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PepsiCo, Inc. (PEP)

Q4 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to PepsiCo's 2021 Fourth Quarter Earnings Question-and-Answer Session. Your lines have been placed on listen-only until it is your turn to ask a question. [Operator Instructions] 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, operator, and good morning, everyone. I hope everyone has had a chance this morning to review our press release and prepared remarks, both of which are available on our website.

Before we begin, please take note of our cautionary statement. We may make forward-looking statements on today's call, including about our business plans, 2021 guidance and long-term financial targets, and the potential impact of the COVID-19 pandemic on our business. Forward-looking statements inherently involve risks and uncertainties and only reflect our view as of today, February 10, 2022, 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 and full year 2021 earnings release and 2021 Form 10-K available on pepsico.com for definitions and reconciliations of non-GAAP measures and additional information regarding our results, including a discussion of factors that could cause actual results to materially differ from forward-looking statements.

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

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Dara Mohsenian with Morgan Stanley.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

Hey. Good morning, guys.

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

A

Good morning, Dara.

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

A

Good morning.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

So I wanted to focus on the 2022 top line guidance. Obviously very strong Q4 results, but look, you're guiding towards a higher end of the long-term range in terms of 6% organic sales growth in 2022 despite a really tough comparison if we look at 2021. So I just wanted to understand the key drivers for 2022 top line, particularly price mix versus volume, and any thoughts on demand elasticity.

And then also just from a broader long-term perspective as you look out beyond 2022, are you more confident your strategies are sustainably paying off? Could top line growth be more at the higher end of that mid-single-digit long-term top line range? How do you think about the long-term beyond 2022 given what's expected to be pretty robust growth despite the tough comp? Thanks.

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

A

Yeah, Dara. Let me start, and then maybe Hugh can add. We see our categories very healthy moving into 2022 and long-term, both our convenient foods and beverages. So that makes us feel very comfortable. The investments that we have made over the last few years in brands, in [ph] market, we'll (00:03:31) go-to-market systems, in more insights, better execution, that's clearly paying off in the form of share of market gains in across multiple developing markets, snacks and beverages.

So we feel good about our ability to continue to grow ahead of our categories in 2022 and beyond. And obviously we are big players in those categories, so we carry the responsibility to make this category stay healthy and stay growing faster than food overall.

So that's how we see our long-term. And obviously if you think about next year, yes, we're at the top end of our long-term guidance. This year obviously we – I mean last year, we obviously crossed that long-term guidance. So you see compounded? Yes. We are at the high-end of our 4% to 6%, and, obviously, we – that's the objective of the whole organization to stay within that guidance and [ph] beat (00:04:36) it in good years.

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

A

Yeah. And the only thing I'll add, Dara, in terms of some of the financial pieces of it, you saw in Q4 we had about 5 points of volume and 7 points of price mix. Obviously, as our hedges roll off and we move into a new round of commodities, we're going to price in a way that allows us, at least for the full year, to try to keep our margins pretty well intact, which means that that 7 pricing will probably be around there, maybe even a little bit stronger for the year. We'll see how it plays out and react to what happens with the facts in the marketplace. But it's going to be a pretty healthy pricing year to accommodate the cost increases.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

And if I could follow up, what are you assuming in terms of demand elasticity? And what's been the experience so far you've seen in terms of consumer demand elasticity, the pricing? Seemed like there clearly wasn't a lot in Q4, but what are you assuming for 2022? Thanks.

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

A

Yeah. So I mean for 2022, Dara, you're right. Obviously, there wasn't a lot in Q4, but that's a relatively short period of time. Right now, we've built multiple scenarios around elasticity and where we have plans to react to any of them. So frankly, we're going to have to be very agile this year in the way that we plan, but you know that our history and guidances, we tend to have multiple ways to get there, and we'll react to what the marketplace gives us.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

Thanks.

