19-Feb-2025

PepsiCo, Inc. (PEP)

Consumer Analyst Group of New York Conference

CORPORATE PARTICIPANTS

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

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

OTHER PARTICIPANTS

Bryan D. Spillane
Analyst, Bank of America

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Robert Ottenstein
Analyst, Evercore ISI

MANAGEMENT DISCUSSION SECTION

Bryan D. Spillane
Analyst, Bank of America

All right. We can make our way back in for the next presentation from Pepsi. And maybe just before we get started, hopefully you all saw that, that Pepsi has set up some display with both beverages and snacks. Actually, I just grabbed the Mountain Dew, but I want to thank Pepsi for providing a sustenance today.

So, it's a real pleasure to introduce PepsiCo. It's one of the world's largest convenience, food and beverage companies, over $90 billion of revenue, $15 billion of operating profit, a force, right, in both the snack and beverage business globally.

Joining us today are Chairman and CEO, Ramon Laguarta; and EVP and CFO, Jamie Caulfield. Together, I don't want to call you old man, but together they've got 60 years of experience at Pepsi and importantly, they've both been operators. So, really a wide range of experience across the company.

Since Ramon took over in 2018, he really focused on re-accelerating growth, the idea being you've got to generate the top-line to generate the bottom-line. And, since then, revenues are up 40%, earnings EPS is up over 50% on a currency neutral basis. So, that flywheel has definitely worked against what's been a really dynamic marketplace.

So, with that, I'm going to turn it over to Ramon to get us started and hear what's the latest at Pepsi.

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

Thank you. Good morning, everybody. And, thank you, Brian, for the warm hospitality. It's great to be back at CAGNY in the new – this is a massive hall, at least from here. Listen, we will double team with Jamie, I'll take you through, what we've done in the last six years, but also obviously where we want to take the company going forward, with some of the strategic focus areas that we have in mind. And then Jamie will tell you more about the capital allocation and some of the long-term operating ambitions. So, before I get into the presentation, just make sure that everybody reads the precautionary statement.

Okay. So, let me just spend two minutes on rounding everybody on PepsiCo today. Bryan mentioned a few of the data. So, we're now at $92 billion in 2024, as he said, one of the largest food and beverages company globally with nearly $15 billion in operating profit in 2024. But probably, the most interesting thing is how – what is the breakdown and there's obviously – our convenient food business is almost 60% of the company of our revenue, $53 billion.

Our beverage business is $39 billion. Remember that in our beverage business, we're recognized for most of the countries or for many of the countries, just the concentrate revenue. So, it's not apples and apples, it's apples and oranges there.

When you look at North America International breakdown, our international business is already 40% of the revenue of the company and also 40% of the profits of the company. So, clearly our investment in international is paying for us and we continue to develop that business at a faster pace as you saw there. Our profit growth in international has been 10% for the last five years, slightly higher than the PBNA and PFNA business. And we continue to invest in that business to make sure that we diversify our profit pool across both our two domestic businesses and our international businesses.

And you know probably most of our brands. But we have a broad portfolio of products and consumer solutions for multiple parts of the day that we have under – over 200 brands, 22 of them are $1 billion brands. We participate in convenience foods. We're leaders in savory foods – savory snacks, but also very strong positions in other categories throughout the day, like hot cereals and spreads and dips. And moving into new occasions as I will say – I will talk later and the same in beverages with very strong positions in soft drinks, but also in non-carbonated parts of the business operating globally.

Now, let me take you through the last six years and what we have – the strategies we followed and the performance we've delivered. We've been very consistent with our framework and we've been applying this framework in our strategic resource allocation and how we empower people to deliver the work with our mission, creating more smiles with every sip and every bite, with the ambition to become the global leader in convenient foods and beverages, with three pillars faster, stronger and better.

Faster consumer centricity, investing in growing above the market in our categories, stronger, critical for us to continue to transform our capabilities, our infrastructure, our culture to win in the market as one PepsiCo, enabling our people to be locally empowered to win in each one of the 200 markets where we operate. And better making sure that as we grow, we are very mindful of the resources that we use, especially around water, plastics, some of the resources that we're taking from communities. And we use that with rationality and how we move our portfolio to be positive for people and for the planet with a very clear set of values that each one of our associates lives every day.

