

Q1 2021 Earnings Call

Company Participants

- Hugh F. Johnston, Vice Chairman and Chief Financial Officer
- Ramon L. Laguarta, Chairman and Chief Executive Officer
- Ravi Pamnani, Senior Vice President of Investor Relations

Other Participants

- Andrea Teixeira, Analyst
- Bonnie Herzog, Analyst
- Bryan Spillane, Analyst
- Chris Carey, Analyst
- Dara Mohsenian, Analyst
- Kaumil Gajrawala, Analyst
- Kevin Grundy, Analyst
- Lauren Lieberman, Analyst
- Laurent Grandet, Analyst
- Robert Ottenstein, Analyst
- Sean King, Analyst
- Steve Powers, Analyst
- Vivien Azer, Analyst

Presentation

Operator

Good morning, and welcome to PepsiCo's 2021 First Quarter Earnings Question-and-Answer Session. All lines have been placed on listen-only until it is your turn to ask the 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 {BIO 6230658 <GO>}

Thank you, operator. Good morning everyone. I hope everyone has had the 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 outlook, 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, and we are under no obligation to update.

When discussing our results, we may refer to non-GAAP measures, which exclude certain items from reported results. Please refer to today's earnings release and 10-Q available on [pepsico.com](https://www.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.

Questions And Answers

Operator

Thank you. (Operator Instructions) Our first question comes from the line of Dara Mohsenian of Morgan Stanley.

Q - Dara Mohsenian {BIO 3017577 <GO>}

Hey guys, good morning. So I just want to spend some time on gross margins. A, first, just can you give us some sense of what adjusted gross margins would have been in the quarter ex the acquisitions and the supply chain challenges you mentioned in Texas at quarter-end that you mentioned in prepared remarks?

And then, B, looking at more longer-term, we've obviously -- we're seeing a really pronounced rise in the commodity spectrum across the board in CPG lately, corn [ph] certainly one of those, it's up substantially year-over-year. So can you talk about how much you recovered for 2021 on commodities? But what I'm really more interested in strategically is, in the event that these higher commodities do fully flow through to your P&L as we look later in the year or even into 2022, because it does feel like we're certainly in a normal commodity environment, how do you approach that from an organizational standpoint? Can we expect more aggressive pricing and how do you sort of approach that higher commodity spectrum theoretically as an organization given it does seem like an outsized increase? Thanks.

A - Hugh F. Johnston {BIO 15089105 <GO>}

Yeah, I'll jump in on that one, Dara. Thanks for the question, and good morning. Yeah, if you look at really over the last three quarters, the gross margin decline we've had is really primarily been driven by the mix impact of our recent international M&A, primarily the

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Pioneer acquisition, and we expect that to continue into Q2, that's the last quarter before we finally lap out of that.

In terms of '21, there is certainly higher input inflation, but it's been factored into the '21 guidance, notably in terms of agricultural and packaging. In addition to that, we have also factored in the higher freight and transportation costs that we're experiencing out there right now. And again, just to remind you all, no single commodity accounts for more than 10% of our basket. So we do have a fairly broad exposure to commodities. In terms of managing it, we will take a balanced approach and this is as we always have between driving productivity and then being very surgical with the net revenue management opportunities that we have in the marketplace to mitigate pressures. And obviously, our eye is always towards making sure that our brand proposition holds up well with consumers.

If I put it all together for 2021, Q1, of the 140 basis point decline, about 100 basis points of that came out of the international M&A, and about 30 basis points came out of the pressures that we experienced as a result of the winter storm in the middle of the country. Going forward into the back half of the year, we do expect that to moderate considerably. And I'd probably put our back half gross margin in the flattish range.

As for '22, it's premature to really to talk about that. I mean, we're so early in the commodity cycle, particularly on Ag products that -- I think, that's something that we probably ought to wait some months before we start speculating on.

Operator

Your next question comes from the line of Bonnie Herzog of Goldman Sachs.

Q - Bonnie Herzog {BIO 1840179 <GO>}

Thank you. Good morning everyone. I had a question on Frito-Lay, certainly a strong quarter despite really it being the toughest comp of the year. So maybe you could drill down further on some of the momentum you're seeing in this business and give us a sense of how strong results could have been without the winter storms?