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

A

And I think, Dara, if you think about all the investments we've made in the last few years, both in the brand strength or some of our net revenue capabilities, even our execution capabilities, the granularities that we can execute in the stores, that's clearly giving us a lot of I would say tools to play the marketplace and to manage the price increases in better ways than we used to do it in the past. So we're also contemplating that as a factor as we're building our 2022 scenarios.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

Great. That's helpful. Thanks.

Operator: Our next question comes from Bonnie Herzog with Goldman Sachs.

Bonnie Herzog
Analyst, Goldman Sachs & Co. LLC

Q

Hi. Thank you. Good morning. I actually had a question on your A&M spend in the quarter. I guess on a dollar basis, it seemed to have almost doubled in the quarter versus Q3 and then came in at maybe a record as a percentage of sales at almost 8% in the quarter versus your typical call it, I don't know, 6.5%. So I just was hoping you guys could give us a little more color on where you stepped up the spending in the quarter and then how much you think that did contribute to your robust top line growth in Q4. And then thinking about it, typically, there is a lag with spending. So I'm also wondering if this is partly what you expect to drive your top line guidance at the high-end of your long-term growth algo.

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

A

Yeah. Hi, Bonnie. It's Hugh. A couple of things on that. One A&M for the year was up 11%. For the quarter, it was up 15%. But remember, when you're dealing with a quarter, that's not necessarily what's in the marketplace. That's sort of the A&M curve, and we book A&M on the revenue curve. In terms of spend, spend was up in the quarter for sure. I don't know that it was disproportionately up relative to the rest of the year. And in terms of go forward, I expect our A&M, as it generally has, will probably be in or around the same level of growth as the sales growth number is.

Obviously, we feel terrific about the advertising we're doing. We think it's having the right impact. But we clearly were the beneficiaries of, in North America, some reduction, and we think that's also played well. We generally are spending at a competitive level, and we're trying to compete on quality of the A&M, not necessarily the quantity of the A&M.

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

A

Yeah, Bonnie. One of the things I think we're getting better at is measuring our return on investment on our marketing. And the more data we have and, obviously, we're becoming a better data company. We're able to put better numbers to those investments and have the marketing teams and the commercial teams overall choosing different levers that give us the best return overall. And that's playing very well. And it's obviously one of the reasons why we're gaining market share across many categories.

Strategically we want to continue with these kind of investments, being very rational in the way we invest A&M, but understanding that a company like ours, the core competency is building brands. And that's what give us in situations like we're having this year where we have to price, we have consumers following us in spite of higher prices. So I think strategically it's a very important element in our overall growth strategy.

Bonnie Herzog
Analyst, Goldman Sachs & Co. LLC

Q

Okay. Helpful. That seems to be working. Thank you.

Operator: Our next question comes from Lauren Lieberman with Barclays.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

Great. Thanks. Good morning. Wanted to just talk about PBNA volumes because accelerated sequentially, and on a two-year basis you're now putting up growth on growth. And I was just curious how you might kind of bucket the drivers of that. And I'm going to guess part of it you're going to say, oh, it's a little bit of everything. But zeros have been in the market I think arguably all year. I thought maybe there is something to be said for the reorganization of the markets, and that maybe starting to clicking in a different way, so just curious in any perspective on the accelerating trends in PBNA. That would be great. Thanks.

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

A

Yeah. Lauren, I would say if you take a bigger picture, I think there is a elevated in-home consumption that has stayed like that. I think home as a hub is a clear trend, and we're seeing, we're capturing pretty good that consumption at home. And obviously during the quarter there has been more mobility across the multiple markets in the US obviously, but globally I would say. And then some of the away from home business has accelerated as well. So what you see there is a combination of all these channels I think playing at a very high level.

Then if you go into our own business, I would say the combination of branding, better execution. And the truth is that in Q4, we've seen an improvement sequentially of our supply chain. And some of our large brands, and I would name Gatorade, for example, clearly has improved substantially in its running rates and [ph] fill (00:11:55) rates in the last part of the quarter, so that's reflected as well in a better overall performance for the business.

