Q2 2020 Earnings Call

Company Participants

- Hugh F. Johnston, Vice Chairman and Chief Financial Officer
- Ramon L. Laguarta, Chairman and Chief Executive Officer

Other Participants

- Andrea Teixeira, Analyst
- Bonnie Herzog, Analyst
- Bryan Spillane, Analyst
- Dara Mohsenian, 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 Second Quarter Earnings Question-and-Answer Session. Your lines have been placed on listen-only until it is your turn to ask a question. (Operator Instructions) Today's call is being recorded and will be archived at www.pepsico.com.

It is now my pleasure to introduce Mr. Ravi Pamnani, Senior Vice President of Investor Relations. Mr. Pamnani, you may begin. Thank you, operator. I hope everyone has had a chance this morning to review our press release and prepared comments, 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 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 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. First of all, the format is very helpful. So, kudos to your IR team for sort of pioneering this new format on the Street. I was hoping for a bit more color on some of the more volatile areas of your business. You obviously mentioned improvement sequentially within the quarter and guided to the organic sales growth acceleration globally in Q3. So, A) Can you just give us a better sense of what specifically is driving that? And then, B) I was hoping you could spend some time within that just discussing what you're seeing channel-wise in the US beverage business and what you're seeing across snacks and beverages in some of your key emerging markets? Are you expecting pretty linear progress sequentially going forward in terms of the beverage sales growth or more volatility, particularly with some of the states restrictions cropping back up in the US and just given the developing market country performance is pretty diverging in Q2? Thanks.

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

Good morning, Dara. I hope you're doing well. Listen, let me try, and then Hugh will add some comments as well. Listen, as we look around the world, we see a couple of factors that are driving our business. Number one, as you can imagine is overall mobility in the country and that is by far the number one factor and we're monitoring mobility through various means, just to understand potential future performance of the business. That's number one.

Number two, and that impacts mostly developing market is the universe of stores that are opened. What we're seeing in developing markets is that when situation -- when the infection goes up in the country, there's about 10% to 15% of the stores that close and sometimes even higher, and that drives a lot of the performance. So that's number two.

Number three, obviously, is where do people eat most of their meals and that's related to whether people are working from home or they're not working from home. And so that's a third factor that is impacting most of the food consumption. So there could be mobility but then people still have their meals at home.

And so those three are the key factors. Obviously, there is a fourth factor, I think will be more important going forward, which is this possible income in the economy and that's related to unemployment and that's related to how much money the governments are putting back into the economy and that is -- it hasn't impact in the US, yet. It is impacting in some of the other countries around the world as the government don't have the muscle to put so much money back into the economies.

So those four are probably the most critical kind of factors that impact the business and that's what we're modeling for various scenarios, as we go forward. So that's kind of from a very macro point of view.

Obviously, I said in the last conf call that we had in April that this was not going to be a linear recovery, right? There's going to be a lot of ups and downs and we're seeing these happening as we speak, right, in the business. You see countries that we thought the pandemic was behind, especially in the Far-East that the pandemic is going back in very local situations, but still impacting both the actual supply chain and also consumer perception, right? We're seeing this year in the US, obviously, we're all familiar with it. So first it was the Northeast, now it's other parts of the country that are being severely impacted by the infection and that obviously impacts our organization because we operate within a community, right? And obviously, the number of impacted associating our business is a consequence of the community infection. So that both puts a lot of pressure on our supply chain as well.

So hopefully, that gives you a sense of the different variables and the fact that this is going to be a roller coaster one going forward. I think we're getting much better and managing our supply chain within this complexity. We're hiring more people, we're training more people and making sure that we can maintain the supply chain in any circumstance. But it's still -- it's pretty complex as you can imagine.

Operator

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

Q - Bryan Spillane {BIO 2147799 <GO>}

Hey, good morning, everyone, and hope everybody is doing well. So my question is just related to the COVID related expenses in the quarter. And you were at $378 million for the quarter and I think if I've got it right in the 10-Q, about $224 million of that was employee compensation expense. So I guess we're trying to frame the size of the expense in the back half of the year? Is $378 million a good run rate? And as we're looking at the components of this expense, maybe if you could help us just walk through what we should be looking at as recurring for the next three or four quarters and what might fall off?

