Q3 2021 Earnings Call

Company Participants

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

Other Participants

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

Presentation

Operator

Good morning and welcome to PepsiCo's 2021 Third 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.

Ravi Pamnani {BIO 6230658 <GO>}

Thank you, operator. I hope everyone has had a chance this morning to review our press release and prepared remarks, both of which are available on our website. Before we begin, please take note of our cautionary statement. We may make forward-looking statements on today's call including about our business plans and updated 2021 guidance 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 October 5, 2021 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 our Q3, 2021 earnings release and Q3, 2021 Form 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 Dara Mohsenian with Morgan Stanley.

Q - Dara Mohsenian {BIO 3017577 <GO>}

Hey, good morning guys.

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

Good morning Dara.

Q - Dara Mohsenian {BIO 3017577 <GO>}

Obviously, very strong topline results again here in Q3 into the full year, you now expect 8% organic sales growth will be the best result we've seen in recent history. So can you just discuss some of the key drivers behind the recent acceleration in top line growth? How sustainable they are as you look out longer term? And then also just near term, are you confident you can sustain the mid-single-digit organic sales growth in line with the long-term algorithm particularly maybe you catch up on supply or as we look specifically at 2022, could there be some risk as you cycle these difficult comparisons from 2021? How you guys think about that conceptually would be helpful?

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

Yeah, hi Dara, good morning. Yeah, listen, I think we're very pleased with the -- with the performance of the business overall. I think it's driven by -- categories are healthy, both our beverage and food categories, snacks categories are growing faster than food and beverage overall in the US and globally. So I think we're playing in categories that are doing very well. I would say during pandemic now as we are exiting the pandemic in many markets around the world. So that's one thing. The other component of our success is, I think we're becoming much more competitive across both our categories in most of the markets where we operate. And that's been a consequence of the investments we've been making in the brands, I think pretty good innovation. Obviously investments we've made in go-to-market, capacity, new capabilities, talent everything else that we've been talking to you for the last couple of years. So we're seeing the momentum across the business and we're seeing that momentum continuing into the balance of the year, that's why we are and elevating our guidance for top line and we've seen that that momentum will continue well into the -- into the 2022. I think Hugh if you want (multiple speakers) parts of the question?

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

Yeah, I am happy to jump in as well. Yeah, Dara, specifically on ''22 and I know obviously, there is always going to be lots of questions on that. Historically, you've been with us for a long time, you know, we typically don't talk about the following year until we get to February, but given the level of question and given the level of volatility, I think we thought it was prudent at least to give some indication of where we are on '22. In short, we expect our organic revenue growth in our core constant currency EPS growth to be in line with our long-term objectives in 2022.

I know that's going to sort of create a lot of additional questions and candidly we're not ready to get into all of the details of that because frankly, we're still early in our planning process. But I think we can say with confidence that we expect both revenue and core EPS -- core constant currency EPS to be in line with the long-term objectives for '22. So hopefully that gives everyone some level of comfort that as we emerge from Q4, we emerge with a lot of momentum in the topline as well as a business that is -- got its supply chain well managed and on good footing to deliver another good year, next year.

Q - Dara Mohsenian {BIO 3017577 <GO>}

Thanks, very helpful.

Operator

And we will take our next question from Bonnie Herzog with Goldman Sachs.

Q - Bonnie Herzog {BIO 1840179 <GO>}

All right, thank you. Good morning, everyone.

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

Hi Bonnie.

Q - Bonnie Herzog {BIO 1840179 <GO>}

I guess I have a bit of a follow-on question as it relates to topline and maybe specifically on innovation where we're hearing from some of our industry contacts that your innovation pipeline for next year -- you know, from what we've seen and what we've heard, it looks very robust. So just love to hear some color from you in terms of -- if you are in fact stepping up your innovation significantly versus prior years? And if so, do you think you're going to need to also step up your A&M [ph] spend to really support that -- that pipeline and ensure that these innovations really get the support they need in the bottom market? Thanks.

