage from below-the-line items, it will be a bit of a headwind. So you should expect the sector operating profit to grow in excess of what we're guiding on EPS.

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, everybody. Good morning. A couple of questions, I guess, on the restructuring and sort of realignments. I guess the first thing is, I don't know if it was 10 years ago, but there were a lot of conversations around splitting beverage and snack as two different businesses. And I just wonder if these restructurings are maybe a prelude to something bigger down the road or maybe what's your appetite for that?

And then I guess in the midst of a restructuring like this, does that also mean that any other M&A is off the table after these two recent deals? Thanks.

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

A

Okay. Kaumil, I mean the reasons for the restructuring are multiple, but I'll summarize. The international growth opportunity is very large for us, and we want to have focus between what is a franchise beverage opportunity and what is mainly a food operating unit opportunity. So we're separating those two, make sure that we have category focus, but most importantly, we have a consumer and franchise-facing organization and a consumer and operating facing organization, internationally capturing what is a very large growth opportunity.

Now in the US, we have been investing in systems and we've been investing in data. We've been investing in infrastructure. Now we're ready to capture the benefit of some of those investments in better short-term cost running the business, and there's duplications in how we service the two organizations. So that's an opportunity. We want to continue to have very focused category teams that understand the consumer, innovate, manage the category separately. But also, we see an opportunity to build the future together in a different way.

So if you think about infrastructure, if you think about technology investments, if you think about a lot of the big decisions that we have to make for the future of the business, we have an opportunity to do that in a much more harmonized way in the US. So those are the three big ideas that I think for the next chapter of the business and our accelerated growth ambitions and margin expansion is the best way to run the organization.

Operator: Thank you. One moment for our next question. Our next 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, just looking at Q4 results for you guys across the CPG industry, clearly, a pretty muted top line growth environment in North America. I know you touched on Frito-Lay North America already. But I'd just love to get a bit more granular on how you're specifically managing the business differently in 2025 relative to the back half of last year on both the Frito-Lay and beverage side of the business? And areas you're emphasizing more such as innovation, et cetera, and just sort of the tweaks and strategy in light of that sustained environment?

And also, just can you give us a quick update on performance in Mexico in Q4, somewhat tied into the same vein of a subdued consumer environment? So, any update there would be helpful. Thanks.

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

A

Thank you, Dara. So, let me start from – the international business remains, by far, our largest growth opportunity, and we've been investing consistently over the last 10 years. We'll continue to invest to – continue to nurture this big opportunity for us to develop our caps and continue to build scale business with high margins.

To give you a sense today, our international business already almost a $40 billion business, accretive to PepsiCo. So, we build the scale. We build the leverage, and that business continues to grow at a very good pace.

Now, in North America, we're encouraged by what we're seeing. We're encouraged by – in the beverage business, a continuous improvement of our margin, and that was something that we put our, as a key objective a few years ago. We see our line of sight to a mid-teens margin in our beverage business. That continues to be an aspiration.

Now, I think we have an opportunity to do better on the top line in beverages. And that is the focus for this year, continue to expand the margin but drive acceleration on the top line behind better price back, a much more focused innovation against zero, against functional hydration, against some of the more – the categories where we are leaders like teas and coffees. And we continue to improve our operational excellence in beverages. So, that's the beverage journey, beverage ambition.

Again, productivity at the center. I think the teams have been doing a great job in improving operational efficiency across, buy-in across, making our growth moving and everything else. So, that's the journey on beverages.

In snacks, after five years of very fast growth and gaining almost 200 bps of share, 2024 has been a slowdown. Our number one priority this year has been stabilizing the category, making sure that consumers come back to the category with good ROI investments. I think we can say that we see that happening. We're seeing the category starting to grow again on volume in the last three months and a little bit of pricing in the category.