And then separately, could you help us understand consumer consumption patterns around pack sizes. Your large pack size is still driving the majority of the growth at Frito-Lay, and maybe how you expect that to trend?

And finally, just curious to hear, if you've seen any recovery in the impulse portion of that business yet, and then, if not, why? Thank you.

A - Ramon L. Laguarta {BIO 18967774 <GO>}

Hi. Good morning, Bonnie. I'll take this one. Yeah, Frito -- a couple of highlights on their performance. The share performance of Frito has accelerated in the last six months, most notably, in the last three months. So we feel good about that part, and we've been investing in our brands, not only the big brands, but the smaller brands and our execution

capabilities, our supply chain to make sure that we started to gain share. So that's very positive. Obviously, as you look at the Q1 numbers, Frito was particularly impacted by the -- by the winter storm, because we have a lot of infrastructure in the South, lot of our manufacturing and depots are there in the South. So it was particularly impacted. So we're slowly recovering from that situation, both raw materials and actual manufacturing, and we're very close to having a normal supply chain now.

Your question on consumer trends, I think there is a structural trend that we have discussed in the past, and it is the fact that we're seeing more and more small portion consumption in the snacks business, and to a certain extent, also in the beverage business. So smaller units, especially now in the form of multi-packs, given there is an increase in-home consumption, that's the -- the consumer packages that is -- that is growing the fastest. And I think that the team has been very good at providing more personalization around that, created more combination with multi-packs, which drives eventually given that consumers like variety, it drives -- it drives performance [ph], and we're seeing a lot of growth there. I think that's going to be a structural trend in that business.

Now to your question on mobility. Yes, we were seeing consumers in the US obviously moving around much more, which has a positive impact by definition in -- in consumption trends in both large format and small format. So we're seeing much more single-serve growth in both channels, large format and small format. So those are all some trends that we're seeing. There is still uncertainty around in-home consumption, I think, and we're going to have more information about consumer behavior in the next few months as consumers decide how much they go back to work in offices, how much they venture out for -- for some of their meals during the day.

So we have obviously a lot of insights and we're -- and all our future projections are based on those insights. Yeah, I think the consumer will show us more as we go along in the next, I'd say, six to nine months.

Operator

Your next question comes from the line of Andrea Teixeira of JP Morgan.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Thank you. Good morning. So I wanted to go back to the top line in the cadence of the quarter as you obviously lapped the initial pantry load, but also as I mentioned before, the disruptions of the winter storms likely behind you. So -- so two-part question. Number one, are you seeing foodservice less negative as you exited the quarter worldwide?

And then second, your price mix was pretty strong and obviously your pack part of the business, the RTM has been negatively impacted by the large portions of our size packs. Are you seeing that improving and any opportunity to -- along with that mitigate some of the cost pressures with more pricing? Thank you.

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A - Ramon L. Laguarta {BIO 18967774 <GO>}

Good morning, Andrea. Yeah, on the foodservice trends, yes, we're seeing obviously as we're lapping the lockdowns of last year, and we're seeing obviously much better traffic in that channel and we're going to see better consumption, especially as we go forward. Different -- different levels of recovery across different channels in -- within foodservice, but in general, we see positive trends, and that should be very good for both our beverages and snack business. Obviously, that will have implications in in-home as well now. So I think we will see a new equilibrium of consumption going forward.

The rest -- sorry, what was the second one? I forgot, Andrea.

Operator

Her line has been closed.

A - Ramon L. Laguarta {BIO 18967774 <GO>}

Okay. Well, listen, in terms of the future consumption trends, I think what I said to Bonnie earlier and what we're seeing in foodservice that will determine the future growth of our portfolio again.

A - Hugh F. Johnston {BIO 15089105 <GO>}

Yeah, and Ramon just add to that, I think she was also asking about large package versus small package. Obviously, as mobility increases small package will tend to take on a more prominent role which obviously has positive margin implications for us.