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

Hugh, you want to try out this one?

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

Yeah, happy to. Hey, Bryan. No, Bryan that's not a good run rate going forward. The number going forward will be less than that. It will still be substantial but nowhere near that number. If you break it into pieces, things like personal protective equipment that's obviously going to continue. Things like sanitation that's going to continue. The allowance for doubtful accounts on customers, obviously, is going to be variable depending on what we learn over time and how the customer base responds to the current environment.

Frontline and employee costs will still be there, but that number should be moderated pretty significantly going forward. So we're not kind of getting into a piecemeal guidance but that should give you a little bit of a sense as to the types of things that are going to be ongoing and the types of things that ought to diminish pretty significantly.

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

Yeah, Bryan, the most important component as you can imagine or factor that impacts this is the number of infected employees that we have, right? And therefore the quarantine number. I mean, the biggest factor is when you have an employee that is -- he's got the virus or supposed to have the virus, then we quarantine a lot of people. That's the number one driver of cost, and obviously, that will depend on the evolution of the pandemic in different parts of the world. So right now, Hugh, I think mentioned the different components and how we're thinking about it, but obviously if the pandemic goes up massively then that cost will go up.

Operator

Your next question comes from the line of Andrea Teixeira of JPMorgan.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Hi. Thank you and good morning. I hope you're doing well, and I understand that this is not a straight line and you comment that, obviously, the emerging markets is the main question mark, but could you help us understand how you left the second quarter in terms of cadence on the on-premises and convenience I guess. And so I'm trying to -- just trying to bridge the low-single-digit in the three-quarter that you guided for? Thank you.

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

Hi, Andrea. Yeah, listen, just to give you a sense of how the different components I was referring to earlier impact the different channels. Obviously mobility has a very direct correlation with smaller store sales, right? And in the US it's convenience stores, around the world there are other channels that play that same role. But we see a big correlation between mobility and convenience store or on-premise -- sorry small channel performance.

Obviously, as we went through the quarter, April was very low consumption in that channel. Second half of May, June was an improvement, substantial improvement, in that channel. The away from home channel is much more complex, right? There is a lot of different need states that consumers are going after there. And so there we saw also an improvement overall throughout the quarter, but still substantially below last year. I mean like a big number below last year and also different components of the channel with different levels of performance. So you see channels like transportation still very low, hospitality is still very low, universities closed. You saw restaurants coming back, especially more informal type of restaurants coming back and more formal restaurants, less so. So you see different performances, Andrea, across different channels.

In terms of geography, China came back pretty quickly. I would say almost in growth in the last part of the quarter. You show Europe slower. The came back of the -- both the kind of the small store channel and the away from home channel in Europe was a bit slower We've seen it better lately as people are starting to move around Europe and going on vacation to some areas in the south of Europe. So let's see how it evolves now. Obviously, there is less people moving around Europe compared to other years but it's improved. In the US, we saw an improvement, as I said, in May-June in especially everything they had to do with smaller channels. Now let's see how this latest news in the evolution of the pandemic in the south and the west of the country Impacts those channels and the decisions our regulator take in terms of protecting the overall community, right?

So that probably gives you a sense of how this has impacted. As we see the pandemic evolving now into Africa, South America, parts of the Middle East, India, we're seeing obviously an impact in the traffic in stores and that drives the business now.

So, it's still very fluid. Overall is an improvement versus the April time frame for sure, and that's why we're guiding to a small growth in the Q3.