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

Thank you, Bonnie. It's good that you're hearing from our customers that innovation is good. So it's a good feedback. Listen, more seriously, I think we've always seen innovation as a key driver of our competitive advantage in the marketplace and we've been investing a lot in R&D, we're investing a lot in insights and we're connecting better, I think insights with R&D and the whole commercial execution to get the maximum return on those innovations. So I think the machine is is ready, and anything it gets -- it keeps getting better year after year. So here -- our pipeline is strong. I would say our pipeline in 2021 was very strong as well and we're seeing the return from that -- from that innovation. Across the world, we're trying to be much more local, much more mid-term and long term, much more incremental in the way we think of our innovation.

So yes, when it comes to the investment behind innovation, I think we have the right level of A&M, Bonnie in our business to support innovation in a big way and it's not only A&M. But as you know, we have a very strong push system that allows us to give innovation a lot of visibility and separated from the rest of the category to make sure that the trial levels are higher and the repeat levels are good. So I would say, yes, there will be a strong innovation across beverages and snacks. We think it's going to be quite incremental and I would think we have the right level of resources to support that innovation within our current algorithm. So I would not expect a higher A&M next year.

Q - Bonnie Herzog {BIO 1840179 <GO>}

Thank you.

Operator

Our next question comes from Andrea Teixeira with J.P. Morgan.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Thank you and good morning to all. I just wanted to go back to the balance of cost, supply chain and labor. In the prepared remarks, Hugh, just talked about those. Obviously, it's no surprise to anyone, but it was a 14 percentage point impact on EBIT and I understand that your cost inflation had been running around mid-single digits and such -- and as such, I think, like the EPS and you having the pricing coming through also in the fourth quarter strongly. So should we read the EPS flow of $1.47, a reflection of those -- of increase A&M you said and not necessarily for 2022, but perhaps you're not going to flow all of the upside that we saw so far in the year into the EPS for the year just because of these investments to set said you up for a strong '22; is that the way we should read?

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

Yeah. Andrew, good question. I think I would think about it this way. Obviously, we've given some pretty specific guidance in terms of where we expect EPS to land for Q4. You know that we forward buy six to nine months, those hedges that we had in beginning of the year are starting to roll off, the new ones that are in place are higher cost. We had shared on the last call as well as in the prepared remarks today, that we expect to be able to price through that the inflation that we're facing, whether it be commodities inflation or other types of operating expense inflation.

Some of that pricing occurred in the summer, much more of it is occurring in the fall in the beverage business and substantially all of it for 2021 in the snack food business is occurring really as we speak during -- during these weeks right now. You also know that we forward buy that six to nine months out. So we will have a better handle on where exactly 2022 costs are going to land as we get into the first quarter of 2022. And I would expect this to price a bit more to be reflective of some of that sort of finalization of costs during the course of 2022. So Q4, some of the pricing coming through, the balance of it coming in Q1 of 2022 and the EPS guidance is reflective of all of that.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Great, thank you. I'll pass it on.

Operator

We will take our next question from Lauren Lieberman with Barclays.

Q - Lauren Lieberman {BIO 4832525 <GO>}

Great, thanks. And just to follow up on that, I mean -- Hugh your comments on you forward buy six to nine months and so you'll have more visibility as you get into the first quarter onto the cost base that suggests a lot of pricing. And so I was hoping you could just comment on elasticity, whether what you're seeing in terms of your models, if you're seeing less elasticity than traditionally because the innovation has been so strong, if it has to really get a read because of all of the COVID comparisons that are flowing through consumer behavior right now, but curious on the elasticity piece because it does imply a lot -- a lot of pricing? Thanks.