Now, as Bryan said earlier, when we started, when we started the journey, we said, let's take this company from good to great. And we decided to invest, against the business. Here is three key metrics; CapEx, A&M and R&D, which are probably the biggest budgets that we use to grow the business. We've taken those budgets from $8 billion to $12 billion on a yearly basis. If you think about A&M, it's gone from $4 billion to $6 billion a year. If you take CapEx, it's gone from $3.5 billion to $5 billion, $5.5 billion.

So, clearly, we've been investing in the business to strengthen our brands, to make sure our brands are preferred in the marketplace, also to remove some of the bottlenecks that we had in the past in manufacturing. We keep modernizing our infrastructure for supply chain, warehousing and manufacturing and creating the system foundations and the digital, the data foundations that will enable us to be a more intelligent, more precise, more agile company in the future.

So, this has clearly been a journey for us where we're well into the journey and the results have been pretty good. We feel good about the numbers that we've been able to deliver in the last five years.

If you look at our North America business, we've been growing 7% on a compound basis for the last five years. Beverages at 6%, foods at 7%. Our international business is growing a little bit faster, 10% both, our beverage business at 9% and our food business at 10%.

Our big global brands have been growing double-digits. Look at Lay's, Cheetos, Doritos, growing double-digits. As we expand them globally, brands like Pepsi and Gatorade, high single-digit amounts and the mid-single-digits.

From the country point of view, we're building very large-scale organizations and businesses highly capable in many of the key markets around the world. Some examples Mexico, Brazil, India, large population markets where we now have very scaled businesses, have been growing at double-digit, China, UK high single-digit. Again, now we have various scale business, $1 billion-plus, multi-billion dollar plus in many of these markets that have the capability to now reinvest and continue to grow for the long-term.

At the same time, as we invested in growth, we've also been raising the bar on productivity and increasing our productivity investments to make sure that we can continue to reinvest back into growth.

Now, there's been four areas, and I'll talk more later on, but four areas where we have put a lot of focus with CapEx and with the transformation of our business to drive productivity, especially network, network of factories, network of our distribution assets, our routes, plant and warehouse automation. We've created a network of global capability centers that allows us now to avoid duplications, to do things once for the whole company, and to make sure that the information is in one place for the whole company, which gives us a lot of intelligence and quick lift and shift.

And obviously as we have better systems and better data, more integrated data we're not able to have business cases for agility, intelligence through digitalization. Now, the output of all these has been a pretty good growth in our operating profit, going from $12 billion to $16.5 billion last year, around 40% growth in our operating profit.

And in terms of EPS, again, we've been able to deliver above our long-term guidance, 9% in the last five years, 48% compound growth since 2019. So, good performance over the last six years. We feel good about where the strategy is taking us. And we continue to evolve our strategy for the next years as we see consumers evolve and we see clearly the marketplace evolve.

And you guys are being exposed to all the shifts in consumer, you live it in the US but this is also applicable to many markets around the world. Consumers are looking for value. Clearly, the last few years have been – impacting consumers in their disposable income. So, they're looking for value. They're more on the go, they're more active, away-from-home is becoming more relevant in their lives. They're looking for more on food. They're looking for functionality. They're looking for experiences that elevate the enjoyment of the moment.

And clearly, as societies become more multicultural, everyone is proud of their own food habits, food culture and we need to be able to give consumers what they want from their own culture. So, these are meaningful trends that as you will see, we're – as we think about evolving our portfolio, we're taking into consideration.

And then, well, we live it every day now. Clearly, geopolitics and macros are impacting us more and more, if you just think about the last five years between COVID, some of the wars that impacted our business in Russia, Ukraine, the Middle East, the recent inflationary, clearly micro, macros and regulation is becoming a very meaningful part of how we think about the long-term of the company and how we manage a company.

Now, I think we've shown this in the past. We feel very good about the long-term growth opportunity of the company because of this. We operate in two very large categories, convenience foods and beverages that are over $1 trillion, they're growing in globally mid-single-digits. And we have a very low share of market of those two categories globally, which makes us believe that with our scale in multiple countries around the world, we're able to create consumer solutions that both in LRB or in convenient foods allows us to capture more and more occasions from this large pool of consumption into our brands.