Frito is – has a very strong program for 2025, much better price point execution and partitions, as I said earlier in the call. Much better innovation. We're moving more of our A&M dollar stores, what we call positive choices or permissible offerings for the consumer, a new line of no artificials under Simply, which will have all our brands, more effort on baked, more effort on Lightly Salted, more efforts on parts of the portfolio where we see consumers moving, a lot of effort on portion control, a lot of effort on single-serve, on multipacks and a lot of efforts on availability of our small portions.

And then as I said earlier, away-from-home continues to be an investment area for Frito, something that was in our strategy. Now we're dialing up the opportunity to have our products available away-from-home, but not only in the form of a conventional bag of our snacks, but also more elevated experiences in form of ready-to-eat [ph] almost (00:16:50) solutions or mini meal solutions.

That's why the acquisitions of Siete and Sabra feed our strategy as they give us not only better-for-you snacks, but also the option to participate in meals and mini-meals in a much more intentional way. So those are – they're kind of the broad strategies. We'll talk more at CAGNY and how we're thinking about all these for the coming years.

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, everyone. Hey, Ramon. I'd like to pick up on the comments from the previous question and related to Frito and I guess, the focus on some of the more positive choices. And I guess as we step back, right, and we've all been trying to understand both the Frito share and the category, how much of it is just simply price got ahead of the consumer's wallet, how much of this is now a change in preference, right, is healthier, more important objective from here?

And then I guess the last is just where Frito kind of fits in mini meals because meals have become more expensive. And is there a migration to like, I don't know, a dollar menu relative to a bag of Lays and a Pepsi. So against those three things, which one is the most important? And specifically, is there something that you're hearing from consumers that is causing a refocus on the more positive choices?

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

A

Yes. It's a great question, and it's actually probably the most strategic question. I think when we talk to consumers, value is the number one decision-maker, and it's the reason why the category slowed down in the last 12 months. So we think that addressing value, given the consumers' choices at different price points, different solutions throughout the month, the consumers will be making choices as they're trying to maximize their disposable income. So I think that continues to be the number one focus. And I think we have a much stronger pricing, sizing and promotional activities that address that with high ROI and maximizing the value of the category.

I think there is a more awareness from consumers to the food and the drinks that they consume. I think there is a – this has been a multiyear evolution of the consumer in the US, globally, obviously, as well. And obviously, some parts of the world are more advanced, especially European consumers. But we think there has been more conversations on social and more – we've seen some behaviors as well.

So that is maybe an acceleration in the US market that we are very well positioned to capture. You think about portion control, probably being the number one solution for consumers to stay in our categories is small portions of our favorites, ideally improved favorites with lower sodium and lower fat and no artificials. So portion control of our favorites is a big strategy.

There's also consumers that are looking for more functionality and they're looking for protein in their snacks. They're looking for whole grain in their snacks. They're looking for other benefits, and we're also well positioned. If you think about SunChips and how SunChips is innovating with whole grain and now legumes. You think about Stacy's with whole grain, if you think about Quaker with protein snacks, if you think about popping and baking and better frying, lower fat frying options that we're putting on in front of consumers, those are all tools in our portfolio, enabled by very capable R&D that we will continue to expand.

And the truth is that our partners have been great partners in expanding space for us in stores and giving us the tools to maximize consumer impact. So that will be big in 2025, and we're pivoting a lot of our A&M into those spaces.

The third pillar is mini meals. And this is not only a value-driven decision, but it's been also a multi-year evolution of the category where more occasions or more calories are being eaten in small meals versus large meals. And I think that is something that will continue as consumers' lifestyle evolve that way.

So there we're participating with all our brands. We're trying to create solutions for consumers in those moments of the day where they're looking for a 200-calorie, 300-calorie solution that takes them over for the next few hours into their next job or whatever they're trying to accomplish. So those are multi-strategies.