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

Yeah. Lauren, I'll take -- I'll take a first go at this and then maybe Hugh can add some more comments. What we're seeing across the world is much lower elasticity in -- on the pricing that we've seen historically and that applies to developing markets, Western Europe and the US. So across the world consumer seems to be looking at pricing a little bit differently than than before, it could be several hypothesis. I think in our case, our brands are stronger and I think our innovation is stronger as you are saying, so that could be a factor. There could be also some behaviors as consumers are shopping faster in store and they might be paying less attention to pricing as a decision factor and there might be even more relevance to the brands or brands that they feel more a bit closer to a more -- yeah, I would say closer more and more emotionally attached to as our brands. So we see less elasticity and we're adjusting our models as we go and that's obviously informing our decisions as we price balance of the year and into 2022.

Operator

And we will take our next question from Bryan Spillane with Bank of America.

Q - Bryan Spillane {BIO 2147799 <GO>}

Hey, good morning everyone. My question -- my question is around AMESA and APAC. And if we look at the year-to-date profit contribution from those two segments, it's contributing about a quarter of the -- of the operating profit just incremental dollars, right. If you look at it on a currency neutral basis, you've got a pretty healthy gap right on currency neutral operating profit growth versus what the -- the currency-neutral organic sales growth is. So I guess my question is, just are we at a point in those two segments where there is enough scale, where you could really start to see a sustained margin improvement and profit contribution to the total going forward or is there something just sort of unusual in the near term, that's just driving those margins?

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

I think Bryan your two hypotheses are valid. I think there is a -- a lapping effect, so, especially AMESA last year suffered a lot, given its geography. So India, Pakistan, Middle East and Africa clearly they were challenged last year. They're coming back is a very beverage-focused business, clearly it was more impacted by the COVID mobility restrictions. So we're seeing -- we're seeing those business is coming back and we have high -- high scale and we have high share in many of those markets and our advertising and marketing is doing very well. So part of that is lapping.

Your second question on scale, yes, scale is getting obviously every year, you see the growth level on the top line. We're getting to scale levels that are pretty good in many of the critical markets in that -- in that region and that's giving us obviously the opportunity to do better in the marketplace and the flow-through is also stronger. So I think the two are relevant, if you think about the business going forward, those are very strategic markets for us going forward. And we continue to invest in everything from technologies, so we can expand the portfolio, talent. Obviously there is a -- there's a war for talent in that part of the world. I think we're a scale company that does a good job with developing talent in that part of the world and then obviously our go-to-market being very strong. We have very good bottlers and wherever we have our own operations, especially in the food business, we're also investing in digitalization and everything that goes with being more precise and more agile. So I hopefully I'm answering both the short-term, but also more especially for me the long-term of how we see that part of the world, yeah.

Operator

And we will take our next question from Laurent Grandet with Guggenheim.

Q - Laurent Grandet {BIO 19930531 <GO>}

Hey, good morning everyone and congrats on the strong quarter in that very volatile environment. So talking about innovation, it's great to see you leading the company pushing the usual boundaries. So during the quarter, you announced a partnership with the Boston Beer Company to introduce Hard MTN Dew in the US. So the question is not so much about the potential of that initiative, but more on the route to market you decided to choose. So would like to understand why you decided to create your own distribution rather than rely on the Boston Beer wholesaler network? What is the endgame here? And by extension your strategy in alcohol here in the US and internationally? Thank you.

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

Thank you, Laurent. Listen we have a good partnership with the Boston Beer Company and they have the R&D and the knowledge in this space that we don't. We have the brand. So Mountain Dew, I think it will play very well in that space. It will be quite differentiated in terms of the flavor profile and the emotional connections. So that's how we're thinking about it in terms of the first step into this market. From the distribution point of view, we think we have a -- an opportunity to create a -- a distribution system in the US that is quite unique in the sense that it will be an integrated distribution system that can make coordinated decisions across multiple states from one decision point and that could be, I think, competitively advantaged. So, we're starting with a number of states where we have the license to operate and we'll take it from there. We feel optimistic, we think it will be very incremental. It would help us with the drop size. It would help us with the economics of the routes eventually and within the same as we're doing with a chill distribution system that goes very (inaudible) and is unique and it covers the whole country. We think we could eventually vision a distribution system that can be quite (inaudible) and quite integrated on the low alcohol part of our portfolio as well.