A - Ramon L. Laguarta {BIO 18967774 <GO>}

Yeah, which is along the lines of what I was telling Bonnie about -- there is some structural trends on small format that will continue in our two categories going forward, yeah.

Operator

Your next question comes from the line of Lauren Lieberman of Barclays.

Q - Lauren Lieberman {BIO 4832525 <GO>}

Hi, thanks. Good morning. I wanted to talk a little bit maybe about PBNA margins. I know you've talked about objectives to get those margins up significantly through portfolio mix, channel mix, cost savings. They were up 100 basis points in this quarter, I'm guessing, the lower promotion helps a bit, but if you could just talk a little bit about some of the key inputs to drive that margin improvement and how we should think about cadence? Is this quarter the start of it or is this more of a one-off in that trajectory? Thanks.

A - Hugh F. Johnston {BIO 15089105 <GO>}

Yeah, hi. I think, we've been improving margins at PBNA now for a few quarters. What do you see in Q1 is a realization of the efforts the team are doing in the multiple vectors that

we referred to earlier. So there is better portfolio mix. There is, as you say, a better revenue management across our different channels. But there is also an important productivity journey that the team started -- started cost per unit across many -- many levers of the P&L are also improving.

So we're seeing both a better mix management, better price realization and a better cost management through the P&L. We're also seeing a better returns on our A&M. We're seeing ROI on our A&M getting better, which will give us probably an opportunity also to optimize our A&M as we go forward in the year. So multiple vectors and good output from a lot of these different elements that will drive the overall profit improvement at PBNA.

Operator

Your next question comes from the line of Bryan Spillane of Bank of America.

Q - Bryan Spillane {BIO 2147799 <GO>}

Hey, good morning. Maybe just wanted to follow-up on Ramon the comment you just made on A&M efficiencies [ph]. Looking in the 10-Q, it seems like advertising or marketing was down in a lot of segments, I'm not sure if it was up or down at all for the -- for the total company. But I guess, I was wondering given where we sit today in terms of the stage of reopening, do you still -- are you spending like -- marketing at normal levels currently or will that kind of unfold as things reopen? So really just trying to understand whether or not marketing was up or down, but more importantly, are you able to kind of spend at full levels yet or is the environment not really there to do that?

A - Ramon L. Laguarta {BIO 18967774 <GO>}

Hi, Bryan. Good morning. Yeah, listen, our position on marketing has been always a positive one in terms of continue to invest in our brands rationally, and we didn't get meaningful A&M last year, because I think that really gives us the right to compete and continue to develop the brand equity of our brands. That -- having said that, we continue to get much better at understanding and measuring the ROI of the different types of marketing we can do for the different brands and different channels, different types of content, and we're getting better at optimizing that, what is a very sizable and budget across the company.

So clearly, we -- our strategic position is to continue to invest in A&M as a big driver of long-term growth and brand development. Obviously, we're trying to -- as we do with every investment that we make across the company, we're trying to have the highest return on that A&M, both in terms of geographies, channels, brands and different opportunities. So that -- the end number in the P&L is a combination of those two -- those two inputs.

A - Hugh F. Johnston {BIO 15089105 <GO>}

Hey, Ramon, if I can just add to your answer as well. In particular, Bryan, on North America beverages, we've talked about in the past that there maybe an opportunity to spend at a

lower level while maintaining competitiveness. And to the degree that opportunity presents itself, we certainly expect to take advantage of it.

Operator

Your next question comes from the line of Laurent Grandet of Guggenheim.

Q - Laurent Grandet {BIO 19930531 <GO>}

Yes, good morning everyone. Hey, I'd like to focus a bit on the energy category. I mean, I'd like to understand the retailers reception to your new energy offers [ph] in the US, specifically in the revamp of Rockstar, the launch of Mountain Dew Rise, and the situation with Bang, which seems to be getting more smoothly, we can say so. So -- and that is important to understand, because the segment is becoming even more dynamic than before with many more players. Monster having some of these own salesforce. So really like to understand how the retailers are seeing your offers there? Thank you.

A - Ramon L. Laguarta {BIO 18967774 <GO>}

Good, Laurent, thank you. Listen, it's clearly a focus category for us with a lot of efforts not only in the US but also internationally. So let me go one by one on the different components of it.