We're very pleased in general with the way the North America business is performing in beverages and in snacks as well. And both the margin expansion, the top line, the fact that it grew with the market a bit faster than the market in a very challenging year with a lot of supply chain complexities and bottlenecks for several reasons.

So we're very pleased. We're feeling comfortable as well for 2022. It's very strong commercial programs, very strong brand programs. And, as you were saying, probably a better execution machine for many reasons, data and intelligence but also more empowered organization that makes more local decisions, and that's obviously reflected in the performance of the business.

Operator: Thank you. Our next question comes from Andrea Teixeira with JPMorgan.

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Q

Thank you. Good morning. I have a question on sports drinks and then a clarification on the pricing. First on Gatorade, it was a brand that obviously was pressured in 2021 from supply chain challenges and competition, and as you go into 2022, can you talk about the supply dynamics there and inventory for the brand?

And then on the pricing, I think embedded in your guidance, I understand that it's assuming only the pricing that is already in the market, and therefore wanted to see if we can bridge from Hugh's comments and seeing the visibility of the gross margin curve potentially recovered by the end of the year and potentially being up year-over-year for the full year? Thank you.

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

Yeah, Andrea. Let me talk to you about the Gatorade, and then Hugh can talk more about the price. We are very optimistic with this sports drinks category, but we think of it broadly than just hydration. We think about overall nutrition and the way Gatorade is playing that space along with some other brands like Propel, Muscle Milk, EVOLVE, and some other assets that we have in that space. It is going very fast. We see continued consumer adoption of this category. Consumers are exercising more, and we think that's a very positive trend for the segment.

When it comes to Gatorade, the brand equity is stronger than ever. And the innovation that we've done this year, and you will see more next year, be it Zero, be it Gatorlyte, be it some of the more science-related with the sweat pads and how we can be much more customized for the consumer based on their hydration profile. So there is a lot of positive value that I think we can create in higher parts of the category with Gatorade and some of the other brands. So we feel good about the demand momentum.

On the supply, obviously we have reacted to the situation, and we have expanded capacity, both ourselves and some of our co-packers. And we're ready for what we think will be another year of successful growth for Gatorade and continue to build the brand in spaces that will be hard to match by competitors. So that's how we are approaching Gatorade and the full category next year.

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

Yeah. And – Andrea, how are you? I'll expand on the – your question on the other side. Our assumptions on the guidance are based on the pricing that we have in the marketplace right now. And that pricing is based on the visibility that we have into both the productivity and the cost structure and commodities, which we have pretty good visibility into – on the commodities about eight, nine months of the year, as you would expect based on some of the things I've communicated in the past. Q4 is still a bit open, but there are pricing windows as we get into the fourth quarter as well. So as those facts become more known, we'll make decisions on that front.

Regarding your question on margins, obviously we don't give guidance on margins. But I think given the combination of what we know about costs and what we know about pricing, we ought to be able to get through the year pretty well intact on margins, acknowledging the fact that earlier in the year the cost pressure is a little bit higher than it is later in the year.

Operator: Thank you. Our next question comes from Bryan Spillane with Bank of America.

Bryan D. Spillane
Analyst, Bank of America Securities
Q

Hey. Good morning.

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

Good morning, Bryan.

Bryan D. Spillane
Analyst, Bank of America Securities
Q

Maybe just two follow ups. One is just, Hugh, your answer response to Andrea's question. When you're saying margins, you're talking about EBIT margins or gross margins?

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

A

Both, actually.

Bryan D. Spillane
Analyst, Bank of America Securities

Q

Okay. Okay. And then my question is about just the share repurchases coming back in this year. Hugh, can you talk a little bit about where we stand now in terms of cash return to shareholders? I think part of the motivation to maybe pull back on repurchases at the beginning of 2021 was – your CapEx is going to be elevated for a while, and I know you're watching the credit rating. So is this just – now there's more comfort with being able to return more cash to shareholders? Or is it a change in CapEx outlook? Just trying to understand if we can – how you're thinking about that?