Operator

We will take our next question from Vivien Azer from Cowen

Q - Vivien Azer {BIO 16513330 <GO>}

Hi. Yeah, I was hoping actually to follow up on the Hard Seltzer questions please. Just curious your impressions of the overall category. It's obviously been incredibly contentious the decelerating trend. And whether you had all discussed perhaps introducing Mountain Dew as a canned cocktail as opposed to Hard Seltzer, because it does seem that that's where the consumer is moving? Thank you.

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

Yeah, listen -- our view on the category is -- it's very sizable. It think it's almost $9 billion retail value now and growing 20% and with high good margins above the average of the category. So clearly a space where we should be playing and that's how we're thinking about -- about this. We see consumer trends that favor that -- this category will continue to grow in its current form or with new innovation; so that's why we decided to participate. Our first entry is with Mountain Dew and Mountain Dew is going to be a flavored malt beverage, not a hard seltzer. I think it will be a differentiated flavor and with a very unique brand. So I think we can carve out our own space in that -- in that, what is in a relatively crowded market and we'll take it from there. Obviously, we have a pipeline of ideas that we will be disclosing as we go.

Operator

We will take our next question from Kevin Grundy with Jefferies.

Q - Kevin Grundy {BIO 16423871 <GO>}

Hey, good morning everyone and congratulations on the strong result. Ramon, I wanted to ask you about the decision to sell the juice businesses and the sort of overall satisfaction with the portfolio. So the draught [ph] business of course has been with the company for, if I'm not mistaken over two decades, you go back over the years. The Quaker business has had a nice balance, I think there has been some discussion in the marketplace about a potential divestiture there from time-to-time. Maybe you could just sort of walk us through the decision to sell the juice business, what went into it? Hugh maybe comment on preliminary thoughts on uses of the proceeds when the deal closes? And then, Ramon just broadly the overall satisfaction and potential other areas of divestiture? Thank you.

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

Yeah. Kevin, good morning. Listen, I think we've been looking obviously at our portfolio, since I started with you on the team and we've added some assets to the company in high-growth spaces, long term. We've added assets in Africa. We've added assets in China. We've added assets here in the US that allow us to grow into new spaces, value-added added dairy or energy or healthier snacks. We've made some decisions over the last two years to add assets that will give us accelerated growth.

At the same time, we've been looking at other parts of the portfolio where by the long-term growth and the long-term margin creation is less exciting and in that context, is where we see the juice business -- is a good business, but that is probably not a business that we think we can grow at the speed and with the margins that we're going to grow PepsiCo overall and that's why we decided to make this decision. We found a great partner in PAI. They have very good experience with previous similar partnerships with other large food companies. We believe we have a way for this JV that we're creating to continue to create synergies on the operational side for the juice business, continue to innovate and make sure that our brands, because we're going to be 40% of that JV continue to thrive and compete in a better way that they would probably do in our -- in our portfolio where we have a lot of choices, where to invest and where to focus. So that's the -- that's Kevin the logic behind this. That now, Hugh, can tell you about the -- more of the financial part, which is also very attractive, I would say.

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

Yeah, Kevin, no change to what we had previously communicated on use of proceeds. Number one, we will use it to reduce debt. Obviously, we're losing some EBITDA, so we will adjust our debt levels to reflect that. Number two is, we have been -- we'll use the funds to invest in organic CapEx back into the business. Obviously, it begs the question and I can see where people might go into, what does it mean for share repurchase in 2022? And the answer is, we'll talk about share repurchase in February on all of that. To me that's a broader question on guidance. So, but I know that question is out there, so wanted to at least say, we'll deal with that when we get to '22.

Operator

We'll take our next question from Wendy Nicholson with Citi.