Now the same applies to beverages. Beverages price points are critical. I think obviously, offering partitions that drive that are critical. Better for you, so zero and more functional beverages, and we have both in Gatorade and Propel and in the whole zero portfolio. And then also elevated experiences away from home, and we have Pepsi DRIPS that is an elevated experience and multiple other solutions that we have on our away-from-home business. So it is a three-pronged strategy. It is across food and beverages, and we feel good about our ability to continue to give consumers what they need as the preferences evolve, obviously, during the coming years.

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. I wanted to ask about your low single-digit organic sales guidance for 2025. Can you comment how much is the international contribution versus the North America expectations?

And specifically, in North America, you called out the performance to improve gradually as the year progresses. Can you give us some sense of when you expect North America to improve? And kind of what are the key drivers of that improvement in 2025? Thank you.

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

A

Hi, Filippo, it's Jamie. Yes. So as we mentioned in the prepared comments, we expect North America's performance to improve gradually as we work through the year. Our guidance of low single digits is in the same neighborhood as our exit rate. Clearly, at this point in the year, with a lot of global uncertainty, I think we've set the top line guidance to be prudent. And the cause of all the acceleration or the cause of the acceleration in North America is a lot of what Ramon's been sharing previously on the call.

So innovation, getting into new spaces, getting into – leaning more heavily into away from home. And to be clear, international has been performing very well, and we expect international to continue to be quite resilient and a major contributor to our results in 2025.

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. Good morning, everyone. Hope you're doing well. So Ramon, you mentioned in response to Lauren's question that you're kind of encouraged by some of the trends that you're seeing in salty more recently. And I know throughout this call, you kind of touched on a lot of the things that the company is doing to improve performance around affordability, innovation, et cetera. But just over the past year, category growth has been choppy and we've seen kind of these periods of growth kind of ultimately reverse.

So I just would be curious, as you look at it today, is there something that you're seeing that's different that gives you greater confidence that the category is on much better footing today as we move into the balance of 2025. Thanks.

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

A

Yes. I think listen, I don't think we can read 2024 in isolation of the previous three years. Otherwise, I think we're missing some of the major impacts on consumer, both lifestyle, both from home into away-from-home and disposable income challenges with inflation.

So we look at 2024 in the context over the last four years, and we say, okay, Frito-Lay, and the category has grown above our long-term expectations of Frito-Lay grew 8% in the last four years. That's a pretty good compound rate for a company of that scale and that development. So that's positive. And Frito-Lay has, I think, gained almost 200 bps of share of market. So that is the contextual reality to understand 2024 as a normalization year, inflation going back to normal levels, both on the cost of inputs and the consumer side and the overall trends in the category.

Now yes, we're encouraged by the fact that we're seeing more occasions coming into the category in the last three months of the year. And that is encouraging because we see consumers coming back to consume our products, consume the products that are being offered by the category.

Now there is a higher level of consumption in the value segments of the category, but it's also more occasions coming in the premium segments of the category, which also helps us to understand the way to address that opportunity, both with good offerings on the value side, but also innovation and good consumer solutions that consumers are willing to pay more on the premium side.

And that's why what I said, we're encouraged. I think our commercial plans address the opportunities at both ends of the category and also trying to be very cautious and very always having ROI at the center of our decisions, not only for PepsiCo, but for the full category, which we think we are guardians of this category for the long term. And that's why we're making some of the decisions we're making.

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

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Hi. Thanks, and good morning. So I don't want to beat a dead horse, but I just wanted to delve a little further into the topic of Frito investment, specifically the topic of pricing and value. Because I appreciate the comments you made so far, Ramon, but I just – I guess I'm trying to put a little finer point on it because it's the one area where I guess I think you could argue we haven't really yet made clear and concerted investments, just evidenced by the fact that pricing in Frito is still positive this quarter despite tactical initiatives you discussed coming into the quarter.

So the comments you made today, Ramon, signal a change on that front, such that pricing in Frito could potentially start to run negative as we start 2025. I certainly understand the risks and sensitivities of walking back pricing. But on the flip side, I guess the question would be, how would you think about the risks of not investing more in price to reenergize volume, just given that it's been, I guess, 18 months or so where we've seen category volumes and volumes in your portfolio extend their declines and fall short of expectations. So just I think I'm hearing a little bit more so on this, but I just want to...

