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PepsiCo, Inc. (PEP)

Q2 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to PepsiCo's 2026 Second 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.

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, July 9th, 2026, 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 2026 earnings release and second quarter 2026 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 CFO, Steve Schmitt. 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: [Operator Instructions] Our first 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 had a question on PFNA. Your volume was flat in the quarter despite what seems to be stepped up affordability initiatives and innovation. So, hoping you could spend some time helping us understand the changes you've made. Maybe what's working, what's not working? And then, whether you need to lean in further, maybe on affordability or maybe innovation to drive better volume growth. Thank you.

Ramon L. Laguarta

Chairman & Chief Executive Officer, PepsiCo, Inc.

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Good morning, Bonnie. Let me just step back for a minute and give a full company perspective. There's a lot of things we feel good about the business. And there's a few things that we're going to be very focused in the second half to accelerate the business.

So, if you step back, the company, the first half reported almost 7% revenue growth. And we've grown global volumes, 3% in foods and 2% in beverages. That's the fastest growth in volumes since 2022, including that those volume growth is the volume growth in the US foods business, it was very strategic for us to get the category back to volume growth and to get our business to gain share of volume in the category.

So, we feel good about that particular turnaround. And we feel good about how the business is performing. There are two pillars to how that happened. One was, as you mentioned, affordability investments. And the second one has been the growth on the permissible part of the portfolio and the portion control part of the portfolio. That part is going very well.

Now, on the affordability part, we feel good about the investments. I think in the second half of the year, we're going to have to optimize the return on investment on some of those pricing investments. It depends by channel, by customer, and the teams are learning.

But I want you to step back and take the bigger picture that a category that was negative in volume now is positive in volume. We were losing share in volume. Now, we're gaining sharing volume. And that is all very positive. And it was the first strategic intent that we had early in the year when we decided to lower the prices of the business. I don't know, Steve, anything else from your side?

Stephen Schmitt

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

A

I think that pretty much covers it.

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.



Hi. Good morning, everyone. So, Ramon, you mentioned in the prepared remarks that in the US, consumer behavior clearly were impacted by rising inflationary pressures in the quarter. I was wondering, if you can give us an update of what you've seen more recently.

Have you seen like an improvement in consumer behaviors, as gas prices and some other inflationary metrics have come down? And then, as we think about the back half, before you talk about the potential to get to the higher end of the organic sales range, can you give us an update on how you're thinking about the back half at this point? Thank you.

Ramon L. Laguarta

Chairman & Chief Executive Officer, PepsiCo, Inc.



Yeah. So, I think, obviously, the Iran war and the impact on gas prices has been meaningful not only in the US, but across the world. Our international business, as you saw, continues very strong, and we were able to grow 7% accelerating.

In the US, we're seeing the consumer changing behaviors, basically an acceleration of some of the behaviors we saw in the past. Probably some channels, more, the impulse channels have been impacted, where there is more of a correlation with the price of gas, certain convenience stores, and some other independent. We're seeing a slowdown of the conversion of traffic into purchases. So, we're seeing that. Now, will it change in the coming months? It all depends on the price of gas. So clearly, that's something that is beyond our control.

We continue to invest in affordability. In those particular channels, we're working with our customer partners in solutions to convert more the traffic in the store, bundles linking to meals, solutions to address that particular channel. But no, we're not – that is the only element that we're seeing in the last few months.

Now, we continue to see, as we look at the second half of the year, a very strong international business, and it's continuing to perform well into the summer. We see an acceleration of our US business both in the foods and the beverage business. And we continue to have a line of sight to the low end of our long-term 4% to 6% in the second half of the year. We're fighting for that.

We see a lot of green shoots in our portfolio transformation. We feel good about our permissible. We feel good about some of the innovation that we launch. We're going to scale them in the second half, and we see our affordability investments to return better for us in the second half as we optimize the tactics for different channels, different consumers.

Stephen Schmitt

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



Yeah, Ramon. It's Steve. Just maybe a little bit on guidance since we talked a little bit about that. So, if we think about guidance overall, you saw that we've reaffirmed our guidance for the year. If I take a step back and look at the performance of the whole company, and to reiterate some of what Ramon said a minute ago, the overall net revenue of the company grew 7% in the first half of the year. And Ramon just talked about the volume growth that we're seeing globally. That makes us feel really good about the health of the brands.