So, this is the long-term growth opportunity for PepsiCo. When you combine that page with this page, which is we have 60% of our business in 5% of the global population, and we have 40% of the business in 95% of the global population. When you take LRB per caps, the US is about 2 times the rest of the world. When you look at savory, the snacks is about 3 times higher than the rest of the world, multiply the geography by the per caps opportunity and you see, okay, there is a massive opportunity for PepsiCo through per caps development, through building a scale businesses around the world to develop our categories globally.

We're becoming better at international. We are becoming much better and we keep investing. We've invested, for example, last year $2 billion only in CapEx in international, which gives us – this is money that we can now reinvest. It's generated – and the – as I said earlier, the margin now in international is the same as in domestic. So, clearly, it's not a business that is lower margin, which gives us a lot of right to invest and continue to scale.

Okay. Now, I'll take you through four areas of our strategy where we're putting a lot of focus. Two of them are in the space of faster. How do we get to the consumers always throughout the day, so expanding our occasions throughout the day with portfolio evolution and some brands positionings that allow us to capture those opportunities. How do we continue to expand our availability? Obviously, as we go to developing on emerging markets, we still have a lot of gaps in our distribution and perfect execution in the store. But even in large countries like the US, we still have a lot of opportunities away-from-home, physical availability, and you'll see how we're trying to tackle that.

The third pillar is more on the stronger side is how do we continue to modernize the company? How do we continue to automate the company? How do we continue to do work in a more agile way, more intelligent way from just a few points in the company that service the rest of the organization?

And then, we continue to believe that positive is at the center of the company that we need to – for the long-term of the company, we need to continue to have great agriculture. We need to be very conscious of the resources that we use, water and other resources that we use in delivering value to consumers. And we need to continue to evolve the portfolio toward positive choices to be a sustainable company.

So, those four pillars are critical for how we are going to think about the company and invest in the future. So, I'll unfold some of them. So, you have an idea of how we're trying to run the business.

Now, on the portfolio evolution, portfolio, clearly, as I said earlier, consumers are moving very fast. So, we're putting a lot of emphasis on an accelerated transformation of the portfolio. Now, several areas.

Number one, our iconic products, we continue to invest in being the best with flavors. And you have the opportunity to sample some of us, our products – some of our new products. Taste will always be at the center. We're a great taste company, but we're trying to also refresh our iconic offerings being better. And, we've been working hard at sodium reduction, sat-fat reduction. We're working hard at removal of artificials so that we give consumers the same great experience now better.

Just an example, I don't know if you saw our Super Bowl commercial with Lay's. Lay's, we're trying to anchor Lay's in the real food, in what it is, real potatoes that are grown and consumers can have simple pleasures in a very authentic way. Now, those Lay's, now have 20% less sodium than they had two years ago, and consumers are accepting that very well.

The same in – if you look at our Cola products, they have much less sugar in most of the world than they used to have in the past. And I will talk about zero sugar in the future. So, refreshing our iconics with great taste, better for you ingredients, is core to our strategy.

We continue to evolve not only our core offerings, but we continue to offer consumers new offerings that keep consumers in the category, increase the frequency of consumption of our categories with multiple levers. You see there new cooking methods, either baked or popin, give us the opportunity to put new ingredients, much more functional ingredients with lower oil and better solutions.

If you think about SIMPLY and you have some examples out there, we're relaunching SIMPLY this year in the US, no artificials, positive ingredients. If you think about some of the brands there, Stacy's or Sunchips, we're putting wholegrain, so it will have much more fiber levels.

You have plant-based proteins in Sabra or you have it in some of our nuts. Clearly, a portfolio of solutions that keep consumers in our brands, increase frequency of consumption and help us recruit new consumers.

Now, the star has been Pepsi Zero, Pepsi Zero, Pepsi Max in some countries around the world has been a focus for us for the last 10 years, 15 years, and is now a $10 billion business in RSV, clearly growing double-digit and keeping consumers in the Cola category and making our brand preferred in many parts around the world.

Now, consumers also told us they want more functionality, especially around areas like hydration, energy, protein, fiber. I talked about fiber before in how we're adding wholegrain to many of our brands. But as you think about functional hydration, we have two great brands with Gatorade and Propel that keep innovating, they keep innovating in functionality, adding functionality like rapid hydration, but also in form and function. You saw there are parlours and our tablets that help with the consumption. I'll talk later about our bet in that space.

