PepsiCo, Inc. Q4 2018 Earnings Call
Reconciliation of GAAP and Non-GAAP Information (unaudited)[1]

In discussing financial results, guidance and long-term financial performance targets, we refer to core results, core constant currency results, organic results, free cash flow and free cash flow excluding certain items which are not in accordance with U.S. Generally Accepted Accounting Principles (GAAP). We use these non-GAAP financial measures internally to make operating and strategic decisions, including the preparation of our annual operating plan, evaluation of our overall business performance and as a factor in determining compensation for certain employees. We believe presenting non-GAAP financial measures provides additional information to facilitate comparison of our historical operating results and trends in our underlying operating results, and provides additional transparency on how we evaluate our business. We also believe presenting these measures allows investors to view our performance using the same measures that we use in evaluating our financial and business performance and trends.

We consider quantitative and qualitative factors in assessing whether to adjust for the impact of items that may be significant or that could affect an understanding of our ongoing financial and business performance or trends. Examples of items for which we may make adjustments include: amounts related to mark-to-market gains or losses (non-cash); charges related to restructuring programs; charges or adjustments related to the enactment of new laws, rules or regulations, such as significant tax law changes; amounts related to the resolution of tax positions; tax benefits related to reorganizations of our operations; gains or losses associated with mergers, acquisitions, divestitures and other structural changes; debt redemptions, cash tender or exchange offers; pension and retiree medical related items; asset impairments (non-cash); and remeasurements of net monetary assets. See below for a description of adjustments to our U.S. GAAP financial measures included herein.

Non-GAAP information should be considered as supplemental in nature and is not meant to be considered in isolation or as a substitute for the related financial information prepared in accordance with U.S. GAAP. In addition, our non-GAAP financial measures may not be the same as or comparable to similar non-GAAP measures presented by other companies.

Commodity mark-to-market net impact

Change in market value for commodity derivatives that we purchase to mitigate the volatility in costs of energy and raw materials that we consume. The market value is determined based on average prices on national exchanges and recently reported transactions in the marketplace.

In the years ended December 29, 2018, December 30, 2017, December 31, 2016, December 26, 2015, December 27, 2014, December 28, 2013 and December 29, 2012, we recognized mark-to-market net (losses) gains of $(163) million, $15 million, $167 million, $11 million, $(68) million, $(72) million and $65 million, respectively, on commodity derivatives in corporate unallocated expenses. We centrally manage commodity derivatives on behalf of our divisions. These commodity derivatives include energy, agricultural products and metals. Commodity derivatives that do not qualify for hedge accounting treatment are marked to market each period with the resulting gains and losses recorded in corporate unallocated expenses as either cost of sales or selling, general and administrative expenses, depending on the underlying commodity. These gains and losses are subsequently reflected in division results when the divisions recognize the cost of the underlying commodity in operating profit.

Restructuring and impairment charges

2019 Multi-Year Productivity Plan

In the year ended December 29, 2018, we incurred restructuring charges of $138 million in conjunction with the multi-year plan we publicly announced on February 15, 2019 (2019 Productivity Plan).

The 2019 Productivity Plan will leverage new technology and business models to further simplify, harmonize and automate processes; re-engineer our go-to-market and information systems, including deploying the right automation for each market; simplify our organization and optimize our manufacturing and supply chain footprint.

2014 Multi-Year Productivity Plan

In the years ended December 29, 2018, December 30, 2017, December 31, 2016, December 26, 2015, December 27, 2014 and December 28, 2013, we incurred restructuring charges $170 million, $295 million, $160 million, $169 million, $357 million and $53 million, respectively, in conjunction with the multi-year productivity plan we publicly announced in 2014 (2014 Productivity Plan).

