CAGNY Conference

Company Participants

- Brian Cornell, CEO, PepsiCo Americas Foods
- Jamie Caulfield, SVP of IR
- Tom Greco, President, Frito

Other Participants

- Unidentified Participant, Analyst, Unknown

Presentation

Brian Cornell {BIO 1841158 <GO>}

It is really a pleasure to be here with you today and Tom and I are looking forward to walking you through our North American performance. On behalf of all of us who came down here from New York this week, I also want to thank you for giving us even a couple of hours away from the Northeast chill. So it is a pleasure to be here with you in Florida.

Before we begin let's take note of our safe harbor statement. As you know, some of the statements today will include forward-looking remarks and non-GAAP financial measures.

Now for those of you who I have not personally met or have not had a chance to meet Tom Greco, let me quickly handle some introductions.

Now after spending many of my early years at PepsiCo working in both North America and Europe, as was mentioned, I spent a few years receiving little education in US retailing, spending time working at both Safeway and as the CEO of Sam's Club. I am now moving into my third year leading our America's food businesses. And as I like to say, I really do feel as if I never left PepsiCo, I just missed a few meetings along the way.

Tom Greco, who is here with us today, leads an outstanding business and team as Frito-Lay North America. Tom has also had significant roles in his career at PepsiCo, as the Chief Commercial Officer for our America beverages business, as the President of Global Sales and as the President of Frito-Lay Canada.

Now let me start by turning our focus to North America, which for PepsiCo, as you know, is a critical driver of our PepsiCo revenue with over 50% of PepsiCo's revenue coming from the United States. North America is where our businesses of PepsiCo

America Foods, our American beverage businesses and Quaker North America are based. And because we manufacture and distribute both leading food and beverage products we have significant scale in many of the markets we serve and particularly right here in the US.

As you can see on the right-hand side of the screen, our measured channel sales are nearly twice the size of the next largest food and beverage competitor here in this very important US market. But as you've been hearing all week throughout this conference, the industry is seeing significant changes in the consumer and in the retail landscape.

In the consumer space we are seeing strong demographic shifts with the rise of the millennial generation while millions of baby boomers are aging and retiring every year. Additionally, we are seeing growing diversity in the United States with the growth in Hispanic and the Asian population.

Against these changing consumer dynamics we see shifting needs such as the increased need for portability and on the go options. With our customers we are seeing significant channel shifting. With the value channel, such as dollar stores. And the premium channel growing faster and becoming a bigger grocery shopping destination. We see new formats emerging such as e-commerce, options like AmazonFresh and the continued growth of Walmart.com.

To deliver in this new environment we need to center on the power of the "and", A-N-D. Our playbook balances focus and scale. We believe that in this slow growth North American environment we are going to need to focus on scale and we're going to need to make sure we are focused on operating our businesses to win.

In order to grow our key categories we are focused on understanding what it takes to drive growth in individual categories. We have made significant investments in the Frito-Lay flavor kitchens, our culinary center, to create and test outstanding new flavors that are now appearing in our Frito-Lay products here in the US as well as products around the world.

Balancing this focus is scale, which enables us to have the money to pay for the capabilities to grow and effectively execute our playbook. Our size gives us scale leverage in areas such as procurement, IT, back office, joint PepsiCo customer teams and R&D innovation, allowing us to create new growth opportunities while delivering productivity and higher margins.

To deliver on focus and scale our playbook is anchored on four key priorities -- building our brands; driving consumer led innovation; enhancing execution; and continuing to deliver productivity. So first let's discuss how we are building our brands.

In the United States market today we have 19, $1 billion global brands. Globally we have 22, $1 billion global brands in our portfolio. Over the last few years we have significantly increased our support in building these brands, reinvesting some of those productivity savings.

To continue to build these $1 billion brands and our regional and local brands we have leveraged investments we've made in foundational demand space insights. Let me highlight some of those insights we have gained from our proprietary methodology which was first piloted at Frito-Lay North America and is now being extended to our beverage businesses.

We know from our proprietary insights that currently 65% of the addressable US snacks, breakfast and beverage market addresses common or complementary needs where snacks, breakfast and beverage brands interact. You know yourselves the choices you make at breakfast or at a break during the day, be it the iced coffee you drink with a snack in the middle of the morning or the chips you eat with a drink at the end of the day.

Our foundational demand space insight helps us better understand how to position our brands to meet these common or complementary needs. These insights also drive new innovation as well as the promotions we design. Understanding how to best fulfill these common or complementary needs is the basis for our approach to Better Together.

For the remaining 35% of the market it is crucial to understand what drives distinct consumer needs. One example is the work at the Gatorade Sports Science Institute to better understand the hydration needs in the recovery after a workout.

At PepsiCo our investment in insight highlights for us that growing the business will require addressing both these distinct needs and the common or complementary needs. It is this philosophy, coupled with our desire to give consumers a choice that ranges from good to you to fun for you that underpins our PepsiCo portfolio.

