Q4 2019 Earnings Call

Company Participants

- Hugh Johnston, Vice Chairman, Executive VP & CFO
- Ramon Laguarta, Chairman & CEO
- Ravi Pamnani, Investor Relations

Other Participants

- Ali Dibadj, Analyst
- Andrea Teixeira, Analyst
- Bill Chappell, Analyst
- Bryan Spillane, Analyst
- Dara Mohsenian, Analyst
- Kevin Grundy, Analyst
- Lauren Lieberman, Analyst
- Laurent Grandet, Analyst
- Robert Ottenstein, Analyst
- Stephen Powers, Analyst

Presentation

Operator

Good morning and welcome to PepsiCo's Fourth Quarter 2019 Earnings Conference Call. All lines have been placed on listen-only until the question and answer session. (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 and good morning everyone. I'm joined this morning by PepsiCo's Chairman and CEO, Ramon Laguarta and PepsiCo's Vice Chairman, and CFO, Hugh Johnston, we'll begin with some brief prepared comments from Ramon and Hugh, and then open up the call to your questions.

Before we begin, please take note of our cautionary statement. We will make forward-looking statements on today's call including about our business plans and 2020 guidance. Forward-looking statements inherently involve risks and uncertainties and reflect our view as of today 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 today's earnings release and 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.

And finally, as disclosed in our earnings release this morning, we are now reporting four international divisions versus three previously. This reflects changes made to our management reporting structure. Therefore, certain international division results have been restated for the full years 2017, 2018 and 2019 specifically. Our former Europe Sub-Saharan Africa division has been reclassified as Europe and will no longer include Sub-Saharan Africa and our former Asia, Middle East, North Africa division has been reclassified into two divisions, Africa, Middle East, South Asia or AMESA and Asia Pacific, Australia, New Zealand, China or APAC. There are no changes to the remaining divisions or our consolidated results.

And now it's my pleasure to introduce our Chairman and CEO, Ramon Laguarta.

Ramon Laguarta {BIO 18967774 <GO>}

Thank you Ravi, and good morning everybody. Approximately about a year ago, we embarked on a plan to make PepsiCo faster stronger and better. We've made very good progress against these initiatives, and I'm pleased to report that we met or exceeded each of the full-year financial targets that we communicated to you about a year ago. Most notably, organic revenue growth accelerated to 4.5% in 2019. Our fastest rate of growth since 2015.

Our organic revenue growth was very broad base across all divisions, with Frito-Lay delivering it's fastest rate of growth since 2013 and PBNA delivering it's fastest rate of growth since 2015.

