Q2 2019 Earnings Call

Company Participants

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

Other Participants

- Ali Dibadj, Analyst
- Amit Sharma, Analyst
- Andrea Teixeira, Analyst
- Bonnie Herzog, Analyst
- Bryan Spillane, Analyst
- Caroline Levy, Analyst
- Dara Mohsenian, Analyst
- Judy Hong, Analyst
- Kaumil Gajrawala, Analyst
- Kevin Grundy, Analyst
- Lauren Lieberman, Analyst
- Laurent Grandet, Analyst
- Nik Modi, Analyst
- Robert Ottenstein, Analyst
- Sean King, Analyst
- Steve Powers, Analyst
- William Chappell, Analyst

Presentation

Operator

Good morning, and welcome to PepsiCo's Second Quarter 2019 Earnings Conference Call. Your 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. Jamie Caulfield, Senior Vice President of Investor Relations. Mr. Caulfield, you may begin.

Jamie Caulfield {BIO 17051951 <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 today's call with some brief prepared comments from Ramon and Hugh and then open the call up 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 plans and 2019 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-Q available on pepsico.com for definitions and reconciliations of non-GAAP measures, and additional information regarding our results and for a discussion of factors that could cause actual results to differ materially from forward-looking statements.

And now, it's my pleasure to introduce Ramon Laguarta.

Ramon Laguarta {BIO 18967774 <GO>}

Thank you, Jamie. Good morning, everyone. Well, just four things we'd like to highlight before I move on to a brief recap of the operating sectors' results. First, we're very pleased with our results for the second quarter. Organic revenue grew 4.5% overall, with each of our six operating sectors contributing to the growth. I believe the solid growth we had in the second quarter is a good indication of the strength of both our product and geographic portfolios, and it also gives us confidence that the plans we shared with you at the beginning of the year are being very well executed.

Second, we continue to make progress on our productivity agenda and remain on track to achieve a full year productivity target savings. Third, we're on track with our investment priorities, amongst which we've stepped up our brand investments, which is evident in the increase in A&M in the first half of 56 basis points as a percent of net revenue. We invested in advance data and analytics to enhance our consumer and shopper insights and sharpened the precision of our execution.

We invested in increased go-to-market capacity and capability, including routes, other frontline selling resources and e-commerce. We invested in increased manufacturing capacity with additional lines and plans to support our fastest-growing brands. We invested to drive greater global systems harmonization and standardization, and we took steps to transform our culture to become more effective by being more consumer-centric, nimble, and collaborative. And fourth, we're reaffirming our full year guidance.

So let me move on to the sector's results starting with Frito-Lay North America. FLNA continued to post strong growth in the second quarter, with organic revenue up 5% and solid market performance. We delivered good net revenue growth in our key trademarks, including Lay's, Doritos, Cheetos, and Ruffles. In addition, we posted good growth across all channels in the US, led by high single-digit growth in convenience and dollar stores.

We continued to invest across the business with the aim to drive sustainable, better than industry growth, and this includes investing in plant and warehouse capacity, routes, sales technology, enhanced consumer and shopper data and insights and brand media. To this point, in the second quarter, FLNA's A&M was up high single digits with investments across our portfolio of brands. And we're pleased to note that FLNA was once again the largest contributor to total food and beverage US retail sales growth in the quarter.

PepsiCo Beverages North America delivered 2% organic net revenue growth with solid benefit from net price realization. Trademark Pepsi and Trademark Mountain Dew showed sequential volume improvement, and our ready-to-drink coffee and water volumes grew in the high and mid single digits, respectively. A&M spending was up strong double digits for the quarter.

Beyond brand investment, we're also directing investment on innovation to address new category entrants and to drive success in higher growth category segments. And this is evident with innovations like Mountain Dew Game Fuel, Gatorade zero and Gatorade Bolt24, LIFEWTR, Bubly, new variance of Propel and extensions within our successful Starbucks and Pure Leaf Tea lineups. We're encouraged by the steady improvements we've seen in the business, and we believe that, as we execute our planned investment agenda, we'll see a return to sustained competitive performance.

Rounding out North America, the second quarter was Quaker's strongest quarter of organic revenue growth in three years with organic revenue up 3%, driven by net price realization and modest volume gains. We've restored brand support across the Quaker portfolio and we've returned to volume growth in Aunt Jemima and ready-to-eat cereals, each of which delivered mid-single-digit volume growth.

Now moving on to International, despite ongoing macroeconomic volatility in a number of key markets and poor weather in parts of Western Europe, each of our international divisions delivered solid organic revenue growth in the second quarter. Notably, developing and emerging market organic revenue increased 8%, driven by particularly good growth in the number of our key markets. Mexico and Russia were up high-single digits; Brazil was up more than 20%, in part reflecting the benefit of lapping last year's transport strike; China grew strong double digits; and India increased mid-single digits.

These results are a reflection of the benefits of the increased investments we're making in the business and reinvigorated emphasis on marketplace execution, driving lot of relevance and local affordability, expanding our global brand portfolio and leveraging our global capabilities to drive higher per capita consumption and market share gains.

And with this, let me hand it off to Hugh.