Given these demand insights let me take a few minutes and highlight a few demand opportunities we are currently targeting. In the morning the jumpstart demand space where we have Tropicana, Naked and Quaker brands to leverage and pair together to prepare consumers to start their day.

In the office/school break demand space we have products like Starbucks beverages and our Frito-Lay multipacks to help our consumers address their hunger and perform throughout the day.

For our young and hungry consumers we have the absolute perfect pairing, Doritos and Mountain Dew, which combines two fast-growing brands.

And finally to connect and have fun times together we have our Pepsi CSDs and Tostitos chips and salsas.

The promise of Better Together is realized when we innovate for these common or complimentary needs, position our brands as a portfolio to meet different needs and drive co-merchandising and co-promotional support.

One very successful example that really highlights how insights are driving our promotion is the gaming pairing of the limited edition Doritos gamer pack and the Mountain Dew game fuel. We activated these products through a promotion where each product sold enabled our consumers to win points and potentially win an Xbox One. We allowed that young and hungry consumer to fulfill some of the requirements by buying Doritos online at Amazon.com. Suffice to say, the gamer promotion was a huge success.

Now let me turn to our second priority, innovation. We have leveraged our proprietary demand space insights to step change innovation at PepsiCo. Our record in 2013 has been outstanding. Nine of the top 50 innovations in the US in 2013 were PepsiCo products. Nine of 50. We have spoken previously about the successful work we've completed with Taco Bell. Tom is going to highlight that later today.

But based on our culinary innovation and expertise across food and beverages we recently won a food service partnership with Buffalo Wild Wings. We are busy at work right now with Buffalo Wild Wings creating some new excitement for their upcoming menu.

Our third priority is execution. We come together across food and beverage to deliver integrated execution both at the customer headquarters and in each and every store. At the headquarters of our major customers you will find joint business planning processes along with dedicated PepsiCo customer teams. In stores you see integrated food and beverage displays and promotions.

PepsiCo is a company focused on execution and we are building the appropriate tools and frontline culture to further strengthen our executional capabilities. And one of our customer teams, the Dollar General PepsiCo customer team, was awarded the marketer of the year.

This is just one of the many examples; we are routinely recognized by our largest customers for our broad food and beverage expertise and our ability to drive growth across their total box.

Our PepsiCo sales teams work with our retail partners to leverage our insights, our brands and our executional capabilities to create excitement for their shoppers.

Now I'd like to show you one of the examples of how we brought insights to media and all the way to the shelf with one of our key customers, Walmart. This is an example of an ad they run for a program they call, game time. Let's run that clip.

(Video in progress).

Now as you might imagine, I absolutely love that ad. And it is the ultimate example of Better Together at PepsiCo. And I can tell you nowhere was our execution more visible than at the Super Bowl a few weeks ago. No Company, no company showed up for the big game the way we did -- print, outdoor, mobile, digital and outstanding in-store execution.

Finally, all of this is underpinned by a productivity agenda that uses common engines, tools, systems across both snacks and beverages. For example, you have heard about our go to market engine for Frito-Lay. We call it GES; it stands for Geographic Enterprise Solutions. GES is a critical investment that drives large productivity across Frito-Lay.

We are making the investments to scale GES across North America and at the same time we are now scaling GES to other markets including some major metro markets in Latin America. We are also scaling up a GES like approach in beverages with an investment we call geo box. In part through these initiatives we expect to continue to deliver $1 billion of productivity a year through 2019 across PepsiCo.

We've also spent time wiring PepsiCo to gain leverage from our scale both in North America and globally. Our capabilities include global procurement, integrated IT, joint customer teams, global R&D and worldwide talent management enabling us to provide cross sector experiences.

Having made these investments we are now realizing the benefits, much as you saw with the Walmart ad, with new innovation we are bringing to the market as well as margin increases we're seeing across our total North American businesses.

In summary, we are truly operating as one PepsiCo and we're focused on going forward and executing our playbook Better Together through our brand building, driving insight led innovation, enhancing our execution and driving productivity across our system we are prepared and ready to win.

Tom is now going to take you through how that playbook unfolds at Frito-Lay and then we will come back and handle Q&A at the end of Tom's presentation. Tom.

Tom Greco {BIO 15063682 <GO>}

Thanks, Brian. Good afternoon, everyone. It is really a pleasure to be here today with you to talk about PepsiCo. As you saw last week, 2013 was a very strong year for Frito-Lay. We delivered balanced performance across each of the key metrics. We are pleased to report volume growth of 3%, net revenue growth of 4% and 6% growth on the bottom-line.

Importantly, we made excellent progress on market share as we held or gained share in all of the market share metrics we monitor across both the US and Canada.

And trust me, we watch market share every single week.

Importantly, we are very focused on PepsiCo's long-term growth model and the building blocks that are central to the success. First, building brand that consumers absolutely love. Second, driving excitement to our category by offering differentiated innovation targeted to specific consumer occasions and needs. Third, executing with absolute excellence throughout our supply chain and in the marketplace. And fourth, accelerating productivity to grow.