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

A

No, I wouldn't assume that we're going to have negative pricing. I don't think that's our strategy. What I'm saying is we're going to have much more surgical offerings to consumers, especially around price partitions, which I think we can do price and sizing in a way that we give consumers optionality without diluting the pricing of our business or the category.

For example, if you think about the multipack business, we will be offering lower counts. We'll be offering 8 counts, and we'll be offering 15 counts and 18 counts and 20 counts. We'll be offering the consumer multiple choices so that the consumer can – beginning of the month, they might go for an 18 count and end of the month, they might take a 6 count, 8 count depending on their budget availability. That's one strategy.

The same with the single-serve. We've always had the two for $1 option for in limited channels. Now we're going to have a sub-two option that we didn't have. We'll have multiple partitions for different occasions. And obviously, our DSD system allows us to have distribution of the different price packs for the occasions that matter for that particular customer or point of sale throughout the year. So those are capabilities that we have in place.

Now we would have the offerings, we'll have the executions and we'll have the partnership with our customers to try to continue to drive value for the consumer and for our partners and for ourselves. I don't think we will have negative pricing. We'll have a much more surgical price pack strategy and execution strategy that we think will drive growth for the category given where the consumer is in their disposable income evolution after the high inflation years that we just crossed.

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. I just want to come back to Frito – maybe not as much as the pricing piece, but some of the other spending. At the end of Lauren's question, you were saying you reinvested most of the onetime gains in infrastructure. And just want to maybe understand a little bit better what that is. I mean I think the optics you pointed out are a little funny. But if we understand that better, I think that's helpful.

And just a little bit related. You said that the percentage of sales for advertising and marketing went up in 4Q. Can you maybe touch on what your expectations are for 2025 for that?

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

A

I'll start with the A&M. I'd expect our A&M to be pretty consistent as a percent of sales in 2025. Investments and how we reinvested them.

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

A

Yes. I think going back to the investments, I think we continue to think about long-term portfolio evolution, so continue to invest more on the future platforms that we're trying to create, whether it's portion control platforms, whether it is permissible platforms, whether it is the away-from-home platforms. All of those require investments upfront, especially away-from-home require some investments to be able to capture new channels and new opportunities.

The same with some of the new platforms that we have to invest to get it off the ground. That's why my comment on Q4 investing on those platforms. But again, we're trying to run the business for the long term, trying to establish good options for the consumer in all the different price partitions, move the portfolio to where we think are the new pockets of demand.

Again, lower fat products, lower sodium products, better ingredients, now legumes and rice and some other ingredients, giving consumers higher protein, all the different functionalities that consumers are looking for as they enjoy tasting snacks.

And then again, the away-from-home opportunity being much bigger, both with mini meals and some ready-to-eat solutions that our brands can participate, we're seeing high demand, and that will require investments to be able to capture for the long term.

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

Drew N. Levine
Analyst, JPMorgan Securities LLC

Q

Hey, can you hear me?

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

A

Yes. Hi, Drew.

Drew N. Levine
Analyst, JPMorgan Securities LLC

Q

Hey, there. Thanks for taking the question. So I think this is the first quarter in a while where energy wasn't specifically mentioned in the prepared remarks. So wondering, any change in view of the category or PepsiCo's platform in the category.

And I know the company has previously said you feel good about the service levels and execution. But maybe any color on what the company has planned from a planning or execution perspective to drive growth in that part of the portfolio? Or if there's anything that the partnership can be doing differently or better from your perspective? Thank you.

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

A

Yes. Thank you. We think we continue to see energy as a fundamental part our beverage growth strategy in the US. There is a demand for energy throughout the day. And I think we have a portfolio that offers that in both with our brands and some of the brands that we distribute. And we're servicing our consumers and our customers with, I think, full end-to-end solution. So there's no mention because there's nothing special to mention.