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[1] *For a full discussion of our fourth quarter and full-year 2018 financial results, including definitions we use in discussing our financial results, please refer to our press release issued February 15, 2019.*

The 2014 Productivity Plan includes the next generation of productivity initiatives that we believe will strengthen our beverage, food and snack businesses by: accelerating our investment in manufacturing automation; further optimizing our global manufacturing footprint, including closing certain manufacturing facilities; re-engineering our go-to-market systems in developed markets; expanding shared services; and implementing simplified organization structures to drive efficiency. To build on the 2014 Productivity Plan, in the fourth quarter of 2017, we expanded and extended the program through the end of 2019 to take advantage of additional opportunities within the initiatives described above to further strengthen our beverage, food and snack businesses.

2012 Multi-Year Productivity Plan

In the years ended December 26, 2015, December 27, 2014, December 28, 2013 and December 29, 2012, we incurred restructuring charges of $61 million, $61 million, $110 million and $279 million, respectively, in conjunction with the multi-year productivity plan we publicly announced in 2012 (2012 Productivity Plan). The 2012 Productivity Plan included actions in every aspect of our business that we believed would strengthen our complementary food, snack and beverage businesses by: leveraging new technologies and processes across PepsiCo's operations, go-to-market and information systems; heightening the focus on best practice sharing across the globe; consolidating manufacturing, warehouse and sales facilities; and implementing simplified organization structures, with wider spans of control and fewer layers of management. The 2012 Productivity Plan enhanced PepsiCo's cost-competitiveness and provided a source of funding for future brand-building and innovation initiatives.

Merger and integration charges

In the year ended December 29, 2018, we incurred merger and integration charges of $75 million related to our acquisition of SodaStream International Ltd., including $57 million recorded in the ESSA segment and $18 million recorded in corporate unallocated expenses. These charges include closing costs, advisory fees and employee-related costs.

In the years ended December 28, 2013 and December 29, 2012, we incurred merger and integration charges of $10 million and $16 million, respectively, related to our acquisition of Wimm-Bill-Dann Foods OJSC.

Net tax (benefit)/expense related to the Tax Cuts and Jobs Act (TCJ Act)

During the fourth quarter of 2017, the TCJ Act was enacted in the United States. Among its many provisions, the TCJ Act imposed a mandatory one-time transition tax on undistributed international earnings and reduced the U.S. corporate income tax rate from 35% to 21%, effective January 1, 2018.

In the year ended December 30, 2017, we recorded a provisional net tax expense of $2.5 billion associated with the enactment of the TCJ Act. Included in the provisional net tax expense of $2.5 billion was a provisional mandatory one-time transition tax of approximately $4 billion on undistributed international earnings, included in other liabilities. This mandatory one-time transition tax was partially offset by a provisional $1.5 billion benefit resulting from the required remeasurement of our deferred tax assets and liabilities to the new, lower U.S. corporate income tax rate.

In the year ended December 29, 2018, we recorded a net tax benefit of $28 million in connection with the TCJ Act.

While our accounting for the recorded impact of the TCJ Act is deemed to be complete, these amounts are based on prevailing regulations and currently available information, and any additional guidance issued by the Internal Revenue Service (IRS) could impact the aforementioned amounts in future periods. The IRS issued additional guidance in the first quarter of 2019 and we are currently evaluating the impact of this guidance.

Other net tax benefits

In the year ended December 29, 2018, we recorded other net tax benefits of $4.3 billion related to the reorganization of our international operations. Additionally, in the year ended December 29, 2018, we recorded non-cash tax benefits of $717 million associated with both the conclusion of certain international tax audits and our agreement with the IRS resolving all open matters related to the audits of taxable years 2012 and 2013.

In the year ended December 26, 2015, we recognized a non-cash tax benefit of $230 million associated with our agreement with the IRS resolving substantially all open matters related to the audits for taxable years 2010 through 2011, which reduced our reserve for uncertain tax positions for the tax years 2010 through 2011.

In the year ended December 28, 2013, we recognized a non-cash tax benefit of $209 million associated with our agreement with the IRS resolving all open matters related to the audits for the taxable years 2003 through 2009, which reduced our reserve for uncertain tax positions for the tax years 2003 through 2012.