Reported EPS grew 6% in the first half. Constant currency EPS grew 3%. We continue to see strong international performance and a softer North America business than we expected in Q2. And so, how does that play out for the

rest of the year? So, as we look at the second half, we continue to expect the international business to remain strong. We expect the North America business to gradually improve but at more moderate pace than we thought coming into Q2, as Q2 was less than what we expected.

We do expect some more pressure on the business from a commodity standpoint, but we also expect refund claims for tariffs paid last year to help offset some of the commodity pressures that we have and allow us to continue to play offense. And the refund claims on the tariffs paid last year will be about 1 full point of EPS growth for the year. And the other piece is we expect to keep pushing productivity on the business.

So, we've taken costs out. We'll continue to do that. We have more work to do here. I think what's important for you to know is, we're not making decisions that hurt the top line in our assessment. We're going to continue to make investments in growth. The North America advertising and marketing expense is projected to increase in the second half versus prior year, as an example. So, we're going to continue to play offense. And so, when we add it all up, we're in a position to reaffirm our full year guidance. And as Ramon said, it may be towards the low end of the EPS range that we've given.

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

Hey, good morning.

Q

Ramon L. Laguarta

Chairman & Chief Executive Officer, PepsiCo, Inc.

Good morning, Dara.

A

Dara Mohsenian

Analyst, Morgan Stanley & Co. LLC

So, obviously strong international results in the quarter, but I wanted to focus on North America a bit. We talked about the sequential improvement in volume in PFNA in Q2, but I don't think it was to the level you expected. And maybe you can also comment on PBNA, where it looked like the volumes were also weaker than expected.

And just was hoping for a little more of a short-term report card. Do you think that's less payback on some of the initiatives you put in place? Is it more the general consumer environment? But really what I wanted to focus on is more longer term, just your perspective on the level of spending behind that North American business.

As we look out longer term, do you think this sort of revitalize organic sales growth in this environment? You might need some level of greater spending, a bit of an earnings reset as you look out. And just how do you think about investment levels behind the business looking out, given both the short-term performance you're seeing and the consumer environment? Thanks.

Ramon L. Laguarta

Chairman & Chief Executive Officer, PepsiCo, Inc.

That's a good question, Dara. The way we think about it is, we still see the international business is obviously continuing to be very strong. And this is a business, now, is going to cross \$40 billion in this year. International beverage volumes is two-thirds of the total company volumes. And international food volumes is over 50%. So,

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clearly, international business is becoming a very scaled part of our business and profit accretive. So, we're creating a diversification in our business, that long-term will give us a lot of rewards.

Now, when you focus on the US, we continue to think that the three pillars that we said, we're going to help us transform and accelerate our growth in the US. One was affordability investments. Make sure that our brands are in consumers' lives in the portions and prices that consumers can afford today. That's one vector. Continue to transform the portfolio at a faster pace, following the new dietary habits and food habits and food and beverage habits of consumers. And the third one was accelerate away-from-home as the incremental occasions for us to capture new occasion for our brands.

The portfolio transformation is working very well. We feel good about the no-sugar part of our beverage business. We feel good about the functional hydration. We feel good about our energy business. And we feel good about some of the innovation that we're going to scale in the second half of the year. So, that part is good. We feel good about the permissible portfolio in foods, is already \$3 billion, are growing almost double-digit the portion control.

So, all those elements that we explained quite well in our prepared remarks, we feel good. And I think that is really the long-term of the business, as you see how consumers will engage with our categories. The away-from-home business continues to be a priority internationally and in the US. It slowed down a little bit in Q2. We think that it's going to help us accelerate in the second half, but is a strategic opportunity where we're innovating, creating new business models, and adding some incremental occasions.

Now, the affordability part, which is the one you're referring to, we accomplish what we wanted to accomplish, which was to get volume back into our categories in our core brands. And that was not an obvious thing to do, and we managed to do this in the first half of the year. Now, we're optimizing the return on those investments.