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

Gregory Porter
Analyst, Evercore Group LLC

Q

Hey, guys. This is Greg on for Robert. I was just wondering if you could please talk a bit about the PBNA pricing strategy for 2025 and then a bit more about how you're thinking of promo in that segment?

And then as a quick other follow-up, maybe just touch on the incrementality of Baja Blast and just how you guys are thinking about the Mountain Dew franchise? Thank you.

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

A

Great. So listen, Baja Blast is a big part of our strategy to make Mountain Dew a bigger contributor to our growth in beverages. It's a large franchise. It's almost $1 billion already between our away-from-home and our retail business in the neighborhood of $1 billion.

We see it is incremental in driving penetration for Mountain Dew with new – especially with Gen Zs and especially in parts of the country where our core Mountain Dew is less developed. So we see a very good incrementality for us, and we will continue to invest in Baja Blast. It's one of our bets for the year. It's continuing the development of

Baja Blast in the – we'll have it for Super Bowl, and there's a whole program throughout the year to continue to develop this platform. I think it's sustainable, it's incremental. It brings new consumers into the franchise. So that's regarding Baja Blast.

Regarding the pricing strategy, I think there's very disciplined category pricing, both through price pack and through a channel mix, and we'll continue to work on that direction to create value for our partners and for our consumers, giving them the best choices in price packs and promotional offers that create category value and category profitability for our partners and ourselves.

Operator: Thank you. One moment for our next question. Our next question comes from Robert Moskow with TD Cowen. Your line is open.

Robert Moskow
Analyst, TD Cowen

Q

Hi. Thank you for the question. I was curious when you went through the list of factors impacting the slowdown in salty snacks, there's no mention of increased GLP usage. And there's a pretty detailed study by Numerator Cornell showing that salty snacks was a category that was probably most impacted by GLP usage. Would you agree with that assessment? Or do you think it overstates the impact?

And then secondly, protein drinks is probably the fastest-growing segment of the drinks market. Would you have any desire to go – become more aggressive in that category given all the growth around it? Thanks.

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

A

Yeah. It's great. Listen, on the protein beverages, for sure, we're trying to participate in that with a sense of urgency. We're trying to participate in general in the functionality evolution of the beverage category, both from the functional hydration point of view and there with Gatorade and Propel. And we see the opportunity to continue to create more value, both in terms of hydration but hydration plus protein as well in that space.

But yes, in terms of protein, both through Muscle Milk and some other innovations, we're looking at participating in that category, which, as you were saying, it is growing faster than total LRB. So for sure, that is an opportunity that we're...

Now on salty, listen, I think we continue to study GLP, obviously, with a lot of detail. And at this point, we see that because of the lower levels of adoption and people coming in and out of the treatment, we see very little impact in our business and in our category, at this point.

However, as I said earlier, I think there's a higher level of awareness, in general, of American consumers towards health and wellness. And this is driven by potentially all the conversation around obesity drugs, but also other conversations that are happening around the space on health and wellness.

So I think, yes, there is a health and wellness higher level of awareness by consumers, and that's driving some behaviors that we're addressing through the strategies that I talked earlier. The most important being portion control. I think portion control is a highly strategic strategy that we've been implementing for many years. But also long-term evolution of our portfolio with lower sodium, lower fat, lower sugar, positive ingredients, plant-based protein, whole grains. All those are kind of a strategic adjustment and evolution of our portfolio that we've been making for many years.

We're accelerating to be able to offer consumers all different options for the multiple occasions that they interact with our category. So again, we haven't seen a direct impact of GLP, but we're seeing more conversation in social media about health and wellness in general. And obviously, that's impacting consumption of food and consumption of beverages and we're very well positioned with our broad portfolio to cater to all these new realities.