Hugh F. Johnston {BIO 15089105 <GO>}

Thank you, Ramon, and good morning, everyone. I have just a few comments on the balance of year outlook. As Ramon just mentioned, we're reiterating each of the components of our 2019 guidance. Namely, we continue to expect organic revenue growth of 4%, a core effective tax rate of approximately 21%, core constant currency EPS to decline approximately 1%, free cash flow of approximately $5 billion and total cash returns to shareholders of approximately $8 billion, comprised of dividends of approximately $5 billion and share repurchases of approximately $3 billion.

As you model out the balance of the year, I call your attention to the fact that the organic revenue growth comparisons get meaningfully more challenging in the second half. And from an EPS perspective, you should consider the following. First, over the balance of the year, we will be lapping gains from various strategic asset sales and refranchising gains and insurance recoveries. And second, our pace of planned reinvestments in the business will accelerate over the balance of the year and you will see this reflected both in core EPS as well as in our operating margin performance.

Now, we'll open it 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 Merrill Lynch.

Q - Bryan Spillane {BIO 2147799 <GO>}

Hey, good morning, everyone.

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

Good morning.

Q - Bryan Spillane {BIO 2147799 <GO>}

Ramon, I guess, kind of stepping back, you've had now a half year of this stepped up investment and I think if we look at the organic sales, the composition of organic sales, particularly in North America, it's a little bit more price heavy and less volume. So I guess two questions around that. One, do you think that the -- is the investment allowing for maybe more pricing and mix than maybe what existed previously. And second, would you expect that we'd start to see maybe more of a pickup in volume or demand as more of these marketing initiatives get into the market for the balance of the year.

A - Ramon Laguarta {BIO 18967774 <GO>}

Yeah. Good morning, Bryan. Yeah, listen, we're seeing balanced growth in the US and very rational pricing in our categories, both in snacks and beverages. Last year, remember we had higher commodity inflation. So I think that's been reflected a little bit in the pricing this year. But nevertheless, what we're trying to do is trying to understand, much better, the consumer and trying to understand the different occasions that consumer is going into our categories and maximize obviously the opportunities for revenue in each one of those occasions. We're investing a lot in net revenue management across the

Company and that's translating into, I would say, a better mix management, channel management, transaction per unit management and that's what you should be seeing in the future as well.

The most important thing from the investor point of view is that, we're seeing very rational pricing across the industry and everybody is trying to generate value by investing in brands, improving distribution, connecting better with consumers versus just using price as the only lever of attracting consumers to your brands. So I think it's pretty, pretty powerful, good situation for our categories, I would say.

Operator

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

Q - Dara Mohsenian {BIO 3017577 <GO>}

Hey, good morning, guys. So, just to get a bit more granularity on the pricing, we've obviously seen Frito-Lay North America, the balance has tilted much more towards pricing recently with the strong organic sales growth over the last few quarters. So, can you give us a little more granularity on what specifically has been driving that and should we expect more of a balance going forward between pricing and volume? And then, also on the beverage side, obviously very strong pricing in the last few quarters post the fall increase. You just commented that the competitive environment is pretty rational, but just any thoughts on pricing potential in NAB when you cycle those increases in the fall would be helpful. Thanks.

A - Ramon Laguarta {BIO 18967774 <GO>}

Just I would say, and Hugh will add to my comments, but what we're seeing in the industry is a trend towards smaller packs. So consumers are somehow, either besides of the household or the particular occasions where they are consuming our products, consumers are moving into smaller packs. And if you recall, when we talk about our -- some of our investments in the past, in the past call, we said we're going to put additional capacity because we're seeing that the consumers move into smaller packs and some of our capacity is under -- there is some bottlenecks in our capacity because of that, right. So as we move into -- as the consumer moves into smaller packs you realize more pricing, price per kilo is better, price per liter is better.

The second trend is consumers are looking for higher-value products. So more functional, more -- they're looking for more benefits in the consumption of our categories, be it snacks or beverages and that is also -- tends to be also higher price per liter or price per kilo. So I think you will continue to see those trends going forward in our categories, especially in more developed markets. In developing markets, it is a bit of a different game where you have to be very mindful of the price points and the affordability it lends us. So if you cross certain price points, clearly your products become out of reach for a lot of consumers. But in developed markets, we see smaller packs and more functional benefits driving, what I would say, positive pricing environment.

Then also, we see more consumption in convenience channels, channels where consumers are willing to be a bit less price sensitive and they pay more for our -- for every transaction. So those are trends that you could see as positive trends for the category. I don't know, Hugh, if you...

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

Yeah, I totally agree. I was going to say a lot of the same things. The one small pieces I would add to it, number one, Dara, in particular with Frito-Lay, Sabra where we record the volume, but we don't capture the revenue, we only pick it up in equity income, that was about a 1 point drag on Frito-Lay's volume. So if you take that out, then Frito-Lay's volume to revenue looks a little bit closer, obviously. And then number two, as Ramon said, I think in developed markets, we probably can expect a couple of points of visual and then a couple of points of consumer-driven mix that will enable us to get pricing in the future. So I mean that I think is a reasonable expectation going forward.

Operator

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

Q - Ali Dibadj {BIO 15328592 <GO>}

Hey, guys. So, I just want to go back to the investments that you've been making now over the past six months and where you expect that to appear in the top line? Is it rate, is it mix, is it volume? Ramon, I appreciate your commentary in the first question about price rationality in the marketplace certainly, but the incrementality of the investment, I would have imagined, would -- like to show up in one of the top line drivers and we're not quite seeing it yet. So just trying to understand how you think about investment and where it's supposed to appear the ROI of that and whether you're adjusting anything as it doesn't look like it's actually showing up in your particular results in terms of incremental investment, and in particular, I'm talking about PBNA.