Our developing and emerging markets also delivered high single-digit growth, despite ongoing volatility and uncertainty in certain parts of the world. We invested in becoming faster, by increasing our global advertising and marketing spending by more than 12% for the full year, reflecting investment across snacks and beverages, and in both our large and established brands and our emerging brands, expanding our market presence by increasing route capacity, having merchandising racks and coolers and advancing the technologies that we deploy to drive greater and more precise execution, and investing in additional manufacturing capacity to remove bottlenecks and increase growth capacity for our products. This includes investments in new plants new lines and added distribution infrastructure. While we intend to continue to invest back into our business, we know that sustaining higher growth will require building stronger capabilities, ones which will be difficult to match by our competitors. During 2019, we enhanced our consumer and customer-facing capabilities, strengthened our organizational culture and transformed our cost management. Specifically, we invested in data analytics and other information technology, to build consumer intimacy and achieve precision at scale. By capturing and analyzing more granular consumer level data, we can understand the consumer in a more individualized way, to both customized communication and execute in every store with precisely the right products, placed in the right location and at the right price. We strengthen our omnichannel capabilities, particularly in e-commerce, but our retail sales were nearly $2 billion in 2019. To meet the growing need across channels for greater customization and faster innovation, we're investing in an end to end agile value chain, that can deliver more precision and variety to enable us to win in the marketplace. We migrated our organizational structure closer to the market in order to improve speed, increase accountability and become more locally focused. And we evolved our ways -- our values and ways of working, to foster a culture where employees act like owners with a greater sense of empowerment and accountability. We call this the PepsiCo Way, which includes a set of several leadership behaviors that have been rapidly embraced by our organization and we took a completely holistic approach to cost management. One in which we manage all costs as an investment. In doing so, we challenge the entire cost structure to evaluate cost and benefit of our spending. In 2019, we delivered in excess of $1 billion in productivity savings and plan to deliver this amount annually through 2023. Finally, becoming better reflects our aspiration to continually integrate purpose into our business strategy and brands as more is expected of corporations by society. We prioritized and embraced a set of focused initiatives to help build a more sustainable food system, these include advancing benefits to farmers and communities through a more sustainable agriculture. We intend to achieve 100% sustainably farmer source and re-culture of raw materials by the end of 2020 which include potatoes, whole corn, oats and oranges. Improving water stewardship, We're striving to improve water-use efficiency and aiming to replenish 100% of the water we consume for manufacturing in high water risk areas by 2025. Circular packaging, by 2005 we intend to increase recycled content in our plastics packaging to 25% and reduce 35% of virgin plastic content across all our beverage portfolio. Improving choices across our portfolio by reducing added sugars, sodium and saturated fats. Mitigating the impact of climate change by reducing absolute greenhouse gas emissions are gross PepsiCo's value chain by 20% by 2030. And finally, advancing respect for human rights promoting a diverse and inclusive workplace and increase the earnings potential of women to drive economic growth and increased food security. Our commitment to becoming better was most notably demonstrated by appointing our first ever Chief Sustainability Officer. And by a green bond offering that generated almost $1 billion in net proceeds to advance our sustainability agenda. To complement our faster, stronger and better initiatives, we also made investments to fortify our portfolio for future growth. Specifically, we invested in our SodaStream business, which grew net revenue of more than 20% last year in order to capture an incremental growth opportunity. We announced our intent to acquire BFY Brands, the makers of the fast-growing Popcorners brands, which will enhance our premiums snack portfolio. We're in the process of acquiring Pioneer Foods, which will build the foundation for future growth on scale in Africa, a key emerging market where our growth opportunities remain fast. And we acquired CytoSport, the makers of muscle milk, which expands our presence in the sports nutrition, provided opportunities for additional growth and category expansion. As we aspire to be the global leader in convenient foods and beverages by winning with purpose, we believe these investments position as well to win the marketplace. Now, let me discuss our operating results. As I noted earlier, organic revenue growth accelerated to 4.5% for the full year 2019 versus 3.7% in 2018, exceeding the initial target, we set a year ago. All our divisions contributed to this growth, including a 3% increase in developed markets and an 8% increase in developing and emerging markets. Frito-Lay North America had a very strong year with a 4.5% increase in organic revenue, along with an acceleration of volume growth in the second half of the year. The business gain value share in both salty and savory snacks in '19 and improved its customer service levels. Frito-Lay results were driven by the investments we made in innovation, marketing, and consumer insights, supply chain and manufacturing and go-to-market capacity. This included a double-digit increase in advertising and marketing spend, additional planned warehouse and distribution center capacity and additional routes, racks and selling resources. Frito-Lay delivered net revenue growth in all of its large mainstream brands like Lays, Doritos, Tostitos, Cheetos, Ruffles and Fritos, and double-digit growth in emerging premium brands such as Bare and Off the Eaten Path. Our multi-type offerings also delivered very good growth as we have continuously expanded the variety of brands and flavor combinations. The breadth of our growth was also evidence across every key retail channel. We increased net revenue growth in grocery, mass, club, convenience, food service and e-commerce. And Frito-Lay was once again the number one