Now, Gatorade and Propel are over $12 billion in RSV globally and growing very high single-digit. So, a huge platform for us where you see us innovating more and more. Energy is a relevant category for us, $7 billion globally.

You're familiar with some of these brands, probably not so much with Sting. Sting is our energy brand in Asia, and we have leadership in India, we have leadership in Pakistan, we have leadership in Egypt. Clearly, a platform that is giving us the right to participate with affordable energy globally. And then obviously protein being a space where consumers are looking for. We have Sabra, we have Gatorade with some protein shakes, Muscle Milk and

Quaker, all going into protein at a fast pace. And you're going to see us innovating much more into protein given that is a space where we see consumer demand increasing.

Now, the other vector of portfolio evolution is going to be multicultural or basically saying, in any market around the world, you go to the England, here in the US, Canada, many parts of – many societies around the world are becoming much more multicultural. We need to be able to provide consumers with authentic, relevant flavors and products that remind them of their food cultures and the country they come from, or the culture where they come from.

Now, you have some examples here. For example, Kurkure which is one of our best products in India, now we're able to sell it in the US. We're able to sell it to Canada to those populations that are relevant for the product. The same with Sabritas, some of our best products in Mexico now are available in the US, both in the sweet and the savory snack business. And we're, obviously we made some acquisitions like Siete that give us even more authentic options with some American Hispanic consumers that will help us innovate in that space.

At the same time, we're premiumizing the portfolio and you have there some examples. So multicultural being able to give every cohort the preferred substrate, the preferred flavor, the preferred positioning, so that they are like providing their local original solutions is what we're trying to do.

Now, very important for us, especially as we think about frequency of consumption is portion control. Portion control is the lever of category development that we've been working on for a long time. Now you have here some examples.

The multipack business in the US is already a $4.5 billion business. Five years ago it was less than $1 billion. We see consumers adopting multipacks, small portions, 28 grams, 30 grams as they go to solution for – continue to have our category throughout the day. At the same time, we're providing consumers with different alternatives like mini cannisters, minis in beverages that also help consumers with convenience and portion control. This will be a driver for us long-term. You'll see us both from the price point, from the combination, from enabling the consumer to create their own multipacks through DTC, direct-to-consumer options. This is a big strategic lever for us and we now have the capability to automate multipacks to have endless combinations of multipacks, and that will be a solution for the future. The same with small canisters and large canisters.

Now, obviously, value is critical. And we talked in our last earnings call how we're becoming better at price partitions and offering the consumer many more price points in the – through [ph] the ladder (00:23:23) and also building some value brands that help consumers stay in our categories and not leaving the categories.

Now, this is being executed as we speak now in the US. They will be executed in the March-April timeframe as retailers change their planograms. But globally, we've been doing this for many, many years. Price point, especially in emerging and developing countries, is a key for category development. We're doing that also in the US, in India in the coming months.

I talked about personalization and customization. I think this is – we've been working on this for many, many years. This will be a vector of portfolio transformation and investment for us for the long-term. Personalization, enabling the consumer to create their own solutions is a big idea. Now we're much more capable. We have invested in an infrastructure for powders and mixing that allows us to create much more complex solutions in sachets and tablets and we're going to invest massively behind that business. It is now a $1 billion business in the US, our Gatorade and Propel Powders. This will be a driver of growth for us. We can provide much more functionality in every sachet. If I judge by the velocity outside the room, this is a preferred solution. It's – when it's free it's better, but clearly there is a lot of value, I think, in providing convenience and making sure that we can take our hydration with us throughout the day.

The same with customization with SodaStream at the center. SodaStream is a business that is already at $1.5 billion. And we're creating many more solutions around SodaStream, it's not only a sparkling water solution, but we're putting out flavors. We're putting – if you're having a party at home, we will provide you with mixtures and non-alcoholic solutions. You can create your own alcoholic solution, but clearly creating a whole ecosystem of beverages solutions around SodaStream is a big idea and we keep investing in the DTC part, so direct-to-consumer. It also gives us a lot of first party data and is a big ecosystem for us. So, two big pillars, on top of what I mentioned before, on better solution, more functional value, et cetera.