Q - Wendy Nicholsos

Hi. And my question is a follow-up, but not -- not specifically on the share repurchases. But this year or sensibly you said you wouldn't be buying back as much stock because you wanted to invest in some of the acquired businesses. And I have two questions on that, number one, we haven't as of the nine-month seen CapEx actually pick up meaningfully, so I'm wondering what sort of the investments you are making? Is it still CapEx to come in some of those acquired businesses, but also you cited those acquired businesses as being a primary reason for your gross margin erosion in the quarter and I'm wondering how long that will persist? Are those businesses just structurally lower gross margin? Do you think that's going to be something in perpetuity or are there things you can do either pricing or restructuring wise to get the gross margins in those acquired businesses up?

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

Yeah, Wendy I'll address both of those questions. Regarding the investments, I think the indication was that we're going to invest broadly back in the business, not just specifically in -- into those acquired businesses as it relates to CapEx. Clearly, there are a part of that mix, you're absolutely right. But -- but it was a broader comment about around CapEx and you know CapEx is at a higher sustained level than it was perhaps a few years ago as we're driving a faster rate of growth in the company and making our supply chain more resilient as well.

So I think from that standpoint, the numbers are pretty consistent with the strategic intent that we had articulated a bit earlier. Regarding the balance of (multiple speakers) in terms of the international M&A piece. We're through the overlap period. The biggest driver on that obviously was Pioneer to some degree (inaudible) as well as, the lower gross margin business. We really are through that as of the end of the second quarter. So that's -- that's not an impact in mixing our margins down any further that we're past that as of the Q3 results.

Operator

We will take our next question from Nik Modi with RBC Capital Markets.

Q - Nik Modi {BIO 7351672 <GO>}

Yeah, thanks, good morning everyone,. Ramon, I was hoping you can comment on just general strength in packaged beverage. I mean, I think all of us have been pretty surprised by the strength, especially with all the pricing in the marketplace. So I was wondering, just from a consumer insight standpoint what do you think is driving that despite the mobility improvement we're seeing?

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

Yeah. Nick, listen, yeah, clearly the category is very healthy across the world, obviously, the US, Western Europe and also developing market. We're seeing obviously the away-from-home business picking up. We -- I think in Q3, our food -- away-from-home business is a 90% indexed to '19. It keeps going up with every month that goes by. So clearly that's a very positive sign. Now, our convenience store business continues to do very well as consumers are having higher mobility, but the remarkable thing is that the in-home consumption continues to be quite high.

So consumers are not -- are still using the home as a hub and continue to entertain at home and continue to do more things at home and that's driving additional consumption at home versus the previous '19 levels. So I think we're in a very good phase, where consumption at home is higher, consumption on the goal is increasing and most of the channels in our foodservice business are picking up. So pretty good momentum. We expect those trends to continue for a while and we think that consumers have changed some of their habits from where we're reading in our insights. And we think that the beverage category is in a very positive situation for the -- for the upcoming future. We see the same with snacks, by the way. So we -- the snack business, which is obviously a big part of our growth in sales and profits, we see that category very, very consistent across the world and it was during the pandemic, it is now growing at very fast pace as consumers are gaining mobility as well. So I think as I said at the beginning, our two categories where we operate are growing significantly higher than the food and beverage categories overall. And that is an advantage that we have as a company as we play into categories that are from the consumer point of view, very preferred.

Operator

Our next question comes from Robert Ottenstein with Evercore.

Q - Robert Ottenstein {BIO 1498660 <GO>}

Great, thank you very much and apologies if somebody asked this, my phone dropped for a few minutes. But -- wondering if you can give us any kind of update in terms of your shelf space in North America on beverages? There was obviously -- resets were delayed in 2020, we've had some this year and particularly on the C-store side, where I think you were really focused on improving your position there with the energy drink offerings? Thank you.