A - Ramon Laguarta {BIO 18967774 <GO>}

Okay. Ali, hi, good morning. Listen, I won't go into very specifics for each one of the business. What I'll tell you is the philosophy behind these investments, we're trying to have a very high growth sustain -- sustained high growth company going forward, I think we are -- we have accelerated clearly from the 2%, 3% to a sustained 4% to 5% growth. Our ambition is to stay within those parameters, as we said, in the 4% to 6% top line growth and that will require multiple layers of investment across multiple parts of the business, right.

So you've seen what we've been doing. We've been investing in what you could call more short-term levers of acceleration whether they'd be new routes in the market, so more selling capacity, or improving some of our warehousing bottlenecks that we had in some of our businesses because of high growth, or some of the investments we're putting now in capacity because really the demand is quite, quite high for some of our technology. So that you will see reflect -- it is being reflected. I mean, as you see the Frito-Lay 4.5% growth or acceleration in a lot of the water brands in PBNA or some of the coffees or whatever, it is being reflected.

But the big idea, I think, for us and the philosophy of how we're investing, how we're trying to run the Company is how do we keep investing in capabilities that will give us that 4.5% or 5% or 4%, like between the 4% and 6% going forward on a sustained basis and not only in the US but really across the Company. And those have to do with new capabilities in insights and how do we digitalize the Company and how do we -- what we call precision at scale, so how do we execute our portfolios in every store with the right level of insights and precision and we have closed loops on execution, so that our people can execute consistently at those high levels. How do we continue to innovate in new platforms and have the right amount of resources to invest in new platforms versus taking money from the core and giving to those new platforms. So, that is the philosophy and that's what we're doing.

And to tell you the truth, we're pretty happy with the way the business is responding, the way we're seeing our market share evolving in our key markets and our markets to be in the future. So I think we feel pretty good, and the investment will come in all the different areas that I told you and with this idea of sustained -- very sustained high performance at top line, that will be the big driver of value for you guys as shareholders of the Company.

Operator

Your next question comes from the line of Judy Hong of Goldman Sachs.

Q - Judy Hong {BIO 3773182 <GO>}

Thank you. Good morning. So, Roman, I think you cited improvement in NAB, particularly around the Pepsi trademark and Mountain Dew, but I guess one area that's still somewhat soft is Gatorade. So maybe from your perspective, if you can talk a little bit about what you're seeing from a Gatorade standpoint. Obviously you have innovation around the trademark with the Bolt24. So how does that kind of fit into the strategy and when you think that we should see some more tangible improvement on that brand? Thank you.

A - Ramon Laguarta {BIO 18967774 <GO>}

Yeah, I'd be -- yeah, good morning. Listen, Gatorade is clearly a big brand for us and one that is very solid with the consumers. I mean, all on the metrics on the brand are fantastic in terms of consumer engagement and consumer brand equity. It's, in all dimensions, very strong. Now, what we're doing is, innovate against that umbrella. The big innovation, we -- I mean, you mentioned Bolt, but the big innovation has been Gatorade Zero, right.

So, with Gatorade Zero, we've been able to expand the consumer base of the brand to some consumers that actually were athletes, but they put a lot of, I guess, emphasis on sugar, and therefore they left some of the occasions that they were consuming the brand to move into other opportunities. So now with Gatorade Zero, we've seen that we're expanding again, the consumer base of the brand and that's going to be very, very incremental for us going forward. We're seeing incrementality for the category, we're seeing incrementality for the brand. Gatorade Zero is already the number one zero sports drink in the country by quite a distance, I would say, and we see every week the velocity of the brand improving. So I think that this is a brand that will be very big for us.

Now, Propel is another big opportunity for us in sports drink and -- as far as the hydration and we see Propel growing also double digit consistently for the last few years. It's a brand intended for what we call more casual exercises and we're trying to give them a good combination of hydration with lower calories, that's working very well. Now we're adding vitamins and some other positive functionality, and then we have Bolt. Bolt24 is a new platform for us. It's going to be a functional platform, trying to just cater into the athlete off the field.

I think -- we think the consumption is going to be off the field. We're trying to give hydration to the athlete during the day with functional benefits that are all natural. I mean, now Bolt24 is watermelon, water plus sea salt. That's how the consumer will get its electrolytes. And then we're adding some vitamins for antioxidants and whatever, so -- and you will see more innovation coming under that platform. There will be off the field functionalities for the core athletes. We're very positive about the image, the functionality, the brand that we can create around Bolt. That is going to be one more example of how Gatorade understands consumers and continues to innovate against all the needs of consumers in the sports arena. So we're very positive about the continued share of market development that we have in this segment and how we will be able to grow the category, which is, at the end, our biggest responsibility as leader of the category.

Operator

Your next question comes from Lauren Lieberman of Barclays.

Q - Lauren Lieberman {BIO 4832525 <GO>}

Great, thanks. Good morning. I was hoping we could talk a little bit about the international strategy. So, Ramon, you've talked about sort of this like calendar stronghold battleground framework for thinking about markets. I was just hoping you could maybe shed a little bit more light on kind of the investment priorities, whether you want talk about it by geography, by category. And do you think kind of the game changer for you in accelerating performance or market share performance is about -- is it more about innovation or is it more about capabilities and execution? Thanks.