contributor to US Food and Beverage retail sales growth in 2019. With respect to the fourth quarter, Frito delivered 3% organic revenue growth driven by 2% volume growth and 1% net price realization. The deceleration in net price realization was largely a function of the timing of pricing actions taken in 2018. We expect our net price realization trends to improve over the coming months and have a strong innovation and merchandising plans in place with the business to deliver very good growth in 2020. PepsiCo Beverages North America delivered 3% organic revenue growth in 2019, with a sequential acceleration in the fourth quarter, which represented it's fastest rate of organic revenue growth in four years. The business benefited from improved local market focus and execution, driven by our new field structure, increased go-to-market capacity, significantly stepped up advertising support, innovation and additional selling resources. We also invested in improving our presence in the Away from Home channel, by becoming the preferred beverage partner for JetBlue, Carnival Cruise Lines and Regal Cinemas over the past year. Investing in our brands there has been a big focus area for PBNA's advertising and marketing spend, increase in a double-digit range for both the fourth quarter and full-year, with increases in our large brands such as Pepsi, Gatorade and Mountain Dew. Trademark Pepsi posted its sixth consecutive quarter of net revenue growth, with strong double-digit growth in our Pepsi Zero Sugar product. Gatorade accelerated as the year progressed and ended the year on a very strong note with high single-digit growth in the fourth quarter, led by Gatorade Zero, which delivered more than $600 million in measure retail sales in 2019. Innovation played a very important role at PBNA this year with Gatorade Zero, bubly and Mountain Dew Game Fuel having cumulatively deliver more than $1 billion in measured retail sales. Other brands including Propel and Lifewater delivered strong double-digit net revenue growth, while Pure Leaf on Starbucks deliver high single-digit growth in 2019. Finally, we have plans in place to be on our recent innovation successes. We will invest in Ball24, a functional beverage we launched last year that supports athletes around the clock, by providing advanced all day hydration. We recently introduced Zero Sugar variance of Mountain Dew and Mountain Dew Game Fuel, which offer the same bold taste as the originals without the sugar and we will roll out Pepsi Cafe, a coffee infused cola beverage that will be available for a limited time offering in US stores as of April. Rounding out our North America performance, Quaker Foods delivered 1% organic revenue growth for the full year with double-digit net revenue growth in our light snacks business and Gamesa Cookies, a mid-single digit growth Aunt Jemima and Roni. I want to conclude our discussion on North America by acknowledging the terrific work of our customer and supply chain teams have done. Specifically, PepsiCo was awarded the number one ranking in the 2019 Cantor Power Ranking Survey, the fourth consecutive year we've claimed the top spot. And the top two rankings in 2019 US Advantage Survey Core Food Multichannel Report. These service reflect reflect our customers' view of PepsiCo as a valued partner and demonstrate the benefits of investing with our customers to help drive growth. Now moving on to international markets. Each of our international divisions delivered strong organic revenue growth in '19. These results includes some performance across our developing and emerging markets, with high single-digit organic revenue growth for both the fourth quarter and for the full year. We continue to have a long runway for growth in many international markets and our results reflect the benefits of our increased investments as we continue to leverage our global capabilities to drive higher per capita consumption and improve market share while executing in locally relevant ways. In Latin America, we grew organic revenue growth -- organic revenue 7% for the full year with growth in both snacks and beverages, despite ongoing macroeconomic volatility and political uncertainty in certain markets. Mexico, our largest market delivered high single-digit growth for both the quarter and the full year. Our next larger market Brazil deliver mid single-digit growth for the full year with an acceleration in the fourth quarter-to-high single-digit growth. In Europe, we grew organic revenue 5.5% for the full year with very good growth both in snacks and beverages. Our largest market Russia deliver a mid single-digit growth for the fourth quarter and the full year. The United Kingdom delivered low single-digit growth for the full year, but very encouragingly exited the year with mid single-digit growth in the fourth quarter. Other highlights include double-digit growth in Turkey and high single-digit growth in Poland for the full year. Moving to our Asia, Middle East and Africa regions, during the fourth quarter, we took the opportunity to seeing more strategically about this part of the world. We decided to split the organizational structure of our prior AMENA division into AMESA, which includes Africa, Middle East and Southeast South Asia and APAC, which includes Asia Pacific, Australia, New Zealand and China. By creating one operating sector centered on the Asian consumer and another center on the Middle Eastern, South Asia and African consumers, we believe we can enhance our focus on accelerating top line growth. AMESA deliver 6% organic revenue growth for the full year. This includes double-digit growth in Pakistan and Egypt and mid single-digit growth in India and Saudi Arabia. APAC delivered 9% organic revenue growth for the full year, led by strong double-digit growth in China and Vietnam and had high-single digit growth in Thailand and Philippines. To conclude, our priorities for 2020 remain consistent with our discussions today. We expect to deliver 4% organic revenue growth and 7% core constant currency earnings per share growth in 2020. And we will continue to invest back into the business. To evolve our portfolio and thus from our value chain, we've next-generation capabilities particularly leveraging technology, to enhance our insights, speed and position, grow our talent and simplify our organization to be more consumer and customer centric, invest in our brands, both large and emerging and reduce our cost structure to free up resources to fund our investments. These priorities will always be executed with an eye towards enhancing our marketplace competitiveness and delivering of course long-term value creation. With that, let me now turn the call over to Hugh.