Since we look at every aspect of our business through the lens of the consumer let's start with how we create demand. Two years ago we introduced a new consumer framework, demand spaces. The intention of this work was to go very, very deep on snack occasions. To understand thoroughly and completely what drives choice within the broader macro snack universe of over $100 billion.

We went deep on how people snack when they are alone, when they are with others. We better understood how health and wellness impacted decisions on snacking. The foundational insight here was that drivers of needs differ based on the context of the occasion. Fundamentally, brands and products that deliver against the identified occasion specific attributes drive consumption and market share.

Knowing that there are approximately 67 snack occasions per month in America helped us better understand the size of the prize and how to get there. As you can see, we still have plenty of room to grow with just eight of the 46 macro snack occasions per month. To reinforce -- all of our work starts and stops with consumer demand insights.

We understand the size and growth potential of each demand space. More importantly, we know how and why consumers make choices inside each demand space. We have learned a great deal about these demand spaces in the past two years with much yet to be learned and applied to our business.

These demand spaces inform everything we do, our innovation agenda, our brand building, our media plans and how we execute in the marketplace. We call this, media to shelf. As an example, Lay's Do Us A Flavor was a huge brand building investment to capture what we call the enjoy and indulge demand space. What better way to capture this opportunity than to let consumers create their own brand of Lay's?

Do Us A Flavor invited consumers across North America to submit a flavor that they wanted us to launch. We expected a big response but we were overwhelmed when the final submissions were dramatically above our expectations.

This campaign had a terrific blend of brand building elements. Breakthrough digital and mobile engagement was embedded in every single touch point all the way to the shelf. Let me tell you the finalists -- Cheesy Garlic Bread, Sriracha and yes

Chicken & Waffles were flying off the shelves when we brought them to market. This year the program will be even bigger.

Let's take a look at how we are introducing it. It is called choose your chip. Let's roll the video.

(Video in progress).

Believe it or not on the launch day we had over 100,000 submissions in 24 hours. Of course we are no strangers to putting consumers in control of our agenda. Once again we had great success this year with our Doritos Crash the Super Bowl event.

Within the young and hungry demand space Doritos has a heritage of putting control in the hands of its fans and empowering them. This year we went global and we had submissions from all over the world. Two of the 5,400 consumer generated ads finished in the top four on the USA Today ad meter.

In every year we have run Crash the Super Bowl we finished in the top four. Time Machine received the most fan votes and cost our winner just $300 to produce. Let's watch.

(Video in progress).

I think you will agree that Doritos consumers not only love our brand, they are very clever and very creative.

In addition to marketing we have also significantly stepped up our investment in R&D to drive differentiated products. And as a result 2013 was one of the biggest years for innovation in our history. Our innovation sales as a percentage of revenue increased a full point versus 2012 and it was more incremental than in the past.

We captured the party occasion with Tostitos cantina, as Brian mentioned. A blockbuster innovation which achieved more than $100 million in sales in 2013. We also had success through Lay's Do Us A Flavor and Cheetos Mix-Ups.

Additionally, we are continuing to build our foodservice partnerships through innovation. As Brian said, our beverage relationship opened the door for us with Taco Bell to unlock growth in the huge away from home consumption occasion. Doritos Locos Tacos' cumulative sales are now over $1 billion. Following the highly successful launch we are adding six additional PepsiCo beverages to the Taco Bell lineup to help beverage buffs Live Mas while they sip.

Additionally, Taco Bell will be the first national QSR to offer Manzanita Sol, an apple flavored soda that has crossed borders. In fact our 2014 innovation calendar is loaded across our portfolio. As examples, we will capture the party occasion with

Tostitos Fajita Scoops and Queso Blanco; both of these products are off to a blistering start.

Young and hungry Doritos consumers can look forward to three mystery flavors in a bold flavor experiment. These flavors are so bold we couldn't go through our normal test protocols. We are looking for bold taste testers across America to tell us which one is boldest.

Rold Gold provides fun break time snacks that deliver on taste and enjoyment. Rold Gold pretzel thins will deliver on this. It is a thin flat pretzel with new packaging and Frito-Lay flavor expertise.

Squarely on trend for healthier snacks we continue innovating with our Sabra JV including new flavors as well as a Sabra Rold Gold grab and go package.

Of course our investments in brand building and innovation are ultimately dependent on wiring our execution. As I mentioned earlier, our ability to execute our plans from media to shelf is a true differentiator for Frito-Lay.

Over the past two years we have made substantial investments in our execution capability. The end result is an integrated execution platform that enables us to celebrate our brands in retail stores and foodservice operators across the country.