Now, the second area of transformation for us beyond trying to be always in consumers lives, as I said earlier, is trying to be everywhere where the consumer wants to consume our products and be there when they have the need that they need to solve for. Right now, we're limited. We're limited in a couple of occasions in the day where we are very strong, we're weaker in many other occasions throughout the day, away-from-home, mostly where we're going to put our emphasis.

As I said earlier, this is not about the basics of the business where obviously, we're trying to reach many more millions of points of sale in India, in China, in Turkey, in South Africa, in Brazil. Of course, we'll continue to do that as we become more capable. This is about giving the consumer more touchpoints throughout the day to our brands.

I talked about this – we've talked a few times how we're thinking about our brands participating in meals throughout the day. And we've been inspiring consumers around the world to use our products in meal occasions, as meal ingredients. This is working for us very well. And consumers, we have now culinary hubs around the world where we make our products to be part of the food recipes in the country. And, this is working very well.

For example, I'll give you some examples, you have there soups with chips, right. So, consumers are – sometimes you can add chips to your soup to make it more desirable. When you go to the Far East, we're seeing consumers eat rice three times a day. It is boring for them, so they're adding Lay's for crispiness to their rice. So, it becomes part of their rituals, clearly giving us many more occasions throughout the day.

You see here an example of the potato omelet in – from the south of Europe. We're giving the consumer convenience to prepare a potato omelet that in a normal process would take 45 to 50 minutes as you have to wash the potato, peel it, fry it et cetera. When they use Lay's, it's a 10-minute experience, 5-minute experience. Now it's offered in restaurants and consumers love it. So, today, we're creating a lot of new occasions for our brands beyond what other conventional occasions.

And you have – there are some examples of products from Mexico were becoming part of the culinary opportunities. Now, that gives us the opportunity as well to expand with new business models, direct-to-consumers where we offer consumers ready-to-eat food with our brands. And these are some examples. Some of those are more scaled, like the Tosticentro, Tostitos in Mexico. We already have 12,000 of those where consumers can create a meal with Tostitos, they add vegetables, they add their own solutions. And that's a meal.

We have Doritos Loaded in college and universities in the US, but also in parts of Europe where consumers can create their own solutions with Doritos. We have this tortilleria, which is, as I said earlier, a potato omelet solutions where consumers can take ready-to-eat tortillas made with Lay's. And then you have Drips, which is a new [ph] taste and learn (00:29:17) that we have in the US where we create elevated experience with our Pepsi products, kind of a mixology and consumers can come buy directly from us. This has been a success in multiple touch points that we've had in the last few months, and we're looking at scaling that model. So, you can see how we're evolving, participating in meals, but also giving consumers the opportunity to buy more elevated experiences of our products throughout the day.

So, that's from the portfolio point of view. They are the different areas and the different innovation spaces where you will see us accelerating and putting more of our A&M and our innovation resources behind. We will continue, of course, our multi-year productivity journey, and we have been increasing productivity. Last year was a record year. This year will be another record year for PepsiCo productivity levels, which is allowing us to reinvest back in the business, allowing us to grow in new spaces and also mitigate whatever risk we have from a lower top line as we had this year.

Now, there's four big areas where we're trying to invest for productivity. One, I mentioned is global capability centers. And we have multiple around the world where we're doing work in a very different way that we do – we used to do in different markets. We do it once for the whole company. We service the full company with higher quality of data and one data for the full company.

We don't duplicate things. [ph] We have (00:30:52) much more efficiency. It's not only a labor cost, it's a talent and it's an intelligence bet for the company. Second and third are together. We are simplifying, harmonizing our systems. We're connecting our systems, we're in a long journey of changing the systems in the US, some of our older markets, we're almost done with SAP rollout in the US. This will give us the foundation together with the investments we've made in data lakes.

Now, our data lakes are connected, we can have many more use cases to digitalize the company and I'll give you some examples. So, simplifying IT systems is per se our productivity, but is an enabler to the digital transformation of the company. And of course, we're trying to automate our factories. We've been, for many years doing that, our warehouses and the whole transformation transportation system. So, those are the four big areas that are driving incremental productivity year-after-year, is not a one-year program, is a multiyear program, and we're well underway.

Now, some examples of how these investments will make us a more intelligent, better performing company and I put just some brief ones, but across multiple parts of the value chain, consumer engagement, obviously, we can create content in a different way. We can personalize content in a much better way that we used to do two or three years ago.