A - Ramon Laguarta {BIO 18967774 <GO>}

Okay. Listen, we are -- we see international as a huge growth opportunity for this Company, long-term. And I think we've been growing international 2 to 3 times the US growth for the last few years. I think that should continue in the future when you see the per caps of both our snacks and our beverage categories around the world and the US. We see a lot of opportunities in snacks by moving unpackaged to package and that's a huge trend. We're seeing that our snacks business benefits a lot by urbanization and as we see people moving into big cities in developing markets. That's a huge opportunity. We have a very good playbook on how we develop per caps of our snacks business. I think we'll keep quantifying that better and better and we have a very -- I think a quite advantaged playbook, and we're demonstrating that in many markets around the world. So, you should see us continue to invest in our snacks business internationally and that should be a big engine of growth for us.

When you go to the beverage category, the same principles in terms of how big is the growth opportunity as consumers are moving from, let's say, non-commercial liquids to more commercial liquids everywhere in the world. And there the nuance in our strategy is obviously we have another competitor that is trying to develop the category with us. And then we have to be smart where we have a -- I would say a higher growth share position -- a higher share position versus a medium share position versus a large share position and our strategies need to change, obviously. It doesn't mean that we're not going to aspire to gain share in every single market around the world. But the tools we use and the number of complexities we choose to add to the business will be different, depending on the market position we play in every market. So that's the nuance between the beverage and the snacks business. You should see international as a huge growth opportunity for us globally for many, many years to come. And I think we're realizing them. You'd see the numbers that we're posting every quarter and they show the -- both the top line and the bottom line opportunity that that has for PepsiCo going forward.

Operator

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

Q - Steve Powers {BIO 20734688 <GO>}

Great, thanks. So, Ramon, maybe to build on some of what you said, I think in response to Ali's question. I just want to step back and validate your confidence in being able to resume your long-term algorithm come 2020, that 4% to 6% top line, 20 basis points to 30 basis points margin improvement formula. Because, despite the first half investments, your guidance, as Hugh highlighted in his remarks, seems to allow for some deceleration in the back half on the tougher comps. So I guess I'm first trying to understand how confident you are in your ability to maintain first half top line momentum not only in the back half, but out to 2020 and beyond. And then, secondly, to the extent you are able to sustain or accelerate the top line from here, do you see all businesses now being in a position to contribute to necessary margin improvement come 2020 or will certain businesses require another year of more investment beyond 2019? Thanks.

A - Ramon Laguarta {BIO 18967774 <GO>}

Listen, I think obviously we stay true to the long-term guidance that we gave a few months ago, right, like five or six months ago. We thought very carefully about that framework for growth and we obviously are seeing that we're capable of delivering that and we have the portfolio of categories or the portfolio of geographies that allow us to deliver that on a sustained basis. Assuming that we make the right choices around productivity and our investments and we make the right choices on where we put this money for investment, the capabilities were building and where we're planning to innovate. I think, we stay true to that long-term framework.

Remember, when we talked about the reinvestment year for 2019, we said the first, we did a few things, right, in the process. First, we looked at existing budgets and we tried to reallocate those budgets into the areas that will give us a better return, so that have been internal. Second, we said we're going to really double down on our productivity, and that productivity will be reinvested for growth and we're doing that in the sense that our productivity is quite strong and we're reinvesting. And third, we said, we probably need a year of additional reinvestments that would put a solid foundation for the years to come whether it is in A&M, whether it is in -- I mean, some of the other capabilities we've talked about or capacities in terms of manufacturing or supply chain. So we're doing all that. With that, we feel pretty good about the future.

Yes, the Company, as you see in many of our industry, we need to keep investing to transforming ourselves, right. So this is a, I think a never ending story for the future in terms of systems, in terms of new technologies, in terms of adding new brands. So there will continue to be additional investment needs in the company going forward. I think we can fund most of them with our productivity efforts and reallocating existing budgets, which in a company of our size; we can make a lot of discretionary decisions on what our priorities year after years are. I don't know Hugh, if you have anything else to add, but that's how we see, as a management team, the following three, four years.

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

Right, I agree with that. And Steve, just to add a little bit to it, as Ramon mentioned, we -- he said, we expect to be back on algorithm come 2020. You know as a management team, we've been pretty disciplined about, talking about next year in February when we get to next year. So I think with the context Ramon has given you, we'll talk about it in more details next February.

Operator

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

Q - Andrea Teixeira {BIO 1941397 <GO>}

Thanks, good morning. I have a follow-up and then a margin question. So, can you comment on the state of the consumer in the US, as you alluded before, the results this morning have been supportive. But the scanner [ph] data has been softer as of late. Is this just the timing or weather related or are you seeing the consumer a bit more cautious? And on the gross margin, Hugh, you had called out the timing of commodities pressures in the first quarter earnings and into the second quarter, but the gross margins still expanded well, so have recycled most of the pressures. Thank you.

A - Ramon Laguarta {BIO 18967774 <GO>}

Morning, Andrea. Yeah, two comments on the consumer and then Hugh can talk on the gross margin. We're seeing, in our snacks business, micro snacks pretty healthy growth. We're seeing good acceleration of versus previous years; the number of occasions are going up, the price per occasion is growing nicely as you saw, and we are capturing above fair share of that growth as a company. So in snacks, I see a lot of good tailwinds.