Operator

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

Q - Kevin Grundy {BIO 16423871 <GO>}

Hey, good morning, everyone, and I hope that you do it well. Ramon, I had a strategy related question for you, specifically around market share because it certainly seems to be an area of greater emphasis under your leadership and if I'm not mistaken, also taking on a more prominent role in management incentive structure as well. So with that in context is that a fair characterization number one, if so, how do you drive that behavior, how do you intend to prioritize innovation, and premiumization and mix to support market share initiatives? And how do you balance that with the potential risk that this push on market share does not to evolve into more promotional pricing, like particularly North America carbonated soft drinks, where the industry has gotten away from that behavior now for a number of years? Thank you.

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

Thank you, Kevin. And that's a good -- it's a very good question. Yeah listen, share of market -- it's been central to our strategy and it will continue so, right? It has been during the pandemic, one of the key principles that we have set for ourselves that we're going to try to improve market share. Obviously, where we are trying to develop our market share position in a sustainable way. So it's more related to the strength of our supply chain, the strength of our go-to-market execution, our ability to innovate faster into spaces that we see consumer value, our customer relationships, those elements that we think are sustainable, the part of our brands, obviously. And you saw us making a lot of investments in 2019 both in capacity and infrastructure in stronger brands, we innovated into new spaces that's helping us. That's helping us navigate better the current situation and we'll continue to do so.

There are some spaces in the market that are I think will determine the share of market of the future. For example, I think e-commerce, if you see the growth of e-commerce, it is going to be quite strategic I think. Whoever wins in e-commerce now and is able to capture those families that are trying these e-grocery service for the first time I think it's going to win those families in the future. So we're investing heavily in trying to be the first in that channel and trying to -- and again, the investments that we made in the last few years, last year in particular, are helping us both from the data availability, the agility of our infrastructure to supply those channels et cetera. So e-commerce is a key area where we think we can gain market share.

Second is this trend of -- this system and our ability to service the stores directly, I think is a capability that is quite unique, and it gives us the advantage to keep the supply chain going in spite of all the challenges we're all facing. So that's also an area where we plan to double down that improves our execution in-store and the inventory in-store and that is also a sustainable advantage.

The third one is brands, and we had -- we're seeing consumers are going back to brands that they trust and we have quite a lot in many markets that consumer trust, there are big brands that have been around for some time. We've modernized them, we kept them relevant to the consumer. And then we're seeing spaces like healthier parts of the consumer demand where we have a lot of beautiful brands as well and we're investing in those brands, either the zero propositions in beverages, both Pepsi, Mountain Dew, Gatorade. We're investing a lot in those parts of the portfolio and they keep growing.

And also in snacks with brands like Date Impact [ph] or Smart Food or the Simply range or PopCorners or whatever. So there is a lot of spaces where we think that it will invest in those spaces. We're going to capture market share for the future. The other one we're investing, very I mean substantial amounts and it's working very well for us is SodaStream, right? SodaStream is a beautiful business for this situation we're living today. So consumers on have to leave their houses, they have perfect choices. We're putting our Pepsi brands in this SodaStream model in Europe and it's working very well. We're investing in those. So it's sustainable long-term market share across multiple parts of the value chain that I think is going to give us a stronger -- it's going to make us a stronger company going forward. So that's how we're thinking about share of market and sustainable share of market.

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 am -- I had a question on your price-mix of 1.5% in the quarter, which was better than expected, especially for PBNA where your price mix was up 3%. So hoping you could drill down on some of the key drivers of this. I guess I'm trying to understand the strength in your price mix given the negative channel mix shift, and then I assume a negative packaging mix. So was the strong price mix in PBNA a function of lower promos in the quarter? And then really how sustainable is this positive price mix going forward, especially in this environment? Thanks.

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

Hugh, you want to go on this?

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

Sure, happy to, Ramon. Hi, Bonnie. Yeah, price mix it at 1.5% for the company. Obviously, that's a complicated number because it's global and sort of incorporates almost everything. Going a little bit deeper on PBNA, I think the primary factors were around less promotional depth than what we had seen in the past. So I think frequency is pretty similar, but the debt wasn't quite there. Obviously, supply chains were a bit constrained in that regard, so it didn't make sense to go as deep. So I think that's the biggest factor.