And this is not new. This is something that we've been working on for many, many years. This is a sequential evolution of the consumer that both through innovation and through M&A, we've been addressing, I think we have a very broad portfolio. If you think about the acquisitions of Siete or of Sabra, they're in that context, and they give us both the opportunity to innovate, but also to enter new spaces like meals where we needed more platforms to take advantage of them.

James T. Caulfield A

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

Yes. And I'd just add. I think the protein opportunity is beyond protein beverages. So if you look at Quaker today, we've got a number of offerings that are high protein in the breakfast occasion. And I think there's a lot more opportunity to expand that.

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 Q

Analyst, Wells Fargo Securities LLC

Hi. Thank you. So number one, just on Europe. This has been a segment that has actually seen kind of successfully driven an improvement in volume just even as pricing has normalized. What's specific about what's going on in Europe that has allowed you to see that positive balance of delivery over the course of this year? And do you think this performance is sustainable going into next year?

And then just connected, I think there was some view that international profit strength could fund some of the investments in North America. Would you continue to have that view given what we're seeing in the currency environment, so just the concept of international still being able to give you that profit lift so as to fund some of the things that you want to do in North America? So thanks for those two.

Ramon L. Laguarta A

Chairman & Chief Executive Officer, PepsiCo, Inc.

Yeah, great. So international continues to be our largest value creation opportunity, both in the top line and margin expansion. If you look at the margin expansion of international in the last couple of years, it's very remarkable. And I wouldn't say that international will fund the US. But as we manage the company in its totality, obviously, international now is a great source of top line. It's a great source of profit, and it gives us flexibility to be much more flexible, I guess, in how we allocate resources and grow the overall business.

With regards to Europe, it's just a, I would say, consistent strategy by our teams. I think the teams have done a great job in being very balanced in simplifying the business, extracting unnecessary costs from the P&L and reinvesting those in growth in platforms that have been very good for us long term, zero sugar beverages, lower sodium and lower fat snacks and executing better in terms of availability, affordability and entering new spaces like away-from-home.

So they've been executing very well the strategy of the business. Starting, I would say, from a very intentional reduction of cost to reinvest in top line. And in a difficult context like the European markets with large retailers, they've done a great job. And yes, we think that this is sustainable. We think this will continue in this year and coming years. And yeah, the opportunities to grow per caps in Europe are still very large, and we have very good teams in the markets and very good strategies to deploy our capabilities against the market.

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. Ramon, I wanted to take a step back here and give you the opportunity to perhaps level set on the company's longer-term organic sales guidance of 4% to 6%. So not asking you to be redundant in any way, but pulling together lot of themes on the call, it seems like you see issues in the snacks business as more transitory or cyclical as opposed to secular.

You sound confident on the strength of the business outside the US, but perhaps maybe cautiously optimistic. You have the right plan in place to return snacks to growth. Time will tell. But as we sit here today, can you maybe comment on your level of confidence, these are indeed transitory issues facing the business and that 4% to 6% is still the right growth rate for your current portfolio on an intermediate-term basis? Thank you.

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

A

Thank you. Great question. And I think, obviously, we see our long-term growth of the business in those levels, 4% to 6%, and we're obviously going to try to go for the upper end of the long-term guidance. Again, very high growth in international. We're very confident that our North America business will accelerate this year. We're very confident in our plans and our long term.

And we see opportunities, especially away from home as billions of occasions in a daily basis that we need to go and capture with much more intentional products and consumer-facing go-to-market. So those are big opportunities. We remain very committed. And we also remain very committed to translate that growth into a high single-digit EPS.

And if you look at our last five years, we've been delivering above our long-term guidance, both in top line and bottom line. And we don't see any reason why we should not continue to deliver at those high levels if you take the next five years in context.

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

So thank you very much. This has been a good conversation, and I really appreciate your questions. Thank you for staying invested in our business. We look forward to the meeting in CAGNY and also hope that you guys enjoy our products during this weekend Super Bowl game. So thank you.

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