In terms of beverages, it's been a little bit erratic and quite linked to weather actually. So we've seen, if you take the Q2, the second quarter, we had a fantastic April, but then somehow a lower May and June from the scans point of view, because the weather has been quite wet and cold and that obviously impacts some parts of the -- of the category, especially the hydration related parts of the business.

We're seeing -- we're seeing it coming back, so it's good, it's -- we see a healthy consumer. Consumer that where price elasticities are good and so we cannot -- we cannot see any signals that tells us that consumer is slowing down, at least in our categories, right, which are low priced, quite routine categories that are very well penetrated, very high penetrated across all the US.

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

Yeah. And then on gross margins Andrea, yeah, you're right, I mentioned in the last call, I think that the tougher comparisons were in the first half. As you know on commodities, we tend to lock about 6 months to 9 months out. So we've got high visibility into the back half and the commodities comparisons in the back half get a little bit easier.

Operator

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

Q - Kaumil Gajrawala {BIO 20703548 <GO>}

Hey, good morning, everybody. Roman, you mentioned in several occasions the effective mix whether premium products, channel mix, pack sizes, all of which sound like long-term trends. Can you give us a bit of a read on how much mix contributed in this quarter and then also given that's where it seems like much of the CapEx is going and where your capabilities are expanding, how we should maybe think about mix as part of your algorithm longer term?

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

Yeah Kaumil, it's Hugh. I'm happy to comment on that. Obviously it moves around quite a bit depending on which portion of the year we're in, which businesses are doing well, but it's probably been on average contributing about a point.

A - Ramon Laguarta {BIO 18967774 <GO>}

Yeah, if you think about some of the capabilities we're trying to build for the company and we're not the only ones in this consumer goods space that are building this capability, is net revenue management. Net revenue management is a combination of insights, analytics, and ability to manage the channels and consumer innovation and branding and that is a capability we're going to keep evolving, right, because the likelihood of consumers willing to pay more for the same thing is -- it's going to reduce, right, going forward.

So we need to be able to give the consumer much more value through different ways and that's a capability we are -- I think we're good at, we're going to get better at, and we -- the fact that we have, we tend to control our execution all the way to the consumer in many channels. I think that gives us a competitive advantage going forward.

Operator

Your next question comes from the line of Nik Modi of RBC.

Q - Nik Modi {BIO 7351672 <GO>}

Yeah, thanks, good morning, everyone. Ramon, maybe you can just give us the state of the union on the NAB reorganization? Any early learnings, any hiccups, anything you can share on that would be helpful. Thank you.

A - Ramon Laguarta {BIO 18967774 <GO>}

Yeah, that's good. Listen, this is a --Thank you for asking. This is a -- going to be, I think, a factor to our continued sustained performance in the future in NAB. I think the fact that we're able to understand the US market as one full market and then able to segment it into pieces and execute with local relevance, it's going to be I think a driver of growth for us and sustained growth, and for us, to be a better serving our customers in much more nuance way. So that was the intention, the -- as any large restructuring you're dealing with people issues, right, as in you know moving families location to location all that.

I think that's pretty much behind. Now during the summer time, most of the families will move and will have everybody in place and ready to execute full mind [ph]. So obviously, I think we started in March. Now is July. So we've had three, four months of a little bit of transition, I would say, in the business. I think the management has done a great job in terms of the working diligently to get people in place and made sure that the employees feel well treated by the company and I think we're there.

We should see the benefits of what this organization should deliver in the second half of the year. But most importantly, these are move we're making for the future. So, in terms of distribution in the more popular [ph] parts of the business in terms of how do we serve regional customers, how do we segment our consumer strategies depending on our market positions in the different states. You know all those capabilities that we didn't have so much in the past should be reflected in the new in the new organization. So we're feeling good. That has always been a process of people management and talent management. And as you can imagine, this is a lot of people, right and so -- but it is behind us now.

Operator

Your next question comes from Bonnie Herzog of Wells Fargo.

Q - Bonnie Herzog {BIO 1840179 <GO>}

All right, thank you, good morning. I am -- was hoping you could update us on Soda Stream and some of your initiatives around reducing or even eliminating packaging? And then, are there any examples beyond Soda Stream to which you can point where you're actively working, again, to eliminate packaging? Thanks.

A - Ramon Laguarta {BIO 18967774 <GO>}

Yeah. Yes, so Bonnie, good morning. The Soda Stream is doing very well, right. So I mean it's exceeding our expectations in terms of the growth potential and growth execution. So we're feeling good. We're understanding more about this platform we're starting to -- we're starting to put more of the PepsiCo capabilities against the Soda Stream business, especially around flavors and around some of the consumer experience with flavors, which I think were under-optimized direct-to-consumer opportunities.

So we're trying to insert some capabilities into Soda Stream, but we're running it as a separate business that should be agile and nimble and going after actually disrupting the bottle business. And that's a strategy and that is how we want to run this company -- this business going forward.

In terms of how we're looking at the plastic reduction, plastic waste reduction, a couple of things, obviously Soda Stream is a big one for us and we made some commitments recently in the US and we continue to make commitments across the world in terms of -- so what we did in the US, and lot of you read it recently, is LIFEWTR will be 100% recycled brand, recycled PET brand. We'll have no plastics on bubbly and we're going to be testing Aquafina in cans in some parts of the US, mostly the West Coast. And we made a commitment in the European Union, that we'll be 50% recycled by 2030. I think it is -- we're also exploring some circular waste management opportunities with our snacks bags in Europe especially in the UK and also in India. So we're really exploring a lot of the physiculture [ph] clarity and making some commitments on which packaging solutions we'll use.

