Consumer Analyst Group of New York Conference

Company Participants

- Al Carey, CEO Americas Beverages
- Hugh Johnston, EVP, CFO
- Jamie Caulfield, SVP IR
- Kirk Tanner, President Foodservice
- Tom Greco, CEO Frito
- Unidentified Speaker, Analyst
- Vivek Sankaran, Chief Commercial Officer PepsiCo North America

Other Participants

- Ali Dibadj, Analyst, Sanford C. Bernstein & Company, Inc.
- Bryan Spillane, Analyst, BofA Merrill Lynch
- Caroline Levy, Analyst, CLSA Limited
- Judy Hong, Analyst, Goldman Sachs
- Mark Swartzberg, Analyst, Stifel Nicolaus
- Nik Modi, Analyst, RBC Capital Markets

Presentation

Unidentified Speaker

Well welcome everyone. Before we hear from our next presenter, PepsiCo, I want to take a minute to recognize the past CAGNY presidents that are in the room. As you know, CAGNY is a not-for-profit group that, in good markets and bad, from the era of smoky conference rooms to the era of e-cigarettes, has maintained its mission and grown consistently thanks largely to the efforts of its all-volunteer Board. So would those volunteers, all past CAGNY presidents, please stand up and be recognized for a moment? Thank you.

I'd also like to recognize especially our President this year, Rob Moskow, for all the hard work he's done, alongside Andrew and Bryan, of course, to make this our most successful conference ever, with record attendance, great events. And, of course, hosting the President's party last night. Whatever we've had to address as a Board over the past year, he's been a great listener and facilitator, always organized, always encouraging.

Don't let his occasionally acerbic tone fool you; that's just an act. Rob stands up for what's right; and he's been and is a great leader. On behalf of the Board and membership, I present you with this commemorative plaque. Come on up, Rob.

So now I hope you join me in welcoming PepsiCo's management team on stage. Hugh Johnston, PepsiCo's CFO, is going to be joining the presenters on stage today and will be available to participate in Q&A. Presenting today will be Tom Greco, the CEO of Frito-Lay North America; Vivek Sankaran, the Chief Customer Officer of PepsiCo North America; Kirk Tanner, the President of PepsiCo global Foodservice; and Al Carey. Al is going to be kicking off our presentation; but before we do, let's take a minute to thank Al and PepsiCo and everyone here for the drinks and snacks all week. Thank you very much, guys; we really appreciate it.

Al is the CEO of PepsiCo Americas Beverages. Al assumed his role in the fall of 