Last year's Do Us A Flavor captured the nation by storm with eye-catching displays like this. And you can see this year's Choose Your Chip displays on the right and in the marketplace right now. These displays celebrate what Lay's is all about -- enjoyment, fun and indulgent flavors.

of course Frito-Lay snacks are always Better Together when paired with Pepsi. This is exactly what we have done with Juntos Disfruntamos Mas, which means together enjoyed more. We have launched this integrated Hispanic campaign on holidays. This program has been a driver behind driving increased relevance with our Hispanic consumers.

Our growth drivers at PepsiCo are very clear -- brand building that breaks through; consumer led innovation; and absolutely best in class execution. I'll be the first to acknowledge that these skills are not unique to PepsiCo or to Frito-Lay. What I can say is that very few companies can put them together the way we can with the scaled brands that we have.

We are able to invest in brand building innovation and execution through a robust productivity pipeline. Brian talked about PepsiCo's productivity planks earlier. Today I will talk specifically about GES. GES stands for Geographic Enterprise Solutions and it is both a productivity engine and a growth enabler.

GES is up and running in four sites across North America, in each case the project has delivered against our internal hurdle rates. We monetize GES by realizing lower inventory, accelerated growth, reducing cost, expanded SKUs in our DSD network and improved freshness.

The terrific thing about GES is our customers absolutely love it. GES eliminates touches, it takes product hot of the manufacturing lines and delivers it direct to store where a professional Frito-Lay salesperson merchandises it.

What is left you ask? The retailer simply needs to check the product out at their register. Bottom line, GES is an outstanding cash flow story for our customers. Productivity initiatives like this allow us to invest in the business and complete the virtuous circle.

So in summary, we are very excited about our current momentum at Frito-Lay North America, we are fortunate to be participating in an attractive category. We see significant runway to grow in the broader macro snack universe. And our competitive advantage is our ability to integrate the components of our growth model all the way from demand occasion to the store and bring media to shelf to life.

Finally, we are in a great position to leverage the strength and scale of PepsiCo. At this point Brian and I would be happy to take any questions.

Questions And Answers

Q - Unidentified Participant

Thank you. I guess just two questions. First, there was a white paper that was published earlier this morning. So understanding that Pepsi has put out a press release. But to the extent that you can all talk about your response to that if there is one?

A - Brian Cornell {BIO 1841158 <GO>}

Brian, I would be happy to clear that an answer that right up front one time and try to put that to the side for the rest of the Q&A. And the answer is going to be no different than the answer you heard last week. And we have obviously spent a significant amount of time studying different structural options.

We have reviewed those from a management standpoint, we have reviewed those with the Board and we have concluded the best option for the Company and for shareholders is to keep these businesses together.

So we are shifting our focus now to running the business and really making sure that the playbook that Tom and I talked about today, we focus on building our brands, bringing great innovation to both snacks and beverages here in North America, elevating our executional focus and driving productivity across both beverages and snacks. That is where we are going to place our focus. But we have spent a lot of time looking at it, Brian.

Q - Unidentified Participant

If I could just ask a follow-up about the process. There has been a lot of discussion about the beverage business and the effect of the beverage business.

But from your perspective as the Company went through that process and you had to look at the prospect or potentially at the prospect of operating a food business, a snacks business without the beverage business, could you talk a little bit about maybe what insights you have learned, what is different, what you have learned through the process and what led you from the food side or from the snack side to come to the conclusion that you are better off together?

A - Brian Cornell {BIO 1841158 <GO>}

Well let's step all the way back and really talk about the power of the PepsiCo portfolio today in a market like North America. And as you know very well, beverages continue to be the largest sub cat across North American food and beverages. It is a very big category.

It is going to be big in 2014 and if I come back and talk to you five or 10 years from now we will continue to talk about the importance of the beverage business in the US. So a scale business. It provides leverage across our entire portfolio. As a combined food and beverage company we are the number one supplier to our customers here in the US and across North America.

It brings benefits to our snack business in many of the challenges -- or channels where averages have a very strong level of penetration. Channels like C-store, the opportunity that we have talked about in foodservice where, based on our beverage relationship with a company like Taco Bell we've been able to expand our snack and culinary presence. The same thing is going to take place with many other food service operators.

So this is a big and important category for retailers. It wasn't that long ago I was sitting in one of those retail chairs. Every week you talked about how you were going to advertise, merchandise and promote beverages. So it gives us a very important seat at the table.

We also have a very attractive position, as you know in the LRB category. We have brands that are in the growth spaces, brands like Lipton where we are seeing great performance with Pure Leaf. Brands like Starbucks that are driving growth in iced coffees. Great trademarks like Gatorade in sports.

So we have a great portfolio of LRB products that are pointed in the right direction today. And we think across North America the combination of snacks and beverages gives us a very unique position with our customers but, importantly, with the consumer.

All of the demand space work we have done has really given us clarity around how well snacks and beverages work together in the a.m. day part, in that break time occasion, at the end of the day -- and we think it puts us in a much stronger position to operate as one company, continue to leverage the scale to drive procurement savings, savings in our IT and back-office services and continue to make sure that we are sharing insights and leverage across our go to market systems.