Long term, obviously, we have efforts in the chemical recycling and new materials and alliances with other players in the value chain of chemical industry and the collection industry and the some of our partners in the brand business, the competitors and not competitors, where we're trying to make a difference in ingredient, the material solutions, chemical recycling, collection systems, everything else to try to minimize this plastic going into waste versus plastic coming back into our systems and us being able to provide the consumers with I think a very affordable and functional solutions that -- but they don't go to waste, right. So that's the principle.

Operator

Your next question comes from Kevin Grundy of Jefferies.

Q - Kevin Grundy {BIO 16423871 <GO>}

Thanks, good morning.

A - Ramon Laguarta {BIO 18967774 <GO>}

Good morning.

Q - Kevin Grundy {BIO 16423871 <GO>}

Ramon, I had a question on a couple of brands in North America beverages. So, Mountain Dew, which has clearly been an area of focused, but the brand continues to lose some share based on what we see in the syndicated data. Can you give us an update there on your strategy to stabilize the share trends and then maybe you could just briefly touch on bubbly which has done quite well, but the distribution has ramped up here, and you've spent some money behind advertising. Maybe talk about how you see the opportunity for that brand now with distribution looking rather full. Thanks.

A - Ramon Laguarta {BIO 18967774 <GO>}

Yeah, thank you. Yeah, you're right on the two diagnostics. I think we have an opportunity in Mountain Dew to recover share and we have a huge opportunity ahead of us in bubbly in creating a whole new category of beverages. So on Dew we're just -- we try to approach we had to work on Pepsi, we had to work on Mountain dew, we had to work on Gatorade.

I think we're feeling good about Pepsi. We're feeling good about Gatorade. Now we're going fully into Mountain Dew investments. We're ramped up A&M started in April, May. We're going to -- we're quite heavy across the summer and then Q4. We have a lot of innovation as well, that should help the core Dew consumer to have more options in what is a high loyalty brand.

We have, next to Mountain Dew, there is the energy category, right. So we're trying to move Dew into the energy category in small steps, Kickstart was one that we did. Kickstart is -- was a great platform. It decreased a little bit, it is starting to go up again, that should solidify Mountain Dew. And then we just launched Mountain Dew Game Fuel to put one foot into the energy category with a differentiated positioning more towards the gaming and that kind of demand opportunity. It is doing very well. We plan to continue to innovate in that segment. The numbers you see for Mountain Dew do not include Game Fuel.

So that's -- it is part of the brand, but is not in -- all your information systems doesn't show up as part of the Dew brand. But that's how we see the brand growing. You're investing in the core Dew consumer, very loyal, giving them their preferred product in non-sugar and sugar options, innovating in flavors in Dew and then moving Dew slowly into other spaces where we think the brand has a role to play, and I think we're able to formulate products that will be very competitive in that space as well.

Sorry, on bubbly, we're super happy really with this opportunity and sparkling water has always -- it's been underdeveloped in the US, if you compare with some of the European markets and we thought there was a big opportunity there. I think the R&D team did an amazing job. We have a very good product and we see that by the levels of repeat and loyalty we're creating with some of those -- with some of those flavors.

I think the personality of the brand is, it's fun, it's modern, it's young. So the consumers are coming back to bubbly. Bubbly has doubled velocity. I mean, really is doubled velocity per point of distribution in the last three, four months after the Super Bowl with this new advertising. I agree with you that there is a lot of distribution opportunities yet and it takes a while for our partners, our retailer partners to give these brands that are growing so fast the right space in the store. Obviously there is a lot of dialogs with our partners, retail partners to expand bubbly space.

So we see this brand as a brand of the future. We're going to be innovating in this brand, not only flavors, but other occasions that I think we can attack. You're going to see mini-cans. You're going to see larger cans. It is going to be a no plastic brand. We see that is a very, very good positioning that we can have for this brand going forward for the modern consumer, the Millennial and the younger mother that I think is adopting this brand for her kids.

So we're feeling very good about this brand. This could be one of our next a $1 billion brands. That's our goal with the NAB team and they're executing every step of the way with a lot of precision. So we're very, very happy with this new brand in our portfolio.

Operator

Your next question comes from the line of Robert Ottenstein of ISI.

Q - Robert Ottenstein {BIO 1498660 <GO>}

Great, thank you very much. Ramon, in your opening comments, you talked about evolving the culture of the Company. I'm wondering if you could give us a little bit more granularity on what that means. Perhaps talk about what you saw on the culture as you were there and took the helm, what you'd liked about it? What you thought needed changing? And then, more specifically, how you're implementing those changes, how they may be reinforced with your incentive programs? Thank you.

A - Ramon Laguarta {BIO 18967774 <GO>}

Yeah. Thanks, very -- great question. I think we're convinced that the culture will be a competitive advantage for us going forward and that's why the whole management team is spending a lot of time in first, defining a set of leadership behaviors that we think are core to PepsiCo and we call this the PepsiCo Way, and now rolling out those behaviors across the company in every geography. And it has been quite, quite exciting to go around the Company and see how fast the organization is embracing these behaviors and it makes us very optimistic about the future.