Hugh Johnston {BIO 15089105 <GO>}

Great, thank you, Ramon, and good morning everyone. As Ramon noted for 2020, we expect to deliver 4% organic revenue growth and 7% core constant currency earnings per share growth. We expect foreign exchange to have an approximately negative 1 percentage point impact on net revenue and core EPS growth and therefore expect our core US dollars EPS to be $5.88 in 2020.

For 2020, we also expect our core, annual core, effective tax rate to be approximately 21%. Free cash flow of approximately $6 billion, reflecting CapEx of approximately $5 billion. The higher rate of capital spending is associated with accelerating progress on our strategic growth priorities as Ramon laid out earlier.

We expect our capital spending to remain at or around these levels for the next few years and now expect it to moderate to 5% of sales by 2023. We expect total cash returns to shareholders of approximately $7.5 billion in 2020 comprised of dividends of $5.5 billion and share repurchases of $2 billion. The expected cash returns reflect a 7% increase in the annualized dividend per share, effective with the dividend expected to be paid in June 2020.

This will represent the company's 48th consecutive annual dividend per share increase. With respect to your models, please keep in mind the following, in the first quarter of 2020 we faced a difficult comparison for both organic revenue and core constant currency operating profit growth at Frito-Lay North America and our international divisions.

With that, now we'll open up for your questions. Operator, we'll take the first question.

Questions And Answers

Operator

Thank you (Operator Instructions) Your first question comes from the line of Bryan Spillane of Bank of America.

Q - Bryan Spillane {BIO 2147799 <GO>}

Hey, good morning everyone. So I guess I just got a few questions this morning about Frito and you know the kind of the deceleration there in this quarter and I guess what's implied in the first quarter commentary now. So maybe Ramon can you talk a little bit about the dynamics there. I guess lapping some price increases and then kind of what gives you confidence that that can accelerate as we move through 2020?

A - Ramon Laguarta {BIO 18967774 <GO>}

Yeah, good morning, Brian. Yeah, listen we feel very good about Frito performance in '19, we accelerated the highest level, I think in the last seven years. Overall a very good year. Volume went up and volume across all our brands, the big brands and also the new brands that we're trying to build for the future. So a very positive performance. And also, as I said, across all channels so a very, very holistic, very good performance I would say.

The deceleration in Q4, as I've said on the statement is based on the pricing decision in 2018 which pricing in Q4 this year, we didn't take any pricing Q4 will be more of a pricing decisions now in Q1, second half of the Q1. So that's the main difference. We feel good about especially the added volume acceleration, the fact that our pounds went up almost 1% this year versus last year. It's a pretty positive to us testament that our investments are working and driving per capita consumption which at the end, is the long-term driver of the business.

Operator

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

Q - Stephen Powers {BIO 20734688 <GO>}

Yes. Hey, thanks, a question actually on PBNA as you think about the fourth quarter performance across the division and the acceleration you saw, I guess, which brands are businesses, perform best versus your expectations in the quarter? And as you look forward to 2020, how do you think about the trajectory there just balancing the current momentum against what will be difficult laps in Gatorade and bubly especially, amidst lots of competition and the expansion on the shelf and in the cooler of an energy category and which are still under-represented? Thank you.

A - Ramon Laguarta {BIO 18967774 <GO>}

That's great, good question. Listen, we feel -- I mean, if there is any division that we feel very strong about the turnaround this year is PBNA, right. We feel good about the way we're exiting the market and in the year and also how we've driven that performance. You think about our innovation has been very, very strong across the year. And as you mentioned some of the successes, so Gatorade clearly driving sustainable growth by innovating in a new space like Zero, Zero has driven a lot of new consumers into the sports category.

And so it's not like a summer related growth of Gatorade. It is -- I would say a structural more penetration of the brand into consumers that were not consuming a Gatorade, so we see that as sustainable actually it accelerated during Q4. We see Pepsi, as I said with sustainable growth. So that makes us feel good. That's also driven by new variants like Zero, smaller packages that are driving consumption. So we see Pepsi as well driving sustainable growth.