And what we learned is that, yes, because of the consumer environment and the fact that gasoline prices were higher, consumers felt a little bit more the economic impact. But we think that we will continue to optimize those investments for grocery, high-low, there's one type of investments for everyday low price, other type of investments, et cetera. And the system is getting much knowledgeable and much more intelligent in how we get the best return from those investments.

Now, what was different this quarter that we were not planning is the performance on the impulse channels, and that is something that we're working on, to tell you the truth, in the last few months, to try to get more conversion between people getting into the gas station and converting into purchases of beverages and foods. And that's something that we're working with our partners, that is new.

The gas prices have impacted, the gas prices will, at one point, come down, and then that will become hopefully less of an issue second half of the year or early into next year. So, that's the full picture. We don't think we need any sort of reset because we have a very strong productivity, record productivity in the first half of the year.

We're going to add new layers of productivity second half of the year to be able to fund all these growth investments, be it price, be it portfolio transformation, all the growth into away-from-home, which will drive the portfolio acceleration. So, that's how we're thinking about this now. Steve, any?

Stephen Schmitt

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

No. You've covered it well.

A

Ramon L. Laguarta

Chairman & Chief Executive Officer, PepsiCo, Inc.

A

Okay.

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. On the guidance for the second half you're now adding about, I believe, \$0.07 to \$0.09 in EPS from the tariffs and reinvestment. And then, and you also mentioned that EPS would be more back loaded into the Q4. So, I just want to double click on what Ramon just said about the affordability pillar.

Should we expect more price rollbacks similar to what your biggest customer in the US has recently announced rolling into other retailers? And if so, can you give us some examples of how this reinvestments have converted into better volumes? You just talked about the C&G, the convenience and gas. Anything you can point out to one of your biggest partners that would allow us to think about like volumes finally reflecting in some of these channels in away-from-home?

And when you think about the \$0.07 to \$0.09 reinvestment, so implies more flattish 3Q. I just want to double check that math. And if that's the case, how we should be thinking? Is that mostly to absorb the commodity pressures that you highlighted, or the A&P investments or the A&M investments, or should we think about the affordability, price reinvestments being the bulk of it? Thank you.

Stephen Schmitt

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

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Andrea, it's Steve. Thank you for your question. It's good to hear from you. I think on the first part of it, we're going to continue to run our play. We have a strategy that we believe in. Ramon talked a little bit about maybe we'll likely have to make some tweaks based on what we're learning from a value standpoint, but we're going to continue to run our play there.

On the impact from the tariffs, maybe I'll talk a little bit about Q3 and then Q4, because you mentioned both. Look, if I talk about Q3 and I don't like to give specific guidance on quarters, but I think it's relevant to give you a little bit about the timing since I shared some in my prepared remarks. On the positive side, we continue to expect international to be strong, and we do expect, like you said, about approximately one point of EPS benefit from tariff refund claims likely in the quarter.

We expect a gradual improvement in North America, and we will be using the tariff, essentially the refunds to help offset some commodity inflation that we're seeing, and allow us to continue to play offense in the business. So, that's how we're thinking about that.

Also unique to Q3, we expect to have a higher tax rate year-over-year than what we've seen so far this year. So, that should go into the math and there will be timing of certain costs and investments that we expect to impact Q3 more than Q4. So, we'll continue to focus on productivity. We expect more productivity in Q4 and Q3, but that's kind of how we're thinking about the overall math in the back half.

Ramon L. Laguarta

Chairman & Chief Executive Officer, PepsiCo, Inc.

A

Yeah, Andrea, if you think about the big picture, clearly, the impact of the gas prices or the oil price in our cost of goods globally and the impact of higher gas prices in demand, these are new elements that obviously we're looking at to compensate with higher productivity. The tariff refunds comes obviously very handy, and some other trade-offs that we have to make in the business.

So, these are normal trade-offs that we make during the year because there's no new data points on some elements of our P&L that we have to compensate with others. So, that's how we're thinking about the overall pool of money that we have available to continue with our guidance, which is the higher order deliverable now, the high growth and the EPS numbers that we gave you earlier in the year.