The behaviors, that there is a few that are critical for US investors and should impact our performance. One of them is being very consumer-centric. So we want to have an organization that creates a lot of values, a lot of value for the Company and for the investors by being -- by understanding the consumer with a lot of details, making decisions around innovation, but not all [ph] innovation, but the whole management of the Company around the consumer. I think long-term, that's going to give us a lot of differentiation and market share.

Then there is a lot of -- there is a few values around how -- about speed and ownership, which I think it's -- if you think about a large company of our scale and the competitors we have in the marketplace, we need to act with speed and we need to act as owners, right, and that's something that you can lose overtime because you know sometimes we can be more internal than we should and we become more process-driven than we should.

So what we're trying to do is make sure that our -- each one of our employees feels that he is an owner of the Company and that he is expected to act with empowerment and speed and simplicity and we're trying to simplify our processes and allow people to really behave as owners in the Company. Of course integrity is core to our values and we operate in so many countries around the world that has to be core to our -- the way we operate. And then there is values around raising the talent and diversity.

And then I would think that long term for companies like ours, bringing in new capabilities and making sure the new generations feel very good in our company, we create environments for them to thrive is critical. So we're trying to also put talent and diversity at the center of those leadership behaviors on how we recruit the best and how we make sure that they feel that this is a place where they can make a difference and they can voice their opinions and challenge the status quo and make sure that that is part of how we run the business, right, with diversity and making sure that everyone has a point of view and everyone has a -- feels that they have the right to have that point of view, heard by everybody around the Company.

Of course, then we can only do a few things, and we will have to make the choices and everything else. But that culture is critical. So speed and ownership, the talent and diversity and opinion, consumer centricity, integrity, those are some of the values that we want to reinforce. It's not that we're going to have it, but we think it's worth reemphasizing, with the final output being a great company that is focused on growth and creates value with it in the marketplace.

And of course, we don't want to lose the purpose. I think purpose is critical in any company, in any organization, in an individual today and especially if you talk to new generations they feel very strong about making a difference in the planet. So we want to make sure that purpose is part of our commercial strategy that our brands talk purpose, that our commercial teams talk about purpose and our organizations are very well rooted in every community, making a difference in how people live around us, right.

So that is the -- those are the different components of the culture change that we're making. As I said, I feel extremely excited because everybody is embracing this and obviously we're traveling a lot around the world and I see how people are talking about those behaviors and that language very consistently across the Company.

Operator

Your next question comes from Laurent Grandet of Guggenheim.

Q - Laurent Grandet {BIO 19930531 <GO>}

Yes, good morning, Ramon, and Hugh and thanks for the opportunity. Building on Lauren's question, I'd like to understand how you see international brands or platform expansion in beverages, specifically? So we were surprised by the launch of the Lavazza lineup in the UK. Is that a departure from potential Starbucks partnership outside of the Americas, or do you think both brands could potentially coexist in the future? So basically how your coffee strategy is evolving here. And then on Gatorade, we keep talking about the US, but I'd like to understand your plan to make the brand more available outside of the US, please. Thank you.

A - Ramon Laguarta {BIO 18967774 <GO>}

Right, Hi Laurent. So two things on -- obviously Starbucks is our very strong partner for many years and the value that relationship is a super, and I would say that we're very aligned. We're building a -- I think a very powerful business together in the US and some other parts of the world. Unfortunately, in Europe, Starbucks had a -- some previous relationships and that's why when we wanted to compete in the in the coffee space, we needed to find other partner and that's Lavazza, we chosen Lavazza.

So there is nothing in terms of, I would say the relationship on the contrary is extremely powerful relationship where we're creating a lot of value for both companies. Just the European piece is a bit of a separate the relationship because of existing contracts et cetera.

In terms of the Gatorade brand, it is a really a global brand in terms of consumer understanding and consumer awareness. We just made some priorities in the past of Latin America, US and China being the core markets where we want to build this brand. In the markets like Western Europe and Eastern Europe, we're choosing much more of an e-commerce type of way to develop the brand, saw a lighter investment if you wish. But it is a big priority for us and is a brand that we think we have a competitive advantage in terms of the product solutions and clearly the brand is very well recognized and it's very well perceived by many consumers around the world because of the sport -- the assets that we have in the sports world and obviously people watch TV everywhere, right, so they can see the soccer, the football, the basketball any of our assets and the brand continues to develop. So you should see us both working on coffee and sports around the world.

Operator

Your next question comes from Caroline Levy of Macquarie.

Q - Caroline Levy {BIO 1494597 <GO>}

Good morning and thank you very much. Just very briefly, if you could touch on what you're seeing in terms of the macros in -- you mentioned Brazil being very strong and some other countries. Is that -- is the Brazil really just a one-time comp issue, but more importantly was a more strategic question around price-mix realization because historically in the world of bottling where you own distribution, price mix is more valuable than volume because there's less incremental cost associated with that in delivering new volume and so I'm just wondering if over time that holds true, that your margins will improve as a function of price-mix improving, given that you own your distribution.

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

Got you. Yes, Carolina, it's Hugh. In general, I think that the macros down in Brazil are slowly improving. We talked about the fact that we were lapping some extraordinary things which made for a very high growth rate in the quarter in Brazil. But I do think we see the macros there slowly improving.

In addition to that we are using the playbook that Ramon referred to in terms of building out our salty snack business and being very methodical about it. It's a business that I've been around for a long time and has gone through multiple cycles, but I really do feel that with the leadership we have both at the sector level as well as at the business unit level, we've got the right people to execute and build that business in a very solid foundational brick-by-brick way to build another good profit platform for PepsiCo.