So we've done the evaluation, we have gotten a lot of input from others from the outside, we looked at this from every single angle and we're absolutely convinced this is the right decision for the Company, it is going to make us a stronger snack food business, we're going to continue to strengthen our beverage portfolio and we're going to focus right now on really operating these businesses and rolling out our playbook.

Q - Unidentified Participant

Tom, Frito-Lay North America margins are at the high end of your CPG peers, you talked about productivity in the GES program. Are you comfortable you can get significant margin expansion as you look out over the next few years or should we expect a lot of that productivity to be reinvested back behind the business?

Then from a top-line perspective, you obviously had strong performance in 2013 which you highlighted particularly with the innovation success. As you look out to 2014 are you comfortable that can continue particularly with some of the US consumer spending weakness we have heard about at the conference so far this week?

A - Tom Greco {BIO 15063682 <GO>}

Sure. But maybe I will answer your second question first. I think the top-line we are very bullish. The way we reconstructed our agenda is really around this broader macro snack look and I would describe it as if you take food and beverage in just the US, including away from home it is $1.3 trillion, okay that is the size of the food and beverage business, kind of split a little bit half at home, half away from home.

So in the at-home space we have really used the demand space framework that I described to drive our agenda. Separating our brands so that they are really moving away from being on top of each other which had been a challenge for us in the past. So now when Tostitos goes after what you saw earlier, the party or the get together occasion, there is nothing kind of tripping over top of it from a portfolio standpoint.

So very clear positioning of the brand inside of our demand space framework. Also looking at where they are situated within mainstream value and premium space and therefore what channel, what customer makes the most sense to drive that business.

We are pretty excited about the progress that we have had to date 2013. All of the trademarks that Brian showed up there were growing mid; to high-single-digits. And we see continued growth really sourcing from other macro snack competitors in the broader space with our core businesses. So we are pretty confident of our ability to drive the at-home.

On the other hand, the away from home, think about that $650 billion. We really opened up a new door with Doritos Locos Tacos, it far exceeded our expectations. We built out the culinary center down in Plano to really better understand how our brand can potentially connect with other QSR propositions.

You may have seen on the Olympics we had a chicken enchilada, Frito's chicken enchilada sub with Subway, we are working with the Subway on a bunch of other ideas. You saw the Buffalo Wild Wings piece. So in that broader away from home space $200 billion is roughly QSR. We see some room to really make some pretty big gains in there.

So collectively across the entire space we feel pretty good about our ability to drive both volume and revenue growth and last year we ended up delivering at the very high end of any CPG Company within food and beverage; I think we had the highest absolute dollar growth of any Company.

On the productivity side, we see productivity as endless at Frito-Lay and at PepsiCo. We have a robust agenda that ties to the $1 billion a year agenda that has been outlined by the Company last week or extended by the Company last week. We play a key role in that agenda and we know exactly what our platforms are to achieve it.

Largely GES is obviously a big contributor to our productivity agenda, automation is a big contributor to the agenda. Then we have got a very significant lean Six Sigma effort going on. We have 60 black belts in Frito-Lay, we have kaizen leaders and we focus very carefully on every single line in the P&L. So we are confident in our ability to deliver the productivity as well.

Q - Unidentified Participant

Okay. Can you talk about how much of that flows through to the bottom-line if you continue to expand margins given the high level you are at today versus how much of it maybe needs to be reinvested?

A - Tom Greco {BIO 15063682 <GO>}

Well first, I will say we have been reinvesting obviously in A&M. We had a significant uptick in A&M in 2012 and we built on that in 2013, we built on that in 2014. Similarly R&D, similarly our execution capability. So we've been making big investments in those three areas.

We don't give specific guidance for divisions on that topic. But obviously we are balancing the investment with our ability to expand margins.

A - Brian Cornell {BIO 1841158 <GO>}

I would just add to that. I think the -- because we get the question a lot about the absolute margins which are really attractive. But I think Frito is really a pretty unique business in terms of its market position and brand portfolio.

We watch what has happened with competitive price gaps and we are very comfortable with where price gaps are right now and we are able to generate a lot of productivity and support the margins we have and expand the margins because of all these big scale advantages that Frito has.

So I think if you look at 2013, it was a pretty attractive year for Frito, good top-line growth, good share performance, some margin expansion and that is sort of the model we run. But we run the overall Company as a portfolio and we make investment decisions market -- one market versus another, one business versus another and over time we would expect Frito to have margin accretion.

Q - Unidentified Participant

I have two questions. One is you can clearly hear the enthusiasm about being part of PepsiCo and Better Together and all of the work that you have done in the past six months. So can you help us quantify what your sales growth and bottom-line growth would have been if you weren't together?

A - Brian Cornell {BIO 1841158 <GO>}

Sitting here today we have focused our time and attention as we have built our plans for 2014 as one Company. And that is the perspective we are taking. And we're going to continue to focus on how we build and drive our volume and revenue and profit as one Company.