The first thing, I would say, the Starbucks Energy segment, which is, as you know, we've been working on it for many years now. It continues to grow double-digit. So that is very unique and quite defensible for us. Our double shot, triple shot should continue to grow at a double-digit on our partnership with Starbucks is at a very, very good relationship.

Now when you go into the pure energy, a couple of things. As you said, the Bang business is stabilized and actually growing very nicely. So we're feeling good about that part. When it comes to our brands, very early but very positive reaction from the consumer early trial, I would say. From the customer, very strong reaction on our Mountain Dew Rise. Clearly that's a product where I think our marketing teams and our R&D teams have done a phenomenal job in finding a very particular insight on there is a need for a morning energy drink that is unique and differentiated. I think, the product delivers on that, and the early feedback we're getting from consumers and retailers is very good. The teams are full on in terms of distribution. And as you know, we signed with LeBron James, and that's going to create I think very, very good awareness for the brand and a very good early trials.

When it comes to Rockstar, also, I think the teams have done a great job with the repositioning of the brand, with the reformulation of the products, with the international launch and re-launch here in the US. The early -- again, it's only six weeks in the market really with the new -- with the new graphics and the new repositioning. We started with Super Bowl on the advertising front. Early reads are very positive compared to what was a flat to negative net sales growth. It is now in the positive territory and quite high.

But I would say, it's too early to call whether we're really bringing new consumers to the brand and whether those consumers stay with the brand. I think, we're going to need few more quarters to really understand what's happening in the consumer level. But from the selling and from the customer reaction, very positive across the four -- the four vectors and it makes us feel confident that we have -- we have a good foundation from which to build upon with future innovation and future brand event. So good starting to underline [ph].

Operator

Your next question comes from the line of Vivien Azer of Cowen.

Q - Vivien Azer {BIO 16513330 <GO>}

Hi, good morning. I was hoping to discuss your Beverage Innovation Strategy please, as we noticed that last week in Germany, you launched Rockstar plus hemp. So as it relates to that product, can you discuss your broader plans for that offering beyond Germany? And then related to that, can you also please discuss your appetite to introduce hemp or even a CBD beverage offering in the US, please? Thank you.

A - Ramon L. Laguarta {BIO 18967774 <GO>}

Yeah. Hi, Vivien. Yeah, we're testing innovation across the world, different -- different consumer spaces, and we'll see depending on the performance of the products and we will -- we decide to lift and shift. I would say, the test in Germany is very particular for that country. There is a sizable segment of hemp drinks in Germany. We will read that. I wouldn't take any broader conclusions for the broader company. Our focus now is on the pure energy category. We have identified the morning occasion is an open opportunity that is not well covered by existing propositions. And I think we have also the coffee bar. We have some other priorities in our portfolio where we would like the team to focus, and we will test and learn from some of the other opportunities that we have globally.

Operator

Your next question comes from the line of Lauren Lieberman of Barclays.

Q - Lauren Lieberman {BIO 4832525 <GO>}

Oh, thank you. I'm glad -- I'm glad I got in again. I was hoping to talk a little bit about China, because my sense is that, with China being about two-thirds of Asia from right at this point, the growth there has been very, very strong and the comparisons in terms of COVID with only two months wouldn't have been that severe just I guess the Chinese New Year portion. So I was wondering if you could talk a little bit about China? If there's anything you're doing differently there, share progression, yeah, I'd be curious on an update on China? Thank you.

A - Ramon L. Laguarta {BIO 18967774 <GO>}

Thank you. Yeah, China is a bit of a very special case now given that how COVID is clearly a different cycle than in other countries around the world. We're seeing -- obviously, there

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is a little bit of noise in our Q1 numbers because of the different timing of Chinese New Year. So clearly, there was a very good performance in China this year, part of that is the fact that we capture more of Chinese New Year this year versus last year. But I having said that, the trends in China are very positive. In terms of consumer mobility and consumer spending, we're obviously benefiting from that.