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

Great. Yes, listen, I won't go into a lot of specifics. It is widely available information. But I would say that we're gaining space, both in convenience, as you were saying, it was a focus and we invested to gain additional space, not only for our energy business, but for making sure that our innovation was incremental in space as that's what really makes a difference in the overall output of the company. We have -- if you think about the other variable which is secondary displays or overall inventory on the floor, because we had some supply chain constraints in some of our products, we've pulled back on some of the inventory on the perimeter during the summer, voluntarily, I would say, just to make sure that we were able to service the customers at the right level that's something temporary that obviously we will -- we will push back as we -- as we improve our reliability of our supply chain. That clearly is a -- it's a positive, positive element I would say of our -- of our mix, of our top line growth. The additional space that we are -- we're driving for both our beverages and snacks across -- across all the channels. That's where we see the value of our push model where DSD is really helping us to execute with precision and not just muscle, but we're putting more and more intelligence in where we drive this space. How do we execute that space and all the positive feedback loop that we created with our people on the ground, our associates on the ground to make that a differentiation for our company.

Operator

We will take our next question from Stephen Powers with Deutsche Bank.

Q - Steve Powers {BIO 20734688 <GO>}

Yeah, hey, thanks. Going back to the top line, Ramon, as you look across the strength -- across your emerging market businesses, I wonder if there's anything you could speak to in terms of where that strength is coming from -- from a channel perspective, whether it's balanced, whether you're seeing outsized strength perhaps in places where you may have not expected it when the year began? And I guess if that answer varies by key market, those insights would be helpful as well? Thanks.

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

Yeah. Steve, a couple of things I would say, specifically to developing markets. We're seeing a higher mobility that we were expecting earlier in the year. So we've seen -- maybe we're a bit conservative as we were planning in the year in terms of how COVID would impact some of the developing markets. Clearly, the consumers have found ways to increase their mobility and going back to their -- to their routines of work or of school or whatever is -- that's helped us. The other thing we've seen positive, as I mentioned earlier is that the elasticity to pricing has been better than we had initially in our models as well. So we're seeing consumers staying with our brands, better. I think that's a consequence of the investments we've been putting in our brands. And the way we're executing our pricing decisions are much more informed by data and granularity and we're able to execute different strategies by channel, by brand in very -- in a very nuanced way. I think those two elements are reducing the elasticity impact on our -- on our business and making our international business, I think more competitive and thriving in the majority of the market. So those two will be the elements, Steve, if I -- if I had to single out what's been differential versus our original estimations.

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

And Steve, just to add to Ramon's answer with a few numbers. Overall D&E markets were up 19%. So we saw a good strong growth across D&E. And then some of the biggest markets for us. Brazil, Russia, India, China and Mexico were all up either in the teens or 20%. So, very broad-based growth across all of the big key D&E markets for us.

Operator

And we will take our next question from Kaumil Gajrawala with Credit Suisse. Your line is open.

Q - Kaumil Gajrawala {BIO 20703548 <GO>}

Everybody, good morning. Can we have -- would you guys mind giving us an update on SodaStream, you've obviously owned it for a good period of time. You've mentioning in a bit more now. It feels like the pandemic could have been a moment that really, very structurally changed with the feature of this business might look like. So maybe just starting with how big is it now, what's household penetration looking like and perhaps some of your plans there? I think that to be useful. Thank you.

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

Yeah, Kaumil, let me take -- won't go into specifics of -- but it's clearly the business as -- as we continue to invest in that business. It's very successful and is a key strategic driver of our future growth as a company. In terms of the performance, I would say we keep gaining penetration in what are the core markets, core markets be in Central Europe, Northern Europe, Canada and the US, some parts of the US. Household penetration is increasing retention of those -- of those households is improving. There is a few things we're doing structurally with that business that I think will even accelerate its growth. One is we're building a direct-to-consumer business with SodaStream that is very relevant as it gives us a lot of first-party data, it allows us to have a lot of individual connection with consumers, understand their behaviors.