In terms of sales execution, we're able to have much more precise plan around execution, enabling our frontline people with tools so they know – they have already a predicted order. But they know for every store what they sell and if – what is the next action they need to take so an integrated end-to-end precision execution, obviously, manufacturing, digital twins allow us to have a much lower cost in terms of maintenance and some of the planning and automation in robotics.

One that I'm very interested on and we're becoming pretty good is end-to-end planning. If you thought about the past, we used to plan by functions, by markets. It was not a very good end-to-end planning. Imagine the fact that we're selling 1 billion plus units of products every day around the world. That is a lot of operational complexity. When you do end-to-end planning, you reduce a lot of waste. You reduce a lot of waste from your system.

We're becoming a much better forecasting company, and that translates into much more productivity all the way down to procurement. So, some examples of how we're becoming a much more intelligent company based on the investments we've made in the last few years, the systems are better, the data infrastructure is better. Now, we can have better use cases that we deploy across the company through our global capability centers.

And then, let me end before I pass it on to Jamie. I'm very proud of also how we are moving our [ph] pep+ (00:33:51) transformation, not only from the product point of view that I talked about it earlier, it's critical that we continue to give consumers better products. So, the positive choice pillar is not only about reducing, but it's also about adding positive ingredients.

You have here 75 billion servings of positive ingredients in our offerings. But I'm very proud of what we're doing in agriculture, how we're helping our farmers to have better soil, healthier soil. Without healthier soil, we will not be able to have good agriculture. And we're, by nature, an agricultural company. We need great agriculture to have great quality products, to have the scale that we need. I'm very proud of our use of water. Water is critical, with all our farming. If we don't reduce the use of water, we're going to have problems long-term. So, you have it there, some examples of water reduction across agriculture, but also in our factories.

Also, we're very proud of plastic reduction. I'm very proud of our emissions reduction. We'll continue this journey. I think long-term, this is critical for the – for communities to give us the license to operate and for consumers to buy our products. So hopefully, that gives you a sense of where we're going in terms of portfolio, capabilities and some of the investments that we're putting long-term.

And now let me pass it on to Jamie to talk about capital allocation, some of the other variables.

James T. Caulfield

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

Thanks, Ramon. Good morning. So, I'll start with capital allocation priorities. No changes from what we've shared with you in recent years. Our priorities are as follows. First is to continue to invest in the business. Second is to pay and grow the dividend. Third is to selectively and with discipline, consider acquisitions, partnerships and divestitures. And then finally, the fourth is with the residual cash flow to put that toward share repurchases within the boundaries of our targeted capital structure.

So, let's look at CapEx first. As you can see on the right, we're pretty well balanced in where we're investing our CapEx. So, a lot towards growth that goes to innovation, manufacturing, go-to-market capacity, productivity. Ramon just shared our productivity agenda. So, a lot of this against digitalization, automation, network optimization, a fair amount against frankly just replacement of – replacement and maintenance of our existing capital base. And then investment against our [ph] pep+ (00:36:25) initiatives. And most of that's really directed towards we talked about positive agriculture, positive choices and positive supply chain. Most of this really goes to positive supply chain.

On the left hand side of the chart, you'll see our capital spending trend going back to 2017. What you'll notice is in 2019, we did have a step up in CapEx, and that was largely driven by two things. One was we really leaned into establishing this much more robust IT infrastructure and data foundation. And the other area was catching up on bottlenecks that we had throughout the supply chain. So, that's led to some level of elevated CapEx over more recent years.

Now, as I mentioned last year, when I was with you, our expectation is that our capital spending will begin to moderate from here as we're largely caught up on the IT foundation, the data foundation and the debottlenecking. And we're going to be more on a transgressing to a more traditional spend on CapEx. So, you'll see from 2013 to

2014, 2014 was the first year of moderation. CapEx came down from 5.8% of net revenue to 5.4% and in absolute dollars from $5.3 billion to $5 billion.

The second priority is returning cash to shareholders. We just announced on our Q4 call that in 2025, beginning with the June payment, we'll be increasing our dividend to $5.62 per share. That marks our 53rd consecutive annual dividend increase. We view the dividend as a really important component of our overall total shareholder return equation, and that's particularly when you consider the compounding benefits of growing the dividend and the benefits of dividend reinvestment. This will bring our dividend yield to just under 4%. And from 2010 to 2025, it reflects a 7.5% compound annual increase in our dividend per share.