We continue to see very strong performance in our coffee business and our partnership with Starbucks, is more robust than ever. I think the kind of innovation we're bringing to the market and how we're moving in that category. Also, into new premium spaces with innovation is very powerful, very strong performance across the year including Q4, the same with our key categories Pure Leaf continues to drive a lot of growth and develop the category. You mentioned bubly, I think bubly is just scratching the surface, as a brand is still very under penetrated, is a brand that I think space wise also has a lot of opportunities.

So I think a lot of people don't even know about the brand, haven't tried the brand. So, I think it's already pretty meaningful size brand. So we feel -- we feel very strong about the way we're driving growth for PBNA, is not short-term i.e. is really developing the different segments of the category where we participate expanding in those categories bringing more consumers into the space.

There is another lever, I think of sustainable growth for PBNA which is driven by better execution. And this better execution obviously, comes from more focus on execution, but I think the organizational change we've made to the business where we have decision-making, closer to the consumer and to the market is making us a better execution company in PBNA.

I think that is again, is not a one-year event, is a multi-year opportunity that we're going to get better, with better tools and better focus. So we feel strong about where we finished. We feel strong about the drivers of that growth, not been one-off but being very sustainable drivers of growth.

Operator

Your next question comes from the line of Ali Dibadj of Bernstein.

Q - Ali Dibadj {BIO 15328592 <GO>}

Hey guys, just want to go back to FLNA for a second. I get the price increases in 2018. But even on a stacked basis, it looks like there has been some challenges. I think as you can imagine are you probably seen almost all of us read about FLNA and concerns about it. And I guess, Ramon that you said that, you're going to see some price realization improving through 2020, but I wonder with all the consumer work that you guys do if you see anything at all that gives you pause from a structural perspective.

So are you seeing any changes driven by the consumers in particular in health and wellness that are accelerating or are you see anything from a competitive perspective as well and we're all going to be at CAGNY next week and every food company is going to say they're a snack company and it like you're marketed and they like your growth.

So how does -- are you seeing anything there at all? And how does that play into if at all, which seems to be a little bit more I guess subdued guidance as a company at the lower end of your long-term plan, especially after a heavy up you likely just had?

A - Ramon Laguarta {BIO 18967774 <GO>}

Yeah, hi. Ali, and good morning. Listen, good question, and I think, obviously, we're looking at long-term trends of the consumer and trying to adjust the portfolio to those trends. If you look at the way we're driving the growth in '19 and where we think will drive the growth in the next year, it's been across all brands.

So we've seen the consumer continue to go back to our Classics Lay's and Doritos and Cheetos and Tostitos and the truth is that we're trying to improve the way we market those brands at a -- the way we are personalizing the messages, the way we are creating a unique content for different consumers and that we innovate against those large brands.

At the same time our kind of more permissible portfolio, premium portfolio, that segment of our range is growing about 2 times the average of the company. So if you think about Off the Eaten Path, Bare, Simply, Smart Foods, I mean all those brands that you would say they are probably preferred by some type of consumers, they're preferred more permissible snacks. They are, growing two times. But the beauty of our Frito-Lay portfolio and the same would apply to our PBNA portfolio is that we're trying to grow both our classic brands, large brands that are well established, trying to modernize them keep them very attractive to the consumers.

And then innovate into future spaces where the consumer might move at a different speed, in different parts of the country, as they decide to change the consumer habits. So we're evolving the portfolio. Some of the acquisitions we've made also would help us in that respect. And we're also, we're innovating in those spaces ourselves Off the Eaten Path is a great example, the Simply portfolio is a great example of that is giving us very high penetration in those consumers that you referred to.

What we're seeing and I think we talked about it last time is there is a trend toward smaller packages and there might be a way the consumer is also approaching snacking categories with portion control being a key driver of the occasions.

So we see small packs and the fact that we're moving a lot of capacity into a smaller packs, I think will continue to give us good growth in that space of more permissible snack and either by portion control or by new brands and products that are preferred by those consumers. We don't see a deceleration of the category and that's -- that's why you mentioned there is a lot of new players that want to participate in these snack interim, which I think is true and is going to be here for a long time and that was -- make us feel very positive about Frito because there are a lot of tailwinds to the snacking category.

Operator

Your next question comes from the line of Dara Mohsenian of Morgan Stanley.