In the year ended December 29, 2012, we recognized a non-cash tax benefit of $217 million associated with a favorable tax court decision related to the classification of financial instruments.

Charges related to cash tender and exchange offers

In the year ended December 29, 2018, we recorded a pre-tax charge of $253 million to interest expense in connection with our cash tender and exchange offers, primarily representing the tender price paid over the carrying value of the tendered notes.

Charges related to the transaction with Tingyi (Cayman Islands) Holding Corp. (Tingyi)

In the year ended December 31, 2016, we recorded a pre- and after-tax impairment charge of $373 million to reduce the value of our 5% indirect equity interest in KSF Beverage Holding Co., Ltd. (KSFB), formerly known as Tingyi-Asahi Beverages Holding Co. Ltd., to its estimated fair value.

In the year ended December 26, 2015, we recorded a pre- and after-tax charge of $73 million related to a write-off of the recorded value of a call option to increase our holding in KSFB to 20%.

In the year ended December 29, 2012, we recorded restructuring and other charges of $150 million related to a transaction with Tingyi.

Charge related to debt redemption

In the year ended December 31, 2016, we paid $2.5 billion to redeem all of our outstanding 7.900% senior notes due 2018 and 5.125% senior notes due 2019 for the principal amounts of $1.5 billion and $750 million, respectively, and terminated certain interest rate swaps. As a result, we recorded a pre-tax charge of $233 million to interest expense, primarily representing the premium paid in accordance with the "make-whole" redemption provisions.

Pension-related settlement charges/(benefits)

In the year ended December 31, 2016, we recorded a pension settlement charge of $242 million related to the purchase of a group annuity contract.

In the year ended December 26, 2015, we recorded pension-related settlement benefits of $67 million associated with the settlement of pension-related liabilities from previous acquisitions.

In the years ended December 27, 2014 and December 29, 2012, we recorded pension lump sum settlement charges of $141 million and $195 million, respectively, related to payments for pension liabilities to certain former employees who had vested benefits.

Venezuela impairment charges

In the year ended December 26, 2015, we recorded pre- and after-tax charges of $1.4 billion related to the impairment of investments in our wholly-owned Venezuelan subsidiaries and beverage joint venture.

Venezuela remeasurement charges

In the year ended December 27, 2014, we recorded a $105 million net charge related to our remeasurement of the bolivar for certain net monetary assets of our Venezuelan businesses.

In the year ended December 28, 2013, we recorded net charges of $111 million related to the devaluation of the bolivar for our Venezuelan businesses.

Free cash flow

Net cash provided by operating activities less capital spending plus sales of property, plant and equipment. Since net capital spending is essential to our product innovation initiatives and maintaining our operational capabilities, we believe that it is a recurring and necessary use of cash. As such, we believe investors should also consider net capital spending when evaluating our cash from operating activities.

Free cash flow is used by us primarily for financing activities, including debt repayments, dividends and share repurchases. Free cash flow is not a measure of cash available for discretionary expenditures since we have certain non-discretionary obligations such as debt service that are not deducted from the measure.

Free cash flow excluding certain items

Free cash flow, excluding payments related to restructuring charges, discretionary pension and retiree medical contributions and the related net cash tax benefits associated with both these items, tax payments related to the TCJ Act, as well as certain other items. As free cash flow, excluding certain items, is an important measure used to monitor our cash flow performance, we believe this non-GAAP measure provides investors additional useful information when evaluating our cash from operating activities. In future years, we expect this measure to exclude additional payments related to the mandatory transition tax liability of $3.8 billion as of December 29, 2018, which we currently expect to be paid over the period 2019 to 2026 under the provisions of the TCJ Act.

Net capital spending: Capital spending less cash proceeds from sales of property, plant and equipment.