And with that, we can -- we can ideate new products and we can also increase the -- let's say the lifetime value of those consumers. So that's one big driver. The other thing we're doing especially in Europe, if we're putting our brands in the SodaStream model, so we're giving consumers the opportunity not only to drinks sparkling water, but to drink sparkling water with the best preferred flavors and the best brands or their favorite brands, be it Bubly, be it Pepsi, bet it Mountain dew, 7UP, whatever in our international market. So that's a big driver of the -- how we think we can increase the lifetime value of those households and generate additional -- additional value. If you think about the -- our positive commitments in how we think we can change the -- the the footprint -- environmental footprint of our categories SodaStream is a big driver of that -- of that future consumption model.

Operator

We will take our next question from Sean King with UBS.

Q - Sean King {BIO 20892205 <GO>}

Thanks for taking my question. It's a question about energy drinks. I guess you mentioned in the -- in the 10-Q, seeing double-digit volume growth, it's not necessarily what we're seeing in the Nielsen data, is that how you're defining the category or just channels that were not -- that we're not capturing in the track channel data?

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

Yeah, Sean. I think it's the latter. It's more channels that were -- you're not capturing in the Nielsen data. Obviously energy is -- is big in the unmeasured CNG channel and given the DSD strength that we have, we probably over indexed in those channels. So you're just not seeing the data relative to what we have.

Q - Sean King {BIO 20892205 <GO>}

Great. Thank you very much.

Operator

And our final question comes from Chris Carey with Wells Fargo.

Q - Chris Carey {BIO 21810941 <GO>}

Hi, thanks so much. Just a bit of a higher level question that relates to a prior answer. Just -- can you just maybe discuss how positive it's going to shape this portfolio over the longer term? I mean clearly Tropicana had the financial aspects as you noted, but there is other concepts, which has helped a lot that are clearly relevant. There is clearly a desire to see our businesses with no single use packaging, but obviously that's countered much of your business today. I imagine this pushes innovation streams even more into health and wellness. So I guess the question is just how pep positive is going to shape this portfolio over the longer term beyond just what are obvious financial considerations of some of your recent transactions? Thanks so much.

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

Yeah, that may be -- I mean there are three pillars to the pep positive, one of them is precisely on the portfolio of positive choices. And I think you could vision -- visualize this as multiple vectors. One is, yes, we want to make sure that our products -- current products are much better. So imagine, a Lays -- let's say -- let's take Lays for example, you should imagine Lays continuing to have the same great taste, but having the lower sodium levels in the market and being -- being cooked with the -- with the best cooking oils. I mean that is our commitment. We're going to continue to give you the best tasting products in -- in better -- in better, let's say nutritional forms.

Now you should also imagine new consumption models. As I was saying Gatorade in powder or in tablets, that's clearly better for the planet and probably easier for consumers as well. You should think about SodaStream as a consumption model or you should think about SodaStream Professional in the offices, so we moved consumption to -- with refillable, reusable models. And then you should also think about innovation in a way that we bring to the consumer products that are better for the consumer and better for the planet. For example, more legumes, we're adding legumes to our snacks portfolio. Legumes are -- can be use -- can be used as cover crops that clearly impact better agriculture, but at the same time are more nutritional to consumer, chickpeas and others.

You should think about innovations like we are working on with our Beyond Meat partnership, where we're going to have protein solutions that are not from animals and therefore will be better for consumers and better for the planet. So multiple levers of how we're planning to evolve the portfolio with a lot of emphasis on making our current portfolio, which is beautiful, more -- say more nutritious, innovating in new consumption models and also innovating in new platforms that will be better for consumers and better for the planet. That's how you should visualize, the evolution of the portfolio in the coming years.

A - Ravi Pamnani {BIO 6230658 <GO>}

So thank you to everybody for your good questions and your engagement and for your confidence that you've placed in us with your investments. And we wish you all to stay safe and healthy and look forward to our next interactions. Thank you.

Operator

This does conclude today's PepsiCo quarter three 2021 earnings conference call. You may disconnect at any time and have a wonderful day.