On top of it, in snacks, we continue to gain share. We're building new manufacturing, we're building new agro programs, we're building -- we're investing in rural areas for better distribution of our snacks business. And we are, as you know, we bought Be & Cheery, which is a Chinese company that has a portfolio of macro snacks which complements our strong potato chip business that we've been building for many years. On the snack side, I would say, very encouraged by the positive share by the mobility, by the return on the investments we've made on rural areas, and more capillary distribution.

With regards to beverages, it's been a -- it is really a very positive performance for the category, and we've been holding share, gaining a little bit of share in China in the categories where we perform. Clearly, the away-from-home business in China is improving and that is giving the category a very, very high growth numbers, in general. So I'm feeling good about China, and feeling good about the balance of the year in that country.

The growth expectations of the economy are positive as was recently laid out by the government and we're seeing that in the consumption. The -- obviously, China is a very dynamic market and what we're seeing is massive changes in channels of consumption. So there are a lot of new channels of consumption developing, social channels and new kinds of entertainment, the e-commerce type of channels that are driving changes in the consumer, and the way companies need to adapt in their supply chain and their marketing spend. But overall, as a country, continues to be a very important and very large business opportunity for us.

Operator

Your next question comes from the line of Kaumil Gajrawala of Credit Suisse.

Q - Kaumil Gajrawala {BIO 20703548 <GO>}

Hi. Can you talk a little bit about -- you mentioned being covered on commodities and the diversity of your commodity base. Can you talk a bit about labor and staffing? What you're seeing there in terms of any price pressure -- cost pressure, as well as what we should be expecting in terms of the -- of COVID cost and maybe the fading year-over-year of COVID costs that are in your P&L at the moment?

A - Ramon L. Laguarta {BIO 18967774 <GO>}

Hi, Kaumil. Yeah, two things. On COVID, we're obviously -- we will go with the largest society. So whenever there is a drop in cases, our costs go down, and we've seen that in the US. We've seen a drop early in the quarter, but then we see more cases now. In other parts of the world, we haven't seen a reduction really. So if you think about Latin America, if you think about Europe, Africa, we see actually pretty much the same number of cases

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that we're seeing late in the year. So our COVID costs will continue to be -- obviously to a lower level than last year, but it will continue to be a factor. And there is -- we go with how the government or probably society is able to manage the pandemic in the different geographies. So that is the situation.

Hugh, you want to take the other part?

A - Hugh F. Johnston {BIO 15089105 <GO>}

Yeah. In terms of labor pressures, right now in the US, Kaumil, it's actually okay. We haven't seen a lot of labor inflation and we're able to get employees reasonably well right now. So how that's going to play going forward remains to be seen as the economy picks up, but at least that's where right now we're doing fine on that front. And then, as you know and as Ramon alluded to as well, last year, we had around \$800 million of COVID costs. And as I've commented before, our exit rate on the quarter was about, I believe, it was somewhere in the neighborhood of \$20 million to \$30 million a period. We ought to see that number stay the same to sequentially decline over time as Ramon noted, given that, as COVID cases go away, obviously, our costs tend to go away as well.

Operator

Your next question comes from the line of Steve Powers of Deutsche Bank.

Q - Steve Powers {BIO 20734688 <GO>}

Yeah. Hey, good morning. Thanks. Maybe as a follow-up in part to where the -- and Bonnie started off the call. In the past, when we've seen inflation in core and other inputs that impact Frito-Lay, especially North America, my perception is that PepsiCo has often ended up cost advantage for a period of time versus competition just because I think your hedging programs tend to be more structural and long-dated versus peers. So, I guess, is that fair?

And if so, do you see that phenomenon taking shape in the current year as well? And I guess, if you do, do you see that more as an opportunity to improve profitability, maybe consolidate a bit more share while you are advantaged or perhaps a combination? Just how you're thinking about that and if my underlying premise is correct in the first place? Thanks.