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

A

Yeah. I mean we – obviously, we made the decision not just based on what we see this year but what we see over the next couple of years. Number one, we really had a pretty good year on cash generation last year which gave us a little bit of extra room. In addition to that, obviously we have the Tropicana transaction which bought us some room as well, and we just really closed that over the course of the last week or so. So the combination of those two factors led us to the decision.

As I mentioned last year, CapEx will be elevated for another year or two, but frankly I think that's well within the sort of overall envelope that we're working on. And we got comfortable with going back to share repurchase. And obviously it's one of the levers we use to help drive company performance and shareholder returns.

Operator: Thank you. Our next question comes from Laurent Grandet with Guggenheim.

Laurent Grandet
Analyst, Guggenheim Securities LLC

Q

Hey. Good morning, Ramon, Hugh. Well, I'd like to focus this morning on the energy platform. So it has been almost two years since the acquisition of Rockstar that unlocked the energy platform, an advantage PepsiCo has over your competitor that is limited because of its contract with Monster. So could you please update us on where you are seeing you – where you're heading? Because the beginning has been a bit more challenged than expected with – the difficulty with Bang management, Mountain Dew Rise name change, and Rockstar taking a bit more time to stabilize.

So at least the high growth, high profitability segment of the business it doesn't impact on PBNA and the rest of the business. So could you please update us on what you're seeing and where you're heading? Thanks.

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

A

Thank you, Laurent, good to talk to you. Listen, we're executing the playbook, as we told you. We've been quite consistent on the last few calls. And we're quite pleased with what we're seeing.

Obviously, Rockstar, we always said it was the most complex transformation. We repositioned the brand. We changed packaging. We're seeing growth in Rockstar both in the areas where it's more developed, areas of the country where it's more developed, and new areas obviously where the distribution system is making a difference. We're seeing especially very good performance in new innovation segments like no sugar and some more Hispanic focused innovation. So we're hopeful on Rockstar, and we're seeing the metrics that we set for ourselves are becoming reality.

Then on Mountain Dew Energy, we have this legal situation which we moved very quickly, super agile actually. The teams did a great job turning that in six weeks. And it's in the market, and it's gone back to the platform exactly where it was. So clearly there is a consumer that likes the product, and we're ready to now invest obviously this year in building that platform under the Mountain Dew Energy branding. And that's a pretty good position even though we had that legal situation.

With Bang, which was the other part of the strategy, after that initial pickup I think we're – actually we're doing a pretty good job as a distributor of the brand, and the brand is in more points of sale than it used to be. And we continue to focus on driving that performance during the length of the contract.

But the other one that we're very pleased is the Starbucks relationship. That JV relationship is better than ever, I would say. And both Doubleshot, Tripleshot is growing at a very high levels.

And I don't know if you're aware, we just launched BAYA Energy which is a full natural energy brand, new brand to the system. It's the first time we launched it both in retail and in Starbucks outlets, great product. Good levels of caffeine coming from natural source. We're very optimistic on that platform. It's very incremental if you see the full portfolio brands that we have on energy. So BAYA will be a positive addition incremental.

So I think the machine is firing on a lot of cylinders. It's always – it is an area of focus. You need to test and learn and adjust and tweak your execution. I'm pleased with what I'm seeing.

The other element that we don't talk so much about Rockstar is that this year it's going to be in 70 international markets. It was in 10, 8 markets. We expanded in 2021 to I think it was 22, 23 markets. Now next year – this year 2022, will be in 70 markets. So clearly another part of the growth story of Rockstar as we acquire the business.

So we'll keep updating you in our regular calls, but we're positive on how the full energy strategy is working.

Operator: Thank you. Our next question comes from Vivien Azer with Cowen.