Return on invested capital (ROIC) and core net ROIC

ROIC is net income attributable to PepsiCo plus interest expense after-tax divided by the sum of quarterly average debt obligations and quarterly average common shareholders' equity. This metric serves as a measure of how well we use our capital to generate returns. Core net ROIC is ROIC adjusted for quarterly average cash, cash equivalents and short-term investments, after-tax interest income, and items that are not indicative of our ongoing performance. We believe the calculation of ROIC and core net ROIC provides useful information to investors and is an additional relevant comparison of our performance to consider when evaluating our capital allocation efficiency.

2019 guidance and long-term financial performance targets

Our 2019 organic revenue growth guidance and our long-term organic revenue growth target exclude the impact of acquisitions, divestitures and other structural changes and foreign exchange translation. Our 2019 core tax rate guidance, our 2019 core constant currency EPS performance guidance, our long-term core constant currency EPS growth target and our long-term core operating margin expansion target exclude the commodity mark-to-market net impact included in corporate unallocated expenses and restructuring and impairment charges. Our 2019 core constant currency EPS performance guidance and long-term core constant currency EPS growth target also exclude the impact of foreign exchange translation. We are unable to reconcile our full year projected 2019 or our long-term organic revenue growth to our full year projected 2019 and long-term reported net revenue growth because we are unable to predict the 2019 and long-term impact of foreign exchange due to the unpredictability of future changes in foreign exchange rates and because we are unable to predict the occurrence or impact of any acquisitions, divestitures or other structural changes. We are also not able to reconcile our full year projected 2019 core tax rate to our full year projected 2019 reported tax rate, our full year projected 2019 or long-term core constant currency EPS performance to our full year projected 2019 and long-term reported EPS performance or our long-term core operating margin performance to our long-term reported operating margin performance because we are unable to predict the 2019 and long-term impact of foreign exchange or the mark-to-market net impact on commodity derivatives due to the unpredictability of future changes in foreign exchange rates and commodity prices. Therefore, we are unable to provide a reconciliation of these measures.

PepsiCo, Inc. and Subsidiaries
Reconciliation of GAAP and Non-GAAP Information
(unaudited)

Net Revenue Growth Reconciliation

	6-Year Average	Year Ended 12/29/2018	12/30/2017	12/31/2016	12/26/2015	12/27/2014	12/28/2013
Reported net revenue growth	— %	2 %	1 %	— %	(5) %	— %	1 %
Impact of:							
Foreign exchange translation		1	—	3	10	3	2
Acquisitions and divestitures		1	—	—	—	—	1
Sales and certain other taxes [a]		—	—	—	—	—	—
53rd reporting week		—	1	(1)	—	—	—
Venezuela deconsolidation		—	—	2	1	—	—
Organic revenue growth	4 %	4 %	2 %	4 %	5 %	4 %	4 %

Net Revenue Growth Reconciliation

	2-Quarters Ended 12/29/2018	6/16/2018
Reported net revenue growth	1 %	3 %
Impact of:		
Foreign exchange translation	3	(1)
Acquisitions and divestitures	1	0.5
Sales and certain other taxes [a]	—	—
Organic revenue growth	5 %	2.5 %

North America Beverages Net Revenue Growth Reconciliation

	Year Ended 12/29/2018
Reported net revenue growth	1 %
Impact of:	
Foreign exchange translation	—
Acquisitions and divestitures	—
Sales and certain other taxes [a]	—
Organic revenue growth	0.5 %

Operating Margin Growth Reconciliation

	Year Ended 12/29/2018	12/29/2012	6-Year Growth
Reported operating margin	15.6 %	14.3 %	1.3 pps
Impact of:			
Commodity mark-to-market net impact	0.3	(0.1)	
Restructuring and impairment charges	0.4	0.4	
Merger and integration charges	0.1	—	
Charge related to the transaction with Tingyi	—	0.2	
Core operating margin	16.4 %	14.8 %	1.6 pps

[a] Represents the impact of the exclusion from net revenue of prior year sales, use, value-added and certain excise taxes assessed by governmental authorities on revenue-producing transactions that were not already excluded based on the accounting policy election taken in conjunction with the adoption of the revenue recognition guidance.