Q - Dara Mohsenian {BIO 3017577 <GO>}

Hey, guys. So, just following up on some of the questions I was hoping you could review a bit your visibility around the 4% corporate organic sales growth, top line target for 2020 you're obviously coming off a solid year, so we'll have a tough comparison there is some global volatility. So just wanted to get your perspective on the level of visibility at a corporate level. And obviously we just covered Frito-Lay North America and PBNA but perhaps you could also review what drove the strong momentum in D&E markets in 2019 and sustainability as we look out to 2020? Thanks.

A - Hugh Johnston {BIO 15089105 <GO>}

Hey good morning Dara, it's Hugh. I would say we have a good level level of visibility into the revenue guidance. Historically, we've been pretty accurate on that and I would expect that to continue to be the case. That said, as you sort of slightly noted, the world is certainly a volatile place, lots of events going on in a lot of areas of the world, even as noted a bit with some of the news this morning.

That said, we take the facts that we have and we always try to plan for at least some level of volatility as a part of developing our expectations for the year because history tells us most years, we'll have some volatility.

So, I think generally speaking, we have good visibility. Regarding developing and emerging markets at 8%, that's really continuation I think of what we've seen over a number of years. The per capita consumption, the opportunities in those markets are quite large and I think we're doing a very good job, but we are also barely scratching the surface relative to what the ultimate opportunity could be. It's one of the reasons we're investing in growth because we think by virtue of realizing those per cap opportunities in driving growth. We'll be able to sustain this algorithm for a very, very long period of time.

Operator

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

Q - Andrea Teixeira {BIO 1941397 <GO>}

Hi, good morning. Thank you. So I was just hoping that if you can elaborate more on the top line guidance being as you just had before on the low end and then embed your comment about 12% growth in investment in A&P in 2019. How do you think you reach the normalized level now and what is the growth in marketing investment that you assuming for 2020 embedded in your guidance? And if you can kind of compare that with the $1 billion cost saves that you normally have and if you can update us on that metric as well? Thank you.

A - Hugh Johnston {BIO 15089105 <GO>}

Yeah, good morning, Andrea. In terms of the guidance, actually the guidance that we're giving this year is exactly the same as we gave 12 months ago. So obviously, we saw a world where the investments that we were making paid off a little bit better than we expected and as a result we got results and growth that were higher than that.

Regarding whether we've leveled off? I don't think you'll see the same level of growth in advertising and marketing this year, it will still grow, it might even grow a little bit in excess of the rate of sales growth. To a great degree, it's going to depend on the opportunities that we see in front of us. We certainly funded our advertising line well going into the year. But frankly, if we see innovation taking off or if we see an opportunity in the marketplace, to accelerate investment in order to capture even more growth, we're not going to be shy about doing that and we've put room into the way that we guide, to give us the ability to take advantage of those opportunities.

As I mentioned, we think we're in great categories and we think right now there is lots of opportunities to grow faster. So we're going to continue to do that and at the same time, we're going to continue to invest in the stronger capabilities that allow us to sustain performance for a longer period of time.

A - Ramon Laguarta {BIO 18967774 <GO>}

Andrea if I may add, the way we're approaching in every market, the opportunity, I mean for 2020 we have been very strong plans, well funded both on customer and consumer ideas. We're investing in additional capacity across the world. So our purpose here is to gain market share in every market, where we compete. We've been doing that in 2019. We'll continue to do that in 2020. The compensation in the company is very near to top line and market share growth. So that's the way we're starting the year, our guidance as Hugh said, includes the possibility of events during the year that might surprises on the negative front. But I think the guidance reflects that positive attitude towards market share and then some uncertainty room in the overall number.

Operator

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

Q - Lauren Lieberman {BIO 4832525 <GO>}

Thanks, good morning. I wanted to get maybe a little bit of an update on progress in expanding some of your because you put them classic brands in snacking internationally as I understand it. Ramon, one of your key priorities are as you thought there are sort of really untapped opportunity was getting distribution of Doritos and Cheetos in these classic brands into international and emerging markets. So if you could speak directly to what's been done this year, how much it's still really more of a 2020 plan would be, it'd be really interesting? Thanks.

A - Ramon Laguarta {BIO 18967774 <GO>}

Yeah, Lauren, good morning. We have a good playbook on especially in the snack business, on how do we develop the category and what are the levers that we each play in every market to deliver the per caps growth that we normally deliver in the markets. And there is obviously innovation, there is brand building, there is visibility, there is value, there is many levers that we play in that playbook.