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

Kevin Grundy

Analyst, BNP Paribas Exane

Q

Great. Thanks. Good morning, everyone. I wanted to come back, sorry for beating the dead horse here, but I wanted to come back to the North America food performance. Asked in a little bit different angle, maybe play back some of your comments, Ramon. And specifically, the thrust of the question is around performance currently versus the strength that you saw in the test markets back in the fall, where there's a lot of enthusiasm both from a PepsiCo perspective, as well as from a retail perspective as best we gather. So, can you help us sort of delineate between the macro factors?

You talked about tighter consumer budgets and higher levels of inflation versus more company-specific factors and how that looks versus say nine months ago or so when you performed, when you did the test market work. And I guess, on the call, I'm hearing better, you're looking for better ROI on some of the price investment, maybe better execution, the impulse channels, so really just trying to gauge the key factors, the big areas that have changed since the test market work versus what we should expect now going forward and why things may get better? So, thank you.

Ramon L. Laguarta

Chairman & Chief Executive Officer, PepsiCo, Inc.

A

Yeah. I would say the higher order is, we've been able to accelerate volume growth in the category. Salty snacks is one of the few categories that is growing volume in the overall food space in the US. So, that was a positive. That was the number one intent. The second one is for us to be a driver of that volume. We're gaining share of volume in the US in salty snacks, which was also the other objective. So, that's the number one.

Now, is the volume as much as we expected? No, not in Q2. And it's a couple of elements. I think the consumer is worse than what we had anticipated, and it's driven mainly by gas prices. Second, the execution of the price investment in some customers have had some delays, I would say, because of multiple commercial reasons that has been solved. So, we'll see an acceleration in the second half.

The consumer reaction to the investments is pretty much along the lines of what we had initially anticipated. So, I wouldn't question the strategic logic of the investments. There are tweaks that we have to make commercially, and there are obviously a different circumstances in the US consumer budget trade-offs that consumers are making, given some of the inflation, recent inflation, especially on gas prices.

So that's where I would leave it here. We remain focused as Steve said on continuing the playbook. We continue to invest on our portfolio. We continue to invest on our affordability. We continue to invest on away-from-home, and we think that the food business in the US will continue to grow volume and grow net revenue in the coming quarters.

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



Great. Thank you. Good morning, everyone. Maybe there's been a lot of focus on North America this morning. So, maybe just pivoting to the international business. Ramon, maybe if you could just give us a walk around the world in terms of what you're seeing around category growth, health of the consumer. Were there any notable differences in any key regions as you move through the quarter here?

And then, Steve, maybe not to get too specific, but when you speak to international growth remaining resilient in the balance of the year, should we be extrapolating the growth that we saw in the second quarter for the balance of the year? Thanks.

Ramon L. Laguarta

Chairman & Chief Executive Officer, PepsiCo, Inc.



Yeah. So, yeah, thanks for putting the international business in the center of the conversation. Yes, I mean, this is a business that, as you know, we've been investing for the last five, six years. And it's now, as I said earlier, a big part of our volume globally, and a big part of our revenue and profit globally. So, this is clearly a success story for the company, will continue to be a big driver of growth for us in the coming years, given the per capita and given the share of market opportunities that we have globally.

Around the world, I would say going into the quarter, we were a little bit concerned, obviously, with the performance around the Middle East and some of the Asian markets, where the gasoline prices were more obvious. The truth is that all those markets have remained very resilient if I think about Vietnam, Thailand, China, some of the markets where the gas prices were elevated, and the same with the Middle East. Our Middle East business continues to perform a very good level.

We're seeing that – our procurement, global capabilities and the agility of the business is proving to be an advantage for us in some of the markets where we're pivoting faster than competition in terms of raw materials availability and agility to compensate for the inflation. Europe remains resilient, pretty good. Clearly, the World Cup is helping. And the fact that we're sponsoring the World Cup in our food business is helping us to activate the category in a better way. It's creating occasions. We're capturing and we started Q3 very strong in international.