Note – Certain amounts above may not sum due to rounding.

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Diluted EPS Growth Reconciliation

	Year Ended						
	12/29/2018	12/30/2017	12/31/2016	12/26/2015	12/27/2014	12/28/2013	12/29/2012
Reported diluted EPS	$ 8.78	$ 3.38	$ 4.36	$ 3.67	$ 4.27	$ 4.32	$ 3.92
Commodity mark-to-market net impact	0.09	(0.01)	(0.08)	—	0.03	0.03	(0.03)
Restructuring and impairment charges	0.18	0.16	0.09	0.12	0.21	0.08	0.14
Merger and integration charges	0.05	—	—	—	—	0.01	0.01
Net tax (benefit)/expense related to the TCJ Act	(0.02)	1.70	—	—	—	—	—
Other net tax benefits	(3.55)	—	—	(0.15)	—	(0.13)	(0.14)
Charges related to cash tender and exchange offers	0.13	—	—	—	—	—	—
Charges related to the transaction with Tingyi	—	—	0.26	0.05	—	—	0.11
Charge related to debt redemption	—	—	0.11	—	—	—	—
Pension-related settlement charges/(benefits)	—	—	0.11	(0.03)	0.06	—	0.08
Venezuela impairment charges	—	—	—	0.91	—	—	—
Venezuela remeasurement charges	—	—	—	—	0.07	0.07	—
Core diluted EPS	$ 5.66	$ 5.23	$ 4.85	$ 4.57	$ 4.63	$ 4.37	$ 4.10

	6-Year Average						
Reported diluted EPS growth	25 %	160 %	(23) %	19 %	(14) %	(1) %	10 %
Core diluted EPS growth	6 %	8 %	8 %	6 %	(1) %	6 %	7 %
Impact of foreign exchange translation		1	1	3	11	3	2
Core constant currency diluted EPS growth	9 %	9 %	9 %	9 %	10 %	9 %	9 %

Return on Invested Capital (ROIC)

	Year Ended	
	12/29/2018	12/29/2012
Net income attributable to PepsiCo	$ 12,515	$ 6,178
Interest expense	1,525	899
Tax on interest expense	(339)	(324)
	$ 13,701	$ 6,753
Average debt obligations	$ 38,169	$ 27,823
Average common shareholders' equity	11,368	21,603
Average invested capital	$ 49,537	$ 49,426
ROIC	27.7 %	13.7 %

Note – Certain amounts above may not sum due to rounding.

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ROIC Reconciliation	Year Ended		6-Year Growth
	12/29/2018	12/29/2012	
ROIC	27.7 %	13.7 %	14.0 pps
Impact of:			
Average cash, cash equivalents and short-term investments	7.8	1.5	
Interest income	(0.6)	(0.2)	
Tax on interest income	0.1	0.1	
Commodity mark-to-market net impact	0.2	(0.1)	
Restructuring and impairment charges	0.4	0.3	
Merger and integration charges	0.1	(0.1)	
Net tax benefit related to the TCJ Act	(1.1)	—	
Other net tax benefits	(9.7)	(0.4)	
Charges related to cash tender and exchange offers	(0.1)	—	
Charge related to the transaction with Tingyi	—	0.3	
Pension-related settlement charge	—	0.3	
Core net ROIC	24.8 %	15.3 %	9.5 pps

Net Cash Provided by Operating Activities Reconciliation (in billions)	2019 Guidance
Net cash provided by operating activities	$ ~ 9
Net capital spending	~ (4.5)
Free cash flow	~ 5
Discretionary pension contributions	~ —
Net cash tax benefit related to discretionary pension contributions	~ —
Payments related to restructuring charges	~ 1
Net cash tax benefit related to restructuring charges	~ —
Transition tax payments related to the TCJ Act	~ —
Certain other items	~ —
Free cash flow excluding certain items	$ ~ 6

Note – Certain amounts above may not sum due to rounding.