A - Hugh F. Johnston {BIO 15089105 <GO>}

If you want, Ramon, I'll jump in on that one. Steve with the competition that we have right now, obviously, it's a pretty diverse group. My -- I -- my sense is, you're probably right. We're probably a little bit further out. In the Frito-Lay business, we're going to sort of run our play. We have our pricing strategies in place right now. And my expectation is, we'll execute against those, and frankly, we'll see how competition response to them. So it's a little hard -- bit hard for me to project how it is they're going to operate. But I think we, by and large, have our pricing plans in place.

Again, will we use some surgical net revenue management techniques during the course of the next few quarters? Yeah, we will. But, by and large, I think we're relatively locked into what we're looking to do for the year.

I do want to clarify one thing in regards to Kaumil's question. I mentioned \$20 million to \$30 million a period. Period is an internal term that we use. So I should qualify that as \$60 million to \$80 million a quarter is probably the exit rate that we had on COVID costs, and then we'll see where we land as the year progresses.

Operator

Your next question comes from the line of Rob Ottenstein of Evercore.

Q - Robert Ottenstein {BIO 1498660 <GO>}

Great. Thank you very much. I want to just turn to the question on promos in the percentage of CSDs and beverages sold on promo in the US. And I was wondering if, you know kind of -- if you'd kind of help us sort of level set maybe where it was in 2019, where it fell down to in 2020, what it looks like for the quarter and your expectations for the rest of the year? Thank you.

A - Ramon L. Laguarta {BIO 18967774 <GO>}

Yeah, Robert, so listen, we're seeing a very rational environment for pricing and promotions in the US at this point in time. In the category, I think, the level of promotions that we're seeing in Q1 -- that we had in Q1 was lower than what we had in Q1 last year. And we -- our expectations is that, we should be seeing a rational market for the balance of the year. At this point, there is still shortages in -- I think, in supply from many of the players in the category, and we're all becoming better at understanding the -- improving our net revenue management capabilities and understand the return on promotions and we're becoming more sophisticated working with our partners on getting the best return on their promotion.

So I think there is a -- there's probably a high likelihood that the market will remain a rationale for the next quarters, and that's what we're -- what we're trying to do ourselves, and I expect the rest of the industry would follow a similar position.

Operator

Your next question comes from the line of Kevin Grundy of Jefferies.

Q - Kevin Grundy {BIO 16423871 <GO>}

Great, thanks. Good morning everyone. Thanks for taking the question. Ramon, I wanted to return to North America beverages, just sort of overall state of the union, because this of course was a big focus for you when you took over as CEO. The question relates to market share progress for key brands, Pepsi, Mountain Dew, Gatorade. Looking at the Nielsen data, performance has been a bit mix, particularly in sports drinks, where Gatorade continues to lose quite a bit of share. So if you could comment on your overall --

level of satisfaction with trends adequacy of investment, particularly as you look to restore margins in the segment here in the -- not just this year, but in the coming years as well? That would be helpful. Thank you.

A - Ramon L. Laguarta {BIO 18967774 <GO>}

Thank you. Listen, we feel very good about our competitiveness in beverages in North America. And as we laid out a couple of years ago, we wanted to go one brand at a time and make sure that each one of our big brands became really competitive, and we've done it very -- I would say, very surgically and very consistently. So we started with Pepsi. Pepsi now is growing -- it's been growing for the last year and a half at a good levels, and starting to gain share in CSDs, outgrowing some of our competitors.

We went then with Gatorade, our second largest brand. And again, yes, Gatorade is not growing share in the sports drink category, but it's being one of the top three brands contributing to overall growth of LRB in 2020 and continues in 2021, I mean, the growth of Gatorade has been very strong, not only because of what is it -- been an amazing platform for the brand in Gatorade Zero, but also by growing the rest of the portfolio.

And then third, Mountain Dew, which was our pending third brand. We -- it took us a little bit longer, but if you see the growth of Mountain Dew in the last two quarter, especially the last quarter, it's been very high, right. And it's not only the fact that we've added innovation, but our base Mountain Dew is growing again at a very good level. So we see our three core brands continue to -- or starting to be very consistently growing at the category phase or above. That complemented with the fact that we always said we want to continue to be leaders in some of the sub-segments that are growing faster, right.