Latin America, a little bit less growth than in the rest of the business as you saw, but clearly trending very positive, and the World Cup obviously having a very big impact in that part of the world. So, overall, broad good performance. Part of that is category acceleration. Part of that is better share of market, I would say better in beverages than in foods. In food, we still have opportunities to improve our share of market in some parts of the world. But we continue to see the business trending well throughout the summer and into the winter.

Stephen Schmitt

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

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And Peter, just to answer your question on what we would expect in the second half. As I look at the business, the signs are pointing towards continued strong growth. Ramon mentioned the volume growth that we've seen, and that's a pretty good indicator of the health of the business in international.

Maybe one thing to call out is, we do expect some commodity inflation, probably more so in EMEA in the back half of the year. But the teams have been very proactive in mitigating some of the inflation that we expect to come through. And one thing that – just to point out to demonstrate not just the top line growth of the international business, but in the second quarter, operating margin grew by a full point. And so, we feel good about the top line, and we also feel good about the efficiency of how sales are running through the P&L.

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. Good morning. Just want to talk a little bit about the margin pressure that you saw on PBNA this quarter, and how to think about profitability over the balance of the year? Just knowing the ongoing focus on improving margins here, but then you've got the realities of higher inflation. And I'm assuming this is also an area where there'll be some incremental reinvestment to support your volume ambitions. So, just talking a little bit about profitability and PBNA. Thanks.

Stephen Schmitt

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

A

Sure. I'll take that. If you think about the PBNA business from a margin perspective, operating margin was down about 90 basis points in the quarter, but that was driven by gross profit rate. The gross profit rate decline, I'd call out three things. About half of the rate decline was driven by the business we have through Alani and the commercial arrangement we have there. That's about half the gross profit decline.

The other pieces would be more around the convenience and gas channel that Ramon was talking about. That was particularly soft in the quarter, as well as some of just product mix overall. Those would be the three things that I'd call out. And on the G&A side, the team continues to push the productivity envelope there. Going forward, I think, as Ramon talked about, we need to see some improvement in the convenience and gas channel. And hopefully, we'll get some tailwinds from gas prices to do that, and we'll continue to push the productivity side.

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

Michael S. Lavery

Analyst, Piper Sandler & Co.

Q

Thank you. Good morning. Just wanted to come back to PFNA and see if you could add some color on just shelving and distribution updates. I know at the beginning of the year, you were expecting some upside. And curious, if you could just maybe give us a sense of timing, how much maybe still is to come? How much might be permanent secondary displays, or maybe just temporary ones, and just how to think about how that unfolds?

Ramon L. Laguarta

Chairman & Chief Executive Officer, PepsiCo, Inc.

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Yeah, I would say the space increase that we had initially planned is been coming throughout the year. There's still more to come. There's been some channels where it's taken a little bit longer to execute that space increases, but we will see those coming in the second half of the year as some of the commercial conversations are coming to fruition.

So, I would say increasing permanent space, the perimeter space, as I said earlier, is going to come more in the second half of the year, particularly in some channels where we had to come up with some different solutions with the customers. But long-term, this is going to happen, I mean, long term in second half of the year. And we should have some acceleration in the return on investments in those particular customers.

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

Yes. Great. Thanks so much. I guess, maybe a little bit of a follow up on that, Ramon. So, from the outside, and I think that's what the prior question was getting at. It just seems like a lot of the initiatives that were discussed coming into the year, especially along the lines of affordability and package and product innovation appear largely in the market.

And I guess, the go forward question there is, is it more about optimizing and scaling the efforts that you've already put in motion, or are there additional actions that remain ahead that can serve as catalysts? Shelf space is part of that, I guess, but anything more along the lines of...

Ramon L. Laguarta

Chairman & Chief Executive Officer, PepsiCo, Inc.

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Yeah. I would say we're in the journey of the three pillars that I mentioned. On the portfolio transformation, most of the innovation that we launch is working quite well. In food North America, we're scaling up naked. We're scaling up Doritos Protein and some of those new platforms that will contribute to the overall permissible portfolio growth and the portion control.

In the portion control, we made some investments in opening price points for multipacks and variety packs that are also working very well. So, I think portion control, portfolio transformation, that part, I think, is well in its execution, and we're scaling up those platforms.