So to your point on brands, brands are part of that playbook. We have Doritos, I would say 75% of our international markets, maybe that's the number. We have Cheetos probably in 90% of our markets, Lays is obviously the brand that we normally tend to lead on Ruffles, the potato business, because that's where I think we have more differentiation possibility with our agro programs and flavor programs.

So, but don't take it as a brand exclusive per capita development opportunity, but it's a very holistic development opportunity that includes brands, innovation, and we're getting better at least and achieved and leased and adapt as we call it, taking successful products from one market and rolling them out globally. But there is a lot of work in our playbook, in how we develop the point of sale and we become available everywhere and also how we understand consumers in their pocket money, and their affordability and then how do we adopt in every market, the price levels to the pocket money of the consumer. And it's working very well. I mean, the truth is that the snacks category, it's growing consistently at a very high level internationally. And we don't see any reason why we would not do that in 2020.

Operator

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

Q - Laurent Grandet {BIO 19930531 <GO>}

Hey, good morning, Ramon, and good morning Hugh, and congrats Ramon on the very strong first full year as a CEO. I'd like to focus on the Lipton opportunity, and two weeks ago you and even our CEO said the company was beginning a strategic review of its tea business. As we have been saying for quite some time now we believe the acquisition of the balance of your JV with Unilever will be a net positive for PepsiCo, it is one of the fastest growing segment globally, where you have a market share leadership.

So the acquisition would make a strategic sense, but also a financial one, because you will be capturing 100% of the product rather than just half. So, could you comment on this opportunity and the role of the tea segment for PepsiCo in general, especially as you are now facing renewed competition we see in mostly in Europe but also in the international markets? Thank you.

A - Hugh Johnston {BIO 15089105 <GO>}

Hey good morning Laurent, thanks for the question. A couple of comments on that. Number one, we launched the Tea-venture with Unilever, a couple of decades ago and they've been a great partner over the course of the last couple of decades. We've built a nice ready-to-drink tea business both in the US and internationally. So we certainly feel good about that.

As regards to the JV. We really like where we sit very much right now. We think the JV has got good balance and I think we find the ready-to-drink aspect of tea to be attractive. So we like where we sit, obviously the announcement may have some ramifications for Unilever but we think it shouldn't have substantive ramifications for us going forward.

Operator

Our next question.

A - Ramon Laguarta {BIO 18967774 <GO>}

Laurent, We continue to do very well in the tea business and it's a category that we see growing international is growing very fast in developed markets and also developing to your point on Europe, we continue to be leaders, we could be innovating there. The Pure Leaf brand is doing very well. The Lipton brand is continuing to expand. We like these category, we like what we're seeing as Hugh said we'll wait for events from Unilever.

Operator

Your next question comes from Rob Ottenstein of Evercore.

Q - Robert Ottenstein {BIO 1498660 <GO>}

Great, thank you very much, you announced some interesting changes, I guess in the way you are managing the international business to capture more of the opportunities in Asia and Africa. I was wondering if you could give us a little bit more granularity in terms of how the strategy may change, any changes in tactics, investments that you see putting behind those changes going forward? Thank you.

A - Hugh Johnston {BIO 15089105 <GO>}

Yeah that's good. Yeah, so there were a couple of reasons why we made this change in the organization. One is to manage a huge geography like from Africa, all the way to Australia, from one location as we were doing from Dubai, it was a big burden on our people and our executives, that was not the idea. But fundamentally, more than that, which is also important is that there are clearly different consumption patterns, different trends, different food cultures between I would say the group of countries center around China and the group of countries center around the Middle East and Africa.

And so we think that by making this

A - Ramon Laguarta {BIO 18967774 <GO>}

we're going to be innovating with more local relevance, we're going to be activating our brands with more local relevance, we want to be able to have resources closer to the marketplace, in the critical differentiators like R&D, like sales execution that will help us to perform better in the markets.

One of the critical opportunities for PepsiCo is to develop the international business and I think Asia remains by far our number one opportunity and China, of course, is a huge market, where we have a good business, is growing very well, as I said in my remarks, but the opportunity is much, much higher.