Vivien Azer
Analyst, Cowen and Company. LLC

Q

Hi. Good morning. Thank you. I wanted to follow up, please, on Dara's question on price elasticities. Hugh, I appreciated your comment that you guys are looking at multiple scenarios and clearly do have a lot of leverage at your disposal. But I was hoping you could dive a little bit more, please, on Pepsi Beverages North America and specifically how you think about cross-category elasticities across your US beverage business.

And as a quick follow up to that, to the extent that consumers' ability to absorb pricing were to diminish at all, are there certain categories you'd be watching more closely as a leading indicator of that? Thank you.

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

A

Yeah. Happy to go there a bit. And as I said, elasticities to me are basically a portfolio of risks that we try to manage rather than kind of zeroing in on a single number. And a portfolio as complex as this, it's hard to have that conversation.

What I would tell you, Vivien, that we've seen over the last couple of years is in the North America Beverage business, category elasticities are relatively low. I think the reason for that is, particularly in the multi-bag multi-serve area, prices are pretty remarkably low, right, whether you're looking at 2 liters or 12 packs. And if you compare those prices to elsewhere in the world, the prices in this market are actually quite low. It's a tremendous value for consumers.

So as we sort of move into a world of higher inflation, I do expect that the category prices probably will go up. And at least to-date, we haven't seen much in the way of elasticity. As you might imagine, I can't point to anyone. I think we sort of watch elasticities on everything, both the value packages and the premium packages. And the good news is our system's agile enough to react to it. But right now, the elasticities are in line with our expectations, and frankly that's what gives us confidence in the guide for the year.

Operator: Thank you. Our next question comes from Kevin Grundy with Jefferies.

Kevin Grundy
Analyst, Jefferies LLC

Q

Great. Thanks. Good morning, everyone. Thanks for the question. First, just a clarification on Laurent's line of questioning around energy. Ramon, can you just comment? You mentioned firing on all cylinders and you're pleased with energy. Would you rule out M&A? So if you could just comment on that, that would be helpful.

My broader strategic question is really on the business venture with Boston Beer regarding Hard Mountain Dew. Can you just update us on how that partnership has progressed? And importantly, as you spend more time studying the alcohol space, can you provide some updated thoughts on broader ambitions to play in that, not only as it pertains to new product innovation but also the potential to distribute non-PepsiCo alcohol products through your distribution? So thanks for that.

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

A

Yeah, Kevin. Listen, on M&A, I think we have sufficient brands right to play in that space, so we're not thinking about any M&A in the energy space at this point.

Now with regards to alcohol, great question. And I think it's a very interesting development for the LRB category and for the alcohol category. So I think clearly consumers are choosing to converge in a way. And so we see that space as a strategically very incremental. It's sizable and it's profitable, so obviously we'd like to participate in a consistent and structural way for us.

Obviously, we will play from the brand point of view and innovation, licensing our brands to beer manufacturers that can help us with the manufacturing. We don't have the technologies to make some of these products, but we are creating strong partnerships. You mentioned one. And I think we have brands that can extend into those spaces. So that will be one way how we do it.

On the other hand, I think there is a very interesting play for us to leverage some of our distribution assets to provide capital distribution and consistent execution across the country. And we are working on that solution. We have obviously some market tests undergoing, and we will continue to roll out that potential distribution opportunity. I think it could be an advantage for us, if we do it well. And that's what we're planning to do.

So we see us participating from the consumer point of view and also from the infrastructure and execution and granularity of execution point of view as well. Those two areas could create value for PepsiCo long-term.

Operator: Thank you. Our next question comes from Rob Ottenstein with Evercore.

Robert Ottenstein
Analyst, Evercore Group LLC

Q

Great. Thank you very much. We've focused mostly on the US today. I was wondering if you could talk a little bit about how you're viewing your global footprint. In the past, for instance, the company has made acquisitions to expand the offerings in Russia and South Africa. Any thoughts along those lines in other geographies? Any things that is going on the international side that we should be aware of in terms of strategic direction or changes of how you're looking at the business?