So if you take coffee, a large segment in the beverage category in the US where we're clearly outgrowing everybody else. If you see teas, we're also gaining share in teas, with our Pure Leaf and our Lipton brands. If you think about sparkling water, bubly has been a big success. So we continue to play on the periphery, but we were making, what I would say, very good and consistent progress in what are the core brands of our business and obviously very meaningful core for the overall category. So we're very happy. We will continue to improve.

As I said earlier, energy is our next big space where we have multiple tools that we will use very incrementally to each other to drive -- hopefully share gains as well in that -- in what is a very dynamic category, as Laurent mentioned earlier. So we feel very good. I think the business is becoming much more competitive, the business is becoming much more agile, the business is becoming much more thoughtful about performing today and investing for the future. So a lot of positives that we see in the North America beverages in the last, whatever, two years. And we're very hopeful that this will be a pretty good year for that business given the trends that we see in the market performance and activities that we have planned for our brands. So we're feeling good. We're feeling very good about PBNA.

Operator

Your next question comes from the line of Sean King of UBS.

Q - Sean King {BIO 20892205 <GO>}

Hi. Good morning. And just maybe more international focus, but does your outlook take into account any negative margin mix effects of a beverage rebound versus the tougher comparison in the snacking side or am I thinking about the dynamics, sort of, incorrectly with respect to international margins for snacking versus beverage?

A - Ramon L. Laguarta {BIO 18967774 <GO>}

Hugh, do you want [ph] take that?

A - Hugh F. Johnston {BIO 15089105 <GO>}

Yeah. I'd like to, Ramon. I'll jump in on that one. Yeah, Sean, in short, yes, our outlook does account for what you just described. So in terms of margins outside the US, the snack margins tend to be lower relative to beverages where we're a franchise company. Obviously, franchise is a higher margin business, but where we operate a company-owned bottling operation, a little (Technical Difficulty). Overall, our outlook sort of captures all of those mixed impacts. I don't expect anything to be disruptive over the course of 2021.

Operator

Our final question will come from the line of Chris Carey of Wells Fargo Securities.

Q - Chris Carey {BIO 21810941 <GO>}

Hi, good morning. Just to clarify a prior answer. You mentioned that promo, you expect it to remain rationale. Is that to imply that you think it can remain structurally lower for the long term or you expect a normalization back to pre-COVID levels? I didn't quite get directionally which way you were talking about.

And then, the question just related to pricing. It was a historically high price in PBNA, hence the trend we've been seeing. Ramon, can you just talk about how you view pricing power in that division? Whether that is split between certain brands or categories, and just overall -- your overall comfort with price over volume driven approach going forward? Thanks.

A - Ramon L. Laguarta {BIO 18967774 <GO>}

Hugh, you want to start on that and then I'll complement.

A - Hugh F. Johnston {BIO 15089105 <GO>}

Yeah, happy to, Ramon. To be clear on that one, yeah, we do think that there is an opportunity for longer term where you term price rationality in the North American beverage marketplace, both from the standpoint of competitive structure, as well as what we think is the right way to compete, which is primarily around innovation and brand

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building and execution. So we think the environment is well set up for pricing to be positive going forward. That's not a temporary thing based on what's happening in the environment right now.

A - Ramon L. Laguarta {BIO 18967774 <GO>}

Yeah. Chris, I think, what Hugh said, we're seeing everybody becoming more kind of capable and knowledgeable on consumer insights and apply to promotions and pricing (inaudible). And so, we're going to see more application of those multiple levers to provide good value to the consumer, rather than just driving prices down, which I don't think is a big idea for anybody in the industry. And obviously, with the set of inflation trends that we see in some of the commodities and so on, there's probably going to be very little incentive for anybody to break what is a very rational environment as we see today. So that's how we're thinking about it and how we're talking to some of our partners in the retail industry.

Okay. I think that was the last question. So thank you very much for your time this morning. Really appreciate it. I hope you guys stay safe and healthy, and especially, thank you very much for the confidence that you've all placed in us with your investments. Thank you very much, and look forward to future meetings. Thank you.

Operator

Thank you. That does conclude PepsiCo's 2021 first quarter earnings question-and-answer session. You may now disconnect.

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