As regards to the specifics of the beverage business, I think our interest with the bottler in that market are very well aligned. So we benefit both from volume and from price-mix and I expect we'll continue to work closely with them to improve what's obviously a relatively small beverage business for us.

Operator

Your next question comes from Bill Chappell of SunTrust.

Q - William Chappell {BIO 1737315 <GO>}

Thanks, good morning.

A - Ramon Laguarta {BIO 18967774 <GO>}

Good morning.

Q - William Chappell {BIO 1737315 <GO>}

Good morning. Just a question on the Energy category, I mean, I get and I think most do that you're not interested in buying some of the smaller brands that are out there. But I'm surprised that we haven't heard or seen something about a Pepsi Energy drink and I understand that Mountain Dew and you have other kind of plays in the energy market. But is there something that on the cola flavored, you don't think that plays as well in the Energy market or you don't see as much opportunity, be it outside the US for the Pepsi brand and other flavors for the Pepsi brand. Just trying to understand, especially with what Coke has said and kind of their optimism about the Coke Energy product, why we haven't seen a Pepsi Energy product?

A - Ramon Laguarta {BIO 18967774 <GO>}

Yeah, good question. Energy is clearly a growing market across the world and we think that the consumer will continue to ask for products that gives them that functionality of higher energy or boost. We're approaching this from many angles right from the coffee, from the sports, from obviously the Energy category itself, right. So we're capturing some of those occasions already now. In the case of the US Energy, we have a pretty good partner for many years with Rockstar being our partner and we've been playing in this segment for a few years together and it's working also in some international markets. So we plan, obviously, to continue that relationship, innovating and see how we can accelerate our participation in that growth category.

With regards to Pepsi Energy or Coke Energy, I mean those are -- we're all trying, I think as a strategy to make our global brands play in more space right. So we're trying to do that with Lay's. We're trying to do that with Doritos or we're trying to do that with Pepsi. Pepsi actually, if you see our growth internationally, is a lot on flavors Pepsi flavor, it's a lot of Pepsi non-sugar Zero and obviously Pepsi regular in multiple formats.

I think we will keep expanding Pepsi into other spaces, whether it's energy or some other spaces, you will see when we get to the market. If you look at the -- if you think about the core Energy consumer it's looking for something different than the -- that what brand Coke or brand Pepsi can offer. I'm not saying that they will not be occasions where some of those consumers will go into our brands, but I think they're looking for different propositions.

And if you think about Red Bull or Monster or Rockstar or some of the other brands that are capturing majority of that space, they have a very different proposition, right. So I'm not saying it's not a big business opportunity. I'm saying that it's not going to be the center of the category I think. But you know more to see in the coming quarters and kind -- of course we'll keep thinking about how do we make our brands, our global brands play in more spaces, because that is a very high return on investment, normally for us, as you can see with Gatorade Zero or with Pepsi Zero. Those are -- when you put your big brands into new spaces, that is a huge, huge, huge business opportunity.

Operator

Your next question comes from Amit Sharma of BMO Capital.

Q - Amit Sharma {BIO 20024588 <GO>}

Hi, good morning everyone.

A - Ramon Laguarta {BIO 18967774 <GO>}

Good morning.

Q - Amit Sharma {BIO 20024588 <GO>}

Ramon, a question for you. You talked about stronger growth in the convenient store channel as one of the reasons for maybe a little bit more price-mix that we saw, especially for the snacks business. Can you talk about that dynamic in terms of online? As you grow your online business, should that also be a price-mix positive from a relative contribution perspective, and then, the relative size of your business in online at this time.

A - Ramon Laguarta {BIO 18967774 <GO>}

Yeah, Amit, I have two. What we've said in the past is our online business is over $1 billion, and generally speaking, it is going to tend towards smaller packages. So it's not going to be the multi-serve -- it will tend towards multi-packs and singles and things like that. So, generally speaking, that is going to be a positive from a mix perspective. Obviously we're in very early days on online, but my expectation is, as that market continues to evolve, it will be both premium in all likelihood, more singles and multi-packs.

Operator

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

Q - Sean King {BIO 20892205 <GO>}

Hi, thanks. I believe you mentioned a few specific reinvestment areas over the last couple of quarters, including a small canning capacity and Frito variety packs. Where do you stand against those specific initiatives and are you still, I guess, capacity constrained?

A - Ramon Laguarta {BIO 18967774 <GO>}

Yeah, we're putting capacity against that and I think -- as I mentioned before, I think this is going to be a long-term consumer trend. Consumers are looking for variety packs and consumers are looking for smaller portion packs. So we've put a lot of capacity in place. What we're seeing that the more capacity we put, we still are behind demand in some of those bags, in some of the geographies around the world. So we want to have to keep investing in those formats and this is a great problem to have, I would say, that you have a lot of demand for your business and that you need to put capacity in what are very high margin parts of your business. So yes, I think we're putting capacity, but we're seeing that the consumer is ready to buy more of our products in those formats. So you'll see more of those CapEx going in the future.

So, thank you for the time and participation in the call. It has been a very, I think, an open and good dialog. To conclude, we're pleased with our results for the second quarter and for the first half of the year. We're executing well against our key priorities. We remain on track to achieve our 2019 financial goals. And we thank you for the confidence that you have placed in us with your investment. Thank you.

Operator

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