Operator

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

Q - Vivien Azer {BIO 16513330 <GO>}

Hi, thank you. Good morning. I appreciate your commentary around investing behind emerging brands and relevant brands like SodaStream. Just hoping for either you or Hugh to comment on the reduction in non-essential advertising and really just reconciling that. It seems like perhaps the COVID recovery is taking longer than perhaps we would have anticipated when you reported earnings a quarter ago. So just curious to hear how you're thinking about that line item? Thank you.

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

Advertising is a key component of our strategy, Vivien, and it will continue. We still think that it's critical that we continue to use that lever to drive penetration of the brands and try or use the image of the brand. So that is --hasn't changed at all. There has been a bit of an adjustment, especially in some markets early on in the quarter because the truth is that the consumer habits change a lot and we modify some of the A&M decisions.

We also have become a bit more selective about the type of A&M that we're doing and some of the activities that had lower ROI we're stopping them and we're putting more money against the initiatives that had more return on investment. So I think we are -- we'll become better and sometimes a crisis helps to be more selective and to be more impactful, and to kind of generate internal momentum against simplification, and against focus -- against fewer and bigger and that's what we're trying to do. It's, as you see from our results is -- it is working quite well.

Obviously, balance of the year, we continue to invest as we see the consumers moving around and demand for our products starting to be a bit higher. Yeah, we'll keep investing, and again, not trying to lose that focus on fewer and bigger and trying to minimize the lower ROI initiatives that sometimes we have in what is a very large business, yeah. So that's how we're thinking about A&M.

Hugh, I don't know, is there anything else from your side?

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

Yeah, the one thing I wanted to add as well, Ramon. Vivien, as we've talked about being stronger, part of that has been building some more capability to do A&M in-house. It's got a couple of benefits. One, it improves our speed, and number two, it has proven to be more efficient over time. So we can actually get same or more value for less money, which is obviously a terrific outcome for the company.

Operator

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

Q - Lauren Lieberman {BIO 4832525 <GO>}

Great, thank you. I felt like in the prepared remarks that the tone around kind of cost control and the investment was maybe a little bit different than it was three months ago. This quarter it may be a little bit more measured where last quarter you were talking about staying on the attack. Of course, still a strong criteria for ROI and this quarter we're talking about euro-based mindset, earning your budget. So I guess by no stretch so I think that you didn't anticipate that the environment was going to be rough. I think that was very clear three months ago and it's remained as such, but what is it that's really changed your thinking and your approach then versus now?

Yeah, I just -- it did feel a bit different still very proactive but sort of from a different stance? Thanks.

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

Yeah. You good, Laurie, the idea -- the concept of holistic cost management that we put early on. I mean it was early last year as one of the principles of how we would get stronger, it's a capability we've been, I would say, investing and focusing everybody around the company in this concept of holistic cost management, which basically -- it is the concept that you're referring to, which is you earn your budget every year and we're trying to be much more granular around the composition of the budget and what really is required now going forward versus what it was required, let's say, last year or two years ago. And going through that process of rethinking the budget every year and reallocating costs against what's going to give us the best return in the year and going forward.

So that capability is there. We're emphasizing it more because obviously what we're seeing is that there is a -- it's a challenging time, we're having to put $500 million of cost in COVID related expenses, we will have to put some more going forward. So we have to find ways to fund that and we have to find ways to continue to invest in our brands and our commercial activities to keep growing and gaining market share.

So we have to be super selective on where do we put the money in every single line of the P&L. So we're emphasizing that from the position that every cent has to work for the growth drivers of the company. So that is the principle that we're -- that is being adopted across the organization in every single market.

On the other side, we are -- we're seeing that potentially as unemployment goes up in several parts of the world, I think companies will have to be much more cautious about, obviously, the resources that we use and how do we use those resources. So I think this capability is going to come very helpful for us, and that's what we're talking about it in the sense of, let's be very diligent in how we look at every single line of our budget, how would we allocate those monies into the highest return on investment growth drivers. And with that, I think we'll be successful in gaining share of market and driving growth. Hopefully flowing that growth back into profits and for the sustainability of the company.