And then just a quick follow up on the hedging and the commodities. I think it'd be helpful if, to the extent you can, kind of talk about some of the key commodities and what percentage of your cost structure they represent. Thank you.

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

A

Great. Robert, I'll talk about the international a bit and then Hugh can talk about the commodities. And you know we're quite limited on what we'd say about our detailed P&L.

On international, I've always said and continue to say, this is probably the largest growth opportunity we have in PepsiCo. I think we have a strong market positions in snacks and pretty good in beverages in many markets, some others a bit more challenging positions that we're working to strengthen those. I think we have the portfolio of brands and we have the portfolio of assets and the teams in place to continue to work on that opportunity.

Last year, we grew double digit internationally pretty much across the board from Asia to Middle East, Africa. Europe was very close to double digit full year, if I recall. And then Latin America did double-digit, so pretty good performance. And if I look at the top 15 markets for the company, we are gaining share in most of those markets, which is to me the key indicator of progress in the system. Obviously, as we scale up those markets, profitability gets much better. And that's the model we're trying to play.

For next year, we see good signs. Obviously, the geopolitics in some parts of the world are complex. We hope that that will not materialize in anything that will impact our system. And we see inflation going up everywhere. We have the brands and we have, again, the capabilities to price. That's what we're doing in the majority of the markets. We feel good about the elasticities, as we discussed earlier, both developing markets and emerging. I'm a bit more cautious on emerging markets. I want to see a few more months to understand how the consumer is kind of absorbing all these high costs in multiple parts of their budget, household budget. But we're feeling good about how our consumers are staying loyal to our brands in spite of some of our pricing decisions, so, yeah...

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

Yeah.

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

... [ph] that should (00:31:16) cover international, maybe the – yeah.

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

Yeah. So in terms of commodities, just a couple of facts for you. Number one, the overall commodity basket is about $16 billion, $17 billion. It's a super broad basket. There's not a single commodity that even accounts for 10% of the overall spend, so fairly diverse basket. But that said, clearly, commodities are inflationary pretty well across the board, and that's what we're dealing with, so.

Operator: Thank you. Our last question comes from Chris Carey with Wells Fargo.

Chris Carey Q
Analyst, Wells Fargo Securities LLC

Hey. Good morning. Thanks so much. Just on that last line of questioning there on commodities. Do you expect pricing to offset commodities just in the context of your comments on full year margins?

And then on North America, there was a comment in prepared remarks just around expectations for PBNA margins to expand next year. I think the margin drivers of this business have obviously evolved with product mix and pricing. And I wonder if you could just comment on how you see the drivers of that business go forward in the context and evolution of the business. Thanks so much.

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

Sure. In terms of commodities and the way we approach it from a pricing perspective, obviously, we always try and do what we can in terms of productivity to manage an inflationary environment. But obviously, when inflation is this high, we need to take some pricing. In general in developed markets, we do price through the commodity increases. In developing and emerging we have the variable to consider of affordability and consumer reaction to it. And our history has been – we'll initially price through two-thirds to three-quarters and then go back and get the rest of it later. That said, overall, as I mentioned early in the call, I think the combination of our productivity and our pricing should put us in a position where we ought to be able to keep margins pretty well intact for the year. So that's kind of where I think we land on that.

And in terms of PBNA, we do expect margins to continue to improve, as we've talked about in the past. Drivers are generally the same ones that we've talked about. It's a combination of some pricing, some product mix as the energy category is more successful for us, some level of productivity as we get returns on the investments we've made in capacity and digitalization and the like. And we continue to use global business services as a mechanism to drive G&A productivity as well. So it's a broad bucket of actions that over the course of several years will get PBNA margins closer and closer to the company average.

Ramon L. Laguarta

Chairman & Chief Executive Officer, PepsiCo, Inc.

Great. I think this is the last question, so I just would like to say thank you for everyone that joined us today and for the confidence you've placed in PepsiCo and in all of us with your investment. And we hope that you guys stay safe and healthy. So thank you very much.

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