The away-from-home acceleration, let's say, there were a couple of elements between supply chain and customer execution in the away-from-home part of the business, that slowed down in Q2. Now, it's accelerating in Q3. That will be a pillar of acceleration.

On the affordability investments, as I mentioned, there are channels where the investments are working very well. And there are other channels where we had to make some tweaks, and we're executing those tactical mechanics of the value to the consumer, and that is being put in place. And we'll see the benefits in the second half. So, that's more or less in the overall picture of the three pillars of the food business in North America acceleration. That's where we are.

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, guys. Good morning. Thanks for taking the question. Steve, just to put a finer point on your prepared remarks, you talked a bit about the gradual rate of improvement in North America for the second half. Just wanted to understand if there's big differences in terms of the two segments and the rate of improvement, or if they should look relatively similar as we think about the back half of the year? Thanks very much.

Stephen Schmitt

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

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Sure. Thanks for your question. Look, if I had to take North America and dissect it a little bit, I would expect more profit improvement faster from the PBNA business than in foods as we make the value investments and the tweaks that Ramon talked about on how that ripples through the system. So, that would be the additional color I would provide. And then, in Q4, obviously, I would expect more better profit performance than in Q3.

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 kind of stepping back a little bit more of a maybe a strategic question. I mean, the difference in performance, right, between the US business and the international is pretty stunning. And you noted that in a lot of markets around the world, higher gasoline prices were an issue.

To what extent, do you think that, hey, the US market is just a pretty mature market and the Rest of the World, there's much greater opportunity. Does it make sense, or maybe you're doing it? We don't really have a view into it, but are you perhaps overinvesting in the US, under-investing internationally, given the growth potential of both of those markets?

And you noted that the international business now is margin accretive. So, that's kind of the big picture question. And then, tied to that perhaps is, maybe if you could give us an update on the integration testing that you're doing in Texas as a way to lower your cost basis in the US? Thank you.

Ramon L. Laguarta

Chairman & Chief Executive Officer, PepsiCo, Inc.

A

That's great, Robert. Thanks. Yeah, the two are related, but in a way, we've been investing in international for many years. And one of the, obviously, with things we're very careful about is make sure we don't starve international of the capital or of the investments to continue to grow that business. Because as you said, if you think about the company 5, 10 years from now, that will be the biggest source of growth. And that is where the biggest opportunity is for us to continue to expand our brands and develop our categories.

Now, the US is critical for us in the short-term and the long-term, and we believe that both keeping our brands in consumer's occasions that we have today, but also providing new offerings both in foods and beverages that cater to the new trends in food consumption in the US, and also expanding our away-from-home is a way for our

North America business to continue to be a compounder for us at a good pace and it's not. Currently, we're growing at a 1%. It's more towards the 3% levels that we think the US total business can grow in the future.

Now, to fund that growth, we don't want to starve international. Therefore, some of the big productivity initiatives we have in the US are precisely for that, to make sure that we can fund the transformation of the US business without starving the international business. To those point, I think automation, we're expanding automation through our business. We're expanding some of the digitalization, and that would make us much more effective and productive.

And one of the pillars that you referred to is, how do we combine the scale of our two American businesses to change the cost structure of the overall business, especially on the logistics side of the business, right? The warehousing, the transportation and delivery, and we're making good progress. We'll have an update for you with more detail later in the year, early next year.

But I would say we're testing in in Texoma. We're seeing mixing centers being a big idea for us, and that is scaling. These are combined mixing centers where we put the inventory from the two categories. That gives us a lot of flexibility to service our customers and lowers our cost. Now, we're testing incremental ideas like combined delivery, combined fleet. Those are big transformations. And it requires systems, require assets, but all of this is in motion and with positive returns so far.

Now, there are other transformations that we're doing in terms of integrating our G&A and integrating our systems. That would allow us to have a lower cost business that is more affordable and can invest in the growth spaces in the US. So, great question.

And one of the clear strategic funding, resourcing decisions that we have in the company, and what we want to tell you is that we are not starving the international business to fund the US business. The international business has enough capital, enough A&M, enough talent investment to continue to be a great source of growth for us, and a compounder at the levels that you've seen for the last five, six years.