So that's how we're thinking about this new organization enabling a more sustainable and focused growth in those two parts of the world, Africa is another big opportunity for us. We're hopefully we're almost very close to concluding the Pioneer acquisition that will give us a lot of scale in Africa, which serves also more focus than what we had in the past, and we're also allocating additional resources to Africa, which will help us expand in that continent and which obviously has a huge opportunity for our product.

Operator

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

Q - Kevin Grundy {BIO 16423871 <GO>}

Great. Good morning, everyone. Ramon, can we come back to the energy drink category and kind of get more of an update on the company's strategy, it's not an area that PepsiCo is participated in a meaningful way. Company has had a partnership with Rockstar which is a brand, which has lost here over time. Mountain Dew Kickstart hasn't really gained any traction in the category. And your key competitor, of course, has been more aggressive, historically both with this investment in Monster and now the extension the Coke brand.

So the question is this an area of emphasis for PepsiCo either organically or through M&A or are you reasonably fine playing on the periphery? Thanks.

A - Ramon Laguarta {BIO 18967774 <GO>}

Thank you. Good question. Listen, obviously we -- the consumers are looking for more caffeine right, I mean, it's clear that this is a kind of opportunity that they're looking for as a day is becoming longer and the company is getting longer, I mean there is a lot of tailwinds to the use of caffeine. The way we've been approaching this opportunity is as we said in the past from multiple as I mentioned, so we're playing in energy with Rockstar. It's a brand that we think we have the opportunity to working together with the Rockstar owners, to develop and to reinvest, and I think we can do a better job there.

And we're also especially working in those spaces from the coffee category and I think our partnership with Starbucks has been great, triple shot Starbucks this year, has been a massive innovation and it's nothing but a very good way to consume caffeine as well.

We're looking at participating in lower caffeine levels from and we just announced some innovation in our bubly brand, some innovation in our Ball24 brand. So we plan to participate in the caffeine space from multiple dimensions including doing a better job with Rockstar and our partnership there. Brands like Mountain Dew Kickstart and Mountain Dew Game Fuel, our good innovation from our own brands into that space, a bit more focus on particular opportunity is one in the morning occasion, one on the gaming occasion, they are getting good traction for us as well.

So that's the way we're thinking, we're thinking now of participating what is -- what is, as you said a large opportunity and quite profitable.

Operator

Your next question comes from the line of Bill Chappell of SunTrust.

Q - Bill Chappell {BIO 1737315 <GO>}

Thanks, good morning. Just going back to Steve Power's kind of questions on -- can you quantify a little bit more what gives you confidence on I guess specifically Pepsi in North America and kind of the momentum this year, maybe what stage we are in different pack sizes or innovation on the horizon or something just that gives you the comps, don't get any easier and certainly there are other products out there. I'd love to hear what you're seeing or quantify what you're seeing to get you excited?

A - Ramon Laguarta {BIO 18967774 <GO>}

Yeah, I mean we're excited and we have six quarters of growth for Pepsi continuously and we're seeing the brand equity going up as we invest more in the brand as our advertising gets better. And we're able to talk to consumers in different segments with different messages and that's working very well. From the product point of view, we are seeing high growth as I said last time in smaller packs so that's continue to help the penetration in households that had stopped buying CSDs, now they're going back with the smaller packs. So that's great.

Zero is -- it's a very fast growing brand and for us is a great brand internationally. We're trying to develop it faster in the US. You saw we're, our focus in the Super Bowl, our execution is quite focused on on Pepsi Zero. And then Pepsi Regular is growing back again. Again, I think there is more our execution the fact that we're able to execute with more granularity and better precision that's helping the Pepsi brand along with the brand equity development.

So that's what makes us feel very strong about Pepsi continue to grow 2020 and in the coming years. We'll keep innovating. We are keeping innovating in Pepsi flavors, we're innovating with Pepsi Cafe. So we'll keep bringing in some news to brand to continue the consumer engagement with our brand, our products.

Yeah, thats good. Okay, thank you. I think that concludes the Q&A. Thank you for your time and your participation in this morning's call. We're very pleased with the progress we've made to-date and we are executing well against our key priorities. We look forward to updating you again on our progress throughout the year and we thank you very much for the confidence you've placed with us and with your investment. Thank you.

Operator

Thank you for participating in PepsiCo's fourth quarter 2019 earnings conference call. You may now disconnect.