Operator

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

Q - Laurent Grandet {BIO 19930531 <GO>}

Hey, good morning, Ramon and Hugh. And first, congratulations on the different specific -- very specific initiatives you are taking to address Black Lives Matters. Like to focus my question on the energy category in the -- in your prepared remarks, you mentioned the Bang business was already almost fully transfered to your system that was much quicker than most expected. So, that's great. Could you please tell us what was the retailers' reaction to the push you are making in the energy category and what they expect from PepsiCo?

And also we're getting Rockstar specifically, how long do you think it would take to re-energize the brand? Thanks.

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

Yeah. Hello, Laurent. Yeah, good question. Listen, yes, we're almost completed with the integration of the Bang brand into our selling systems. It's been a complex process because Bang had between 250-300 distributors across the country. So as you can imagine, the details of that transition has been quite exhausting for Kirk and beverage team, but they've done a great job of integrating that brand. And also, the same with integrating Rockstar in parts of the country that we even distribute the brand in the past.

So that is, I would say, by the end of July that will be almost complete, and then we're ready to go.

From the customer relationship point of view, I think the customers see us is a very good partner that can bring insights, that can bring activation to the brands, that can bring better store execution, a lot of drivers that we know we can deliver and will drive growth for the category. So I would say the reception from our retail partners has been very positive and early signals are that they're -- we're getting support and that we're executing with quality. I mean the fact that we have now a full portfolio that has Bang, Rockstar and some of the Mountain Dew brands as an energy offer, it is a positive development for us versus having smaller brands. So we're seeing positive signals. And as we said last call in April, this is very strategic for us, as we continue to focus on the three components of this strategy, driving -- revitalizing Rockstar and you will see some news coming out of Rockstar soon both on the advertising front and the packaging front, reformulation. Integrating Bang into our business and there is distribution opportunities and velocity opportunities in some parts of the country.

And then moving Dew, with more intentionally into spaces of energy that are not well covered we think today, and that we can do a better job. Obviously, we continue to be very focused on Starbucks. Starbucks is a critical part of our energy strategy and Tripleshot, Doubleshot are booming, and even more now with people at home.

So, we're seeing all of those components working for us in the future. We're very optimistic about this part of the business. And certainty, there is a lot of energy in our teams to get it done and the team is doing a fantastic job by the way.

Operator

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

Q - Robert Ottenstein {BIO 1498660 <GO>}

Great. Thank you very much. So I'm wondering if you could talk a little bit about how your dialog with retailers has evolved from March through June, July? How that's changed? Maybe also touch on the various things that you were doing to help retailers get through this? And where things are in terms of shelf sets, a lot of the -- most of the spring resets never really happened. When do you expect that to happen and how you look positioned for those? Thank you.

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

Right. Good question, Robert. Listen, in our principles, and as we started the pandemic taking care of our associates was priority number one, and taking care of our customers were priority number two, similar to number one. So I think that was the focus of the company trying to even elevate even more the partnership with our -- with all our customers across any country around the world. And so that is the focus of the teams.

I think we've been agile, we've been closer to our partners, we've been transparent with our supply chain challenges in some cases. But I would say in general, we're getting very positive comments from our partners on how we are talking to them, helping them to stay in-stock and on-time, driving business for both and evolving for the future of demand, especially around the space of e-commerce that I mentioned earlier that is clearly growing at a very fast pace. Faster than we all forecasted about half a year ago. So that's the dynamics.

We've made some choices in our supply chain to -- we've reduced some of the tail of our portfolio. We've discussed that with our partners, the retail partners, and we both agreed that it's probably the best thing to do to eliminate the less, let's say, the smaller SKUs in the portfolio to maximize the best selling SKUs and be in-stock.

As I said earlier, our this DSB system, I think is a fundamental advantage in the way we're able to service our customers, and I think they appreciate that we've made the effort adjusting delivery schedules, and increasing delivery schedules to make sure that we keep our brands in-stock and we helped, obviously, our partners out.