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. Thanks, Ramon and Steve. There was an article on the press about six weeks ago about a 10% to 20% price increase that you're taking on Frito-Lay smaller bags. And I suspect that that is really for the convenience channel. And now, today's results indicate that convenience has been weak. In terms of the investments you're making, are you taking steps to kind of cushion the blow for consumers, so that affordability doesn't kind of get worse in that channel from here?

Ramon L. Laguarta

Chairman & Chief Executive Officer, PepsiCo, Inc.

A

Yeah. I mean, that channel is critical for us. And the way we're trying to increase the incidence of purchasing that channel is through bundles and some other incentives for purchase that we're actually partnering with our customers across the country, and that we see the benefit when we have good offers and bundles, beverages and foods or foods and foods or snacks and foods. We see that being a great accelerator of the different

customers. So,, we're not trying to raise prices in the single serve business to pay for the investments in the take home business. That's not what we're trying to do.

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

Chris Carey

Analyst, Wells Fargo Securities LLC

Q

Hi. Good morning. Can you just give us a sense of performance and opportunities of some of your recent acquisitions, perhaps, most specifically, Siete and poppi? And in general, give us a sense of how you're viewing the M&A environment, willingness for additional acquisitions and how, in general, that factors in your medium-term plans? Thank you.

Ramon L. Laguarta

Chairman & Chief Executive Officer, PepsiCo, Inc.

A

So, both Siete and poppi are doing well. poppi, we had the transition between the distributor system that poppi had and our system had a few. Obviously, it's a big transition. There's a lot of distributors, and we had a bit of an impact in the first part of the year. Now, that is pretty much solved. The business is flowing through our supply chain, and we're seeing the benefits of that in additional consumption points and additional customers, and that will continue. We're seeing poppi growing again at a good pace.

Siete as well. Siete was integrated earlier. We had some issues with some of the ingredients in Siete, that impacted the performance of the business in the April-May timeframe that has been solved as well. So, they're both very critical parts of our strategy to transform our portfolio. And we mentioned we're going to be innovating with our brands into new spaces. But there will be spaces where we continue to think that buying a brand and expanding that brand within our system is a great return. And Siete and poppi are good examples.

We're also looking at partnerships like the Celsius, Alani Nu. That's another way that we're using to expand our offerings to consumers and to leverage our capabilities, be it go-to-market, be it others to provide consumers opportunities in spaces, where it would be hard to scale an innovation for ourselves.

But as you saw from our prepared remarks, we're innovating with our brands in many of these new spaces, and leveraging our R&D, and our brands, and our teams to provide new solutions, be it new packs, new functionality, new occasions that continue to add business to our brands in the US.

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

Kaumil Gajrawala

Analyst, Jefferies LLC

Q

Hey, guys. Good morning. I guess, I'm just struggling a little bit to understand what optimizing return on investment means. Does that mean that perhaps some discounts were not working, and they're not worth doing anymore, or is it something else to drive more volume?

Just sort of, I understand it conceptually, but not practically in terms of like, what's actually changing and what the goals are for that? Is it a profit? Is it intentions for ROI for profits or intentions for shifting, where you're deploying capital to drive volumes faster than whatever they're like, however they're growing now?

Ramon L. Laguarta

Chairman & Chief Executive Officer, PepsiCo, Inc.

A

I think it's trying to get more volume from the investments, Kaumil. And there's high-low customers, there's everyday low customers and the mechanics, how you can maximize the return on the trade investments or offers that you make to the consumers can drive more volume or less.

So, that is how we're – what we mean by optimizing the return on the investment. And it's a very specific customer by customer, holiday by holiday, beginning of the month versus end of the month, all those details and how we execute that with our customers. And it's simple on the everyday low price customers, a bit more complex on the high-low. And that's what we're trying to tweak.

Ramon L. Laguarta

Chairman & Chief Executive Officer, PepsiCo, Inc.

So, thank you very much all for your conversation and for joining us today. And the confidence you're placing with your investment in our stock. Thank you very much. And have a great day.

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