So I'm not going to spend a lot of time looking back; we are spending our time looking forward right now. And we are not going to give divisional guidance; you know what our outlook is for next year. But our focus right now from a North American standpoint is how we optimize our volume, profit and share and operating cash flow as one PepsiCo Company that is in both snacks and beverages.

So that is the approach we are taking, we are going to look forward, we are not going to spend a lot of time with the "what if's" looking back. And hopefully you can appreciate that point of view. But we are focused right now on optimizing our operational performance and we are going to look forward and continue to drive things forward as one PepsiCo and one Company.

Q - Unidentified Participant

Okay. Then looking forward, something that you are facing in both businesses is kind of a margin headwind, right. So from the beverages perspective it is clearly the volume deleverage in North America. Can you talk a little bit about that.

I don't really know who to address that too. But can you talk a little bit about that as you go forward and the impact that is on your business given the secular trend you are seeing in CSD volumes, that's for the beverage business?

On the Frito lay business it is the mix effect of definitely having much higher margins than in the US and the emerging markets much lower margins and growing much faster. So if you can help us quantify that and think about that going forward would be helpful.

A - Brian Cornell {BIO 1841158 <GO>}

Let me step back and I might have Jamie jump in here. But as we think about some of the keys of success, the things that were embedded in our discussions today and I think specifically about the North American environment which we know has been challenging from a growth standpoint. But there is still growth in North America.

One of the things that we really have tried to understand through the demand space work is where are those growth terrains? Where are there pockets of growth where if we deliver on that consumer demand we are going to continue to unlock profitable growth?

How do we make sure we take those insights to really drive the innovation we are bringing to market? Innovation that could be both product, it could be package, it could be different forms that allow us to make sure we are delivering channel by channel, market by market what that consumer is looking for.

So I think that is a significant unlock for us as we think about improving margins. And price tag architecture, revenue management is going to be critically important. We are obviously committed to accelerating productivity. And that is across all of our businesses in North America.

And sharing some of the best practices we talked about really lifting GES across not snacks only but snacks and beverages. Looking at opportunities for greater automation as well as improving the effectiveness of our front-line organization.

How do we make sure that we really transfer the capabilities from those insights all the way to the front line organization. So we can be much more surgical, much more granular with our executional capabilities.

And I think if we stay focused on those key areas. And the key is staying focused on those areas, we are going to continue to find opportunities to unlock growth in this market, we are going to improve our share performance, we will turn that into profit margin accretion and we are going to run these businesses by leveraging that focus and the scale benefits that we can bring across all of our businesses.

So we are going to look to stay very focused on those key areas where we think we can really unlock growth in a profitable way and continue to refine our playbook across both snacks and beverages. Jamie, I don't know if there is anything else you want to add?

A - Jamie Caulfield {BIO 17051951 <GO>}

I will take the two pieces of your question. North American beverages is going to be a big contributor to the $1 billion a year of productivity. So we are absolutely all over making sure that business is scaled to the growth.

Then on the margin geographic mix question, there is a natural drag, you are right. So the faster growth the markets have lower margins than the portfolio average. But over -- if you can extend the point of time, right, there's going to be volatility in those markets. But they're going to have the highest rate of margin expansion as those markets scale up.

And what we always like to point to is you can take a market like Mexico, which has a lot of the challenges of a developing market in terms of inefficient sort of infrastructure. But that is a business where you have got a nice market position and we built for caps and the margins in our Mexican snack business are not too far off of the really attractive margins we have at Frito-Lay North America.

A - Brian Cornell {BIO 1841158 <GO>}

Let me go back and build on that. This is a conversation you and I have had before as we think about margins in our snack business. And how we really taken learning from our Frito-Lay business in North America, transferred that down to Mexico. And obviously we don't break out margins by country but we have talked about we are delivering very attractive margins in Mexico.

And we have really used Mexico as what I describe as the model market for the rest of Latin America. So the margin improvement we are seeing in Latin American foods started with really taking best practices from Frito down to Mexico, in Mexico building the model market for developing and emerging snack businesses.

We are transferring that learning and in some cases we are transferring the talent from Mexico to Colombia, from Colombia to Brazil down to the south (cone), to really make sure that that playbook that we have developed in Mexico, those best practices are used throughout our developed and emerging markets in Latin America.

So over time you're going to continue to see that improvement. You are right, there is some mix pressure that we face; but we are quickly transferring those best practices for Mexico to Brazil, which performed very well for us last year, to markets like Colombia and Ecuador and Peru where we are seeing very strong growth in market share improvement going to transfer that throughout Latin America.

Q - Unidentified Participant

I had two questions first, Brian, just in terms of your progress you have made in looking at the share demand space and capturing your share within it, because a couple of years ago I think you weren't capturing your fair share and I think you've tried to really improve on that.

So just wanted to see how much improvement you have gotten on that front. Can you talk about what more you can really do to be dominant in capturing that demand -- shares demand space? Then the second question is just in terms of the Mexico tax situation and what kind of impact you were expecting specific to the food business?