Our third priority is judiciously refreshing our portfolio. I think this is a good representative sample of what we're looking to do here. So on acquisitions – our more recent acquisitions, we had Siete, Sabra, PopCorners. The three of them do happen to be in our Frito North America business, but if you look at that very good credentials on positive choices, getting after new cohorts, Sabra I think creates a great foundation for us. We have had 50% of that business for quite some time.

We acquired the other 50% of that business and as a chilled dipping platform, we're very excited about what we might be able to do with that in the future. Partnerships and investments. Good representation of both our commercial partnerships as well as in some cases taking minority equity investments. And then where it makes sense divesting parts of the business that don't quite fit with the portfolio.

This brings us to our long-term financial targets. So, Ramon shared with you this flywheel, the value creation flywheel, productivity and efficiency to fund investment in the business around innovation, marketplace expansion and our digitalization. And that fuels top line growth. How that translates to our financial goals is the long-term targets that you see here, so mid single-digit organic revenue growth, 20 to 30 basis points of margin expansion annually and a high single-digit core constant currency EPS growth.

And with that, we'll now be happy to open it up to questions.

QUESTION AND ANSWER SECTION

Bryan D. Spillane
Analyst, Bank of America
A

It is. Okay, great. I'll do Dara, Andrea, Robert, and then I'll come right to this side.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC
Q

Hi, Dara Mohsenian, Morgan Stanley. I was just hoping to take a step back and get a bit of State of the Union on the convenience-foods category in the US. There's obviously been some weakness in the last couple of years, but there's also really solid and pretty consistent longer term track record if you go back.

So, maybe A, just review what you think the biggest impediments to growth from a category perspective have been recently. And then, B, you obviously have a number of aggressive plans to win in the marketplace. I think I counted eight portfolio points. How incremental are those points as we think about the next couple of years maybe versus some of them already having been realized to some extent in recent history? And just how do you think about sort of driving category growth versus Pepsi's share within convenient foods in terms of the payout?

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

Listen, I think we – we think there's still massive growth in the US in the convenience foods category. And I've been talking about this for some time, we see consumers changing their food consumption into more of mini meals. So people are sitting down less and eating more small meals throughout the day, 200 to 300 calories at a go. That gives us tremendous opportunity for our products to participate in more of the overall calorie consumption.

And now that requires that we give them the right solutions. And that's what we're trying to do with our – with some of the levers that I discussed earlier. So, long-term, within that is a huge opportunity in home consumption, away from home consumption, giving consumers of all different cohorts solutions that feeds their life throughout the day.

Now, to your point on incrementality, most of these levers that I mentioned are quite embryonary still in the Frito portfolio, especially if you think about the positive choice evolution, we've had those products. They haven't been the focus of our commercial investments, our prioritization with the retailers. You will see as we enter the new planograms in the spring time much more focused on those parts of the portfolio. You will see our A&M going much more towards those investments.

Now in the beverage business, I think functionality has been more central to the portfolio. So if you think about functional hydration or energy, it's been more central to how we think about growth. So – but you will see – you'll continue to see innovation in more functionality in functional hydration. I mentioned the powders and tablets that's still very small to what we can deliver. So, a lot of these pillars, I would say, are a journey for the next five, six years. We have them in the portfolio. Now, they will be central to our investment decisions and our space allocation, resource allocation. So, that's how we think about it.

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Q

Thank you, Andrea Teixeira from JPMorgan. I was just like, if you can elaborate a little bit more, Ramon, with two points about the North American strategy. One is affordability, then the second one is out of home. On the affordability, how are you seeing some of the investments you already made in terms of pricing and promotions into the US, in particular for clubs and some of the convenience?

And then second out of home, like how can you – given that the traffic to some of these places in particular, like not only convenience but also out of home increasing relative to your at-home consumption, how are you going to be balancing that and any concrete examples that we should be seeing already in 2025?

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

A

Yeah. So, in terms of value, we discussed in the earnings call, we're going to go with a much more, let's say, segmented price partitions for our brands, make sure that we give consumers the opportunity to stay with our brands at the beginning of the month, at the end of the month, higher disposable income, lower disposable income, multimember families, single member families. So, we're coming with a much more sophisticated price pack architecture.