So that is the level of the commitment we have with our partners and I think the dialog is in a very good space. And I think in this situation will give us a strategic relationship with our partners that I think we had in the past but it's probably at a higher level today.

Operator

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

Q - Steve Powers {BIO 20734688 <GO>}

Yes. Great, thanks. So I know you sped up your R&D processes considerably over the course of time, but as we think about today's consumer behavior relative to just a few months ago and the difficulty of predicting where we'll be in the quarters ahead. How is that impacting how you're teams are thinking about new plans and product introductions even looking 2021 because I think those plans might differ in a world where we're at home versus in a world where we are on the move? And I guess is there a way to think about that or is it that your cycle times on new products at this point are such that you feel like you can keep pace with the change that we're all going through right now?

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

Listen, I think we have improved a lot, as you mentioned. We segmented our innovation processes in different quick cycle innovations, more lift and shift, more strategic innovation that takes longer. So we have a good segmentation of processes across the company and ways of investing and dealing with innovation through different stage gates approvals and everything related to the size and the velocity that we won from this type of innovation. Yeah, the truth is that we're never satisfied enough, right? I mean, so the sense of urgency in anything we do is going up and I think we have improved in innovation and we want to improve even more so from that point of view we'll continue to make the adjustments to some of the process required.

In terms of what you're saying, our consumers changing meaningfully some of their needs and are we adopt in quickly enough, I would say there are few spaces where we're trying to move quickly, immunity being one and we're seeing that our consumers are looking for immunity more, our juice business is booming, and we think that we can come up with other beverages and even snacks that go against that need. Our snacks business being part of meals, we're seeing that more and more consumers are cooking more at home and that means that obviously brands like Quaker or some of our Quaker portfolio is being incorporated into meals, but also some of our snacks like Cheetos, obviously Sabra, and some other brands are being used for meals, right? Lays or Ruffles.

We're going to obviously move our advertising and our consumer support in terms of giving the recipes and helping them with solutions that kind of go -- incentivize that habit. So there is a marketing element to this. There is also an innovation element to these in terms of packaging or other solutions that we can help consumers move into that space.

So, yes, we're moving quickly. We're never satisfied with the speed of our capabilities and if you hear the conversations with our internal teams speed is a keyword now, and we're trying to get better at that. We're trying to be as close as we can to start-up with the scale of a large company. So that is one of our aspirations and I think it's going to be a long journey of improvements, but we're in the right direction.

Operator

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

Q - Sean King {BIO 20892205 <GO>}

Hi, good morning. Hugh, you mentioned a $3 billion full-year e-com or roughly 5% of sales. I guess that doubled in North America in the quarter, how much of that is transitory due to the stay-at-home dynamics or can some of that continue?

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

Yeah. Hey, Sean, happy to get in on that one. A couple of things, one, just to be clear that $3 billion number is a retail sales number. It's not a net revenue number for PepsiCo, so you've got to discount it for that. Number two, that is a great question. Not clear at this point, I think a lot of that will be dependent on how much consumers or shoppers find that the experience is very good for them. Out of stocks obviously is always going to be a big question for them because if you get a lot out of stock you have to go to the store anyway which sort of defeats the purpose.

And then the other one is to the degree that they're paying any kind of an up charge, is it worth the money? So I don't have a real good projection on that right now. We're prepared for it to stay large and we can manage that well if need be the case, both from an execution perspective as well as from a financial perspective, but not clear at this point.

Operator

Ladies and gentlemen, this concludes our question-and-answer session. I would now like to turn the call back over to Ramon Laguarta for any closing remarks.

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

Yeah. Thank you, everyone, for joining us today. It's great to hear from everybody and for the confidence, you've placed in us with your investments. We hope you all stay safe and healthy, and we look forward to updating you as the year progresses. Thank you again and have a great day.

Operator

Thank you for participating and PepsiCo's Second Quarter Earnings Question-and-Answer session. You may now disconnect your lines and have a wonderful day.