A - Brian Cornell {BIO 1841158 <GO>}

So Julie, let's start and talk about the journey we have been on with demand spaces. And while we are in really now year three of that work at Frito and we are quickly transferring that to beverages we are still in the early stages. If I can use a sports analogy, if this is a nine inning game we're in inning two.

We have done a lot of work to really refine the methodology, embed that in how we think about the business, how we make decisions. Tom talked about the important work we did really begin to break our brands apart, understand what demand spaces they fit in, where we had share opportunities, where we had opportunities to bring innovation, where we have opportunities to source volume from other macro snack occasions.

So we are in the early stages but we're actually now looking at market share in each one of those key demand spaces to really understand where we over index but, importantly, where we under index. And that is going to give us a much better roadmap to guide our brand investments, how we talk to consumers and, importantly, it is going to guide our innovation going forward.

But we are in the very early stages and that is why I'm so excited about the work. We have got the methodology in place, it is guiding us to make much better choices around our brands and innovation, how we begin to unlock that growth and it's going to be a measurement for us to say all right, how do we continue to grow market share in each one of these key demand spaces.

From a Mexico standpoint I'd start, Julie, by saying first obviously it's very early. I think we are in week number seven now of the new tax increases.

But for anyone who is doing business right now in Mexico, this is a consumer that on January 1 woke up to the realization that while all the reforms long-term are going to be in the best interest of Mexico and the Mexican consumer, short-term they have seen significant increases in food pricing and really increases across all packaged foods in Mexico.

So they are absorbing that, they are adjusting to that, they have seen prices go up with packaged foods, they have also seen a significant increase in fuel costs. So it is a consumer right now that is trying to figure out how do they work with the pesos that are in their pocket.

Our retailers are trying to adjust to this new environment, particularly the traditional trade. And for those of you who have spent any time in Mexico, the traditional retailer in Mexico is usually mom and dad, brother and sister who managed that cashbox really carefully. Well they have seen it contract short-term.

We certainly expect as we work through the first half of the year that the overall Mexican economy is going to improve, that the consumer is going to work their way through this and that we're going to see a rebound.

But the start of the year has been challenging for that Mexican consumer and it's been challenging across food and beverage overall. But we are confident that by the second half of the year these changes will continue to take shape and we will see a restoration of growth in the Mexico market.

Q - Unidentified Participant

Brian, we didn't hear much about Quaker today and that is one part of the portfolio that has had some struggles. Can you talk about that a little bit? Then, Tom, last year you talked about segmenting the Frito-Lay portfolio in premium versus value. If you can talk about that a little bit as well in terms of where we are with that development.

A - Brian Cornell {BIO 1841158 <GO>}

Let me start by talking about Quaker. And you have sat through many presentations this week and I think you have heard some of the challenges in center of store categories. And Quaker has certainly been caught in some of the headwinds that we are seeing with traditional center of store categories. It has really been a tale of kind of multiple stories.

Our innovation at Quaker continues to really perform well with today's consumer. I feel great about innovation like Real Medleys, areas where we brought yogurt to bars and some of the things of that we have done across our portfolio.

But while the hot category continues to perform well, ready to eat cereal has been a challenged category over the last several years, we have a significant ready-to-eat cereal business, the snack bar business has seen some additional headwinds.

So we are stepping back, we are continuing to focus on how we really build that Quaker trademark, how we make sure we bring the right innovation, that same demand space work to understand how do we unlock pockets of growth in that Quaker portfolio.

So its work is progress right now. But what is working is innovation. So which tells me as we look forward we've got a better understanding of what the consumer is looking for. We have got a very trusted brand and we better make sure that we find ways to unlock and make the brand even more relevant going forward.

A - Tom Greco {BIO 15063682 <GO>}

Yes. And just quickly the work on mainstream premium value is really getting more and more granular. We feel really good about it. We obviously start with demand but then stratify the occasion by mainstream premium and value.

And our innovation on a specific demand space, Stacy's as an example for premium, which is in the midlife treat segment, we focus it on really hitting the demand space drivers within that space. But recognizing that it is a premium price product we are going to put it in premium channels, we are going to put it in premium stores, granularly, ultimately.

Mainstream lots of success in the past year, most of our core brands are in there. So a brand like Cheetos Mix-Ups source from a lot of big products within mainstream. Then value we have had tremendous success in the last year with Funyuns, Chester popcorn, Cracker Jacks -- we have sort of repositioned those brands to compete very vigorously at a Walmart or a dollar store.

Q - Unidentified Participant

The quick one is if you could update us on Brazil, because you said you had a record year in 2013, the consumer was very stressed. So does that all go well for the Mexico situation that your categories do okay in tough consumer environments?

A - Brian Cornell {BIO 1841158 <GO>}

Caroline that is a good proxy. I think obviously the per caps in the category in Mexico is much more developed than Brazil. We saw very strong performance in 2013 in Brazil, it was really one of the highlight markets I think across PepsiCo.