And then of course we'll work on the promotional, but the promotional empower digitally the way consumers are buying today gives us the opportunity to be much more surgical in how we invest our promotional money to personalize the offerings to the consumers. And we're working with our retail partners in a much more collaborative way. So the ROI of those investments is higher. So that's how I would think about the price solutions for keeping the portfolio in consumer households.

Now, when it comes to away from home, this is relevant both for our beverages and for our food business. Our beverage business is more developed than our food business in away from home. But there is a fundamental prioritization of away from home as the number one growth driver for PBNA.

For example, this year we have invested in our associates to capture many more restaurants, small restaurants, not quick service restaurants. And there's a high ambition that is together with our repositioning of Pepsi as it goes better with food, there's an integrated program that allows us to win many more restaurants. I will not say the number, obviously, for competitive reasons, but we have a big ambition on elevating the number of restaurants that serve our products and we're being successful.

Now for foods, I would say the journey is a little bit earlier. So we are available in many locations throughout the United States in – or you can find our snack products with meals or other options. We are trying to develop the ready-to-eat solutions. That's not so much. So, it's not selling you Lay's with a sandwich. That's an option that gives us a lot of opportunities. It's not selling more of our products in airlines or in airports or in other channels, but is giving consumers ready-to-eat solutions that there will – it will be incremental and that we're testing and learning.

In the next five years, you will see many more touch points for consumers to buy more elaborated experiences of our products in the United States. We do have them in Mexico. We do have them in other parts of Europe where we're testing and learning across the company to give consumers again more occasions, more opportunities to touch our products, more sophisticated experiences.

Robert Ottenstein
Analyst, Evercore ISI

Q

Robert Ottenstein, Evercore ISI. Two-part question. There's been a lot of fundamental changes, I think in the US business, particularly on the beverage side, there's new management. There's some rejiggering of the footprint and the infrastructure. So, the question is, can you just tell us a little bit about the kind of strategy in the US in terms of the infrastructure, kind of what's going on there, what the philosophy is?

And then the other side of it is, given the enormous opportunities that you have internationally and the momentum you have internationally, at the margin when you step back and you look to allocate capital, is that really – is that going to be a much greater focus and increasing focus over time? And, is that taking a lot more of your time and attention? You talked about what's going on in Mexico, Brazil, India, huge opportunities. So, just trying to get a sense of the focus and to what extent that ties into what's going on in the US?

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

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Yeah. For sure. And let me address both. As we think about the long-term infrastructure in the US, we see much more integrated infrastructure between our two businesses, that's separate businesses. So, we're now testing and learning mixing centers and delivery operations that will combine our foods and beverage business in a way that will give us a lot of optionality in how we service future demand that we think will be much more digital and delivery to home. And those capabilities can be done together.

So, as you think about PBNA and PFNA, we're building the future together and the future together will be common technology, common data infrastructure and common physical infrastructure, in a way that in the 2025 key markets in the US, you will have a lot of assets that will be combined, which gives us tremendous advantage versus having two different infrastructures sitting side-by-side, either our bottler or ourselves that it doesn't matter.

Now, hopefully, we're not starving any businesses from growth opportunities. And that's where Jamie and I were trying to work with our operating, especially on core market. So, we have a 13 or 14 anchor markets internationally that will drive 90%, 95% of our growth in the future in the next 10 years. And we're making sure that from the infrastructure, from the talent, from the digital and data infrastructure, those businesses are going to be very well funded.

So, we capture that growth opportunity that we mentioned internationally. So, hopefully, we don't make the mistake of not investing in India, in China, in Brazil or Mexico, because we invest in Oklahoma, because we invest in Tennessee, hopefully, we don't make that mistake. And I think we have the right processes, the right resource allocation process to drive both.

But if you think about the US more and more, the infrastructure will be combined, which gives us tremendous opportunity to service a Walmart or to service a direct-to-home delivery in ways that right now we cannot and we were not able to do in the past because our systems did not allow us to do it. And now we have the systems, we have the capabilities to do that, and now we're putting the infrastructure in place to be able to capture that opportunity.

Bryan D. Spillane
Analyst, Bank of America

Okay. With that, we are going to break to the breakout room. Again, thank you, Pepsi, for the presentation and for the snacks and beverages.