And the playbook that we have been bringing to the Brazilian market again is lifting and shifting some learning from Mexico. We spent time really focusing our portfolio, in some cases rationalizing our portfolio. We brought very select innovation to the market that has been very well received.

We've really expanded from being a salty snack player in Mexico to a broader macro snack player with the acquisition of Mabel and now the introduction of Quaker cookies and other products that we brought down from our portfolio in Mexico. So we launched a brand called Toddy that has been incredibly successful in Chile and Argentina and now in Brazil. Big focus on productivity and really making sure that we refine our supply-chain and get ready for growth.

And we've spent a tremendous amount of time really refining our go to market systems. So the Brazilian story in 2013 is really a back to basics story. We refined our focus on core brands, we brought very select innovation to the market including a successful launch of Lay's at the end of the year which is off to a great start in Brazil.

We've really dialed up our focus on getting our supply-chain capabilities in place to support the future growth and we stepped back and really rewired our go to market systems. And the prospects in Brazil despite the economic headwinds for us I think are very strong because of the price point of our products in the Brazilian market.

We bring great value to the consumer. We have significant headwinds to capture as we build per caps in salty and across macro snacks. And we are continuing to build out and refine our go to market systems. So the overall macros in Brazil, as you know, slow down dramatically across 2013.

And I think we have got to recognize that it's going to be a slow growth market in 2014. But I think we've got the right playbook, I think our brands are well focused there. We've got select innovation. We are improving our productivity and we are certainly enhancing our go to market systems.

Q - Unidentified Participant

Thank you. So much. The other question is much broader; it is if you look at the consumer understandings that you've had in the food business, why is it that in beverages you are seeing sugared sodas under pressure, juices under pressure, the apparent health impact of the way people want to live their lives being quite crushing even on diets. And yet you're performing incredibly well in the food side. Can you help us -- if you've dug into that at all and if you could bring any learnings to help the beverage business?

A - Brian Cornell {BIO 1841158 <GO>}

Right. And that is certainly the work that is underway right now. I think if we step back and we do talk about what is happening in the LRB environment, there are clearly still pockets of growth. We have talked about what is happening with categories like tea and coffee, what is happening in sports and sparkling water. What is happening in flavored CSDs.

We certainly recognize right now if you look at LRB the challenge has been not just CSDs, it's really the challenge with colas. And part of that is sugar, part of it is the pressures we are seeing across the diet side of cola as consumers express even more concerns with artificiality.

So we've been very public about the work we are doing on sweeteners and really looking at the next generation of sweeteners. We think that is a key unlock. But we certainly think there is growth across LRB. And as we take the demand space work we need to understand how to separate those brands and drive growth across tea and coffee in sports and other non-carbs, continue to maximize great brands like Mountain Dew, which still have tremendous runway.

Then really step back and think about through price pack management, the right form function, how do we continue to find pockets of growth for CSDs including cola. So it is work in progress, it is certainly a challenge. But we are putting resources and attention against that. We are certainly committed to finding a way to optimize the growth in those categories.

Q - Unidentified Participant

We've got time for one more, over to John. And then Tom and Brian are going to be joining you all for the break so there will be more time to interact with folks out in the hallway.

Thanks. A couple of quick questions on GES. So you have got four facilities up already, the results seem to be solid. And I guess what is the -- is there a bottleneck in terms of accelerating this if you are getting more top-line and more savings.

Then the second question would be can you talk to us about what is really generating the top-line? Is it better out of stocks, is it better servicing of individual customer demands? Then whatever color you can give us on the beverage aspect of this that you are looking at in terms of particularly channels, which channels your thinking about going in beverages? Thanks.

A - Tom Greco {BIO 15063682 <GO>}

Well GES is really exceeding the hurdle rates, we are very excited about the performance and the four sites and each time we start one up it gets better. So there is a learning curve that we are building there.

The reason why two a year is kind of the pace that we have been on, John, is just our ability to manage the change inside the organization and managing capital and spending judiciously. So that is really it. I mean we have got -- we start to really see a ramp up here in terms of the returns on this over time because there is an upfront investment associated with it obviously. But very excited about it.

The top-line piece, we have studied the future in extraordinary detail. And we sort of back cast our world from 2020 and really gotten focused on how do we sustain the growth that we need to go get. And we know those drivers, innovation, execution and brand building all need to play a role.

So each one of those has played roughly an equivalent role, to be blunt, in the last year. We measured this rigorously, we have got a crack analytic team that looks across the whole portfolio every quarter and deconstructs our growth. And innovation, brand building and execution were all around the same level.

And that is kind of where we want to be because trade spending, promotional spending, those types of things we won't to be able to sustain, we are very confident when we drive the growth the right way through innovation and execution and brand building.

Q - Unidentified Participant

Well I think that is all the time we have. I want to thank PepsiCo again for the snacks and drinks this week and your longtime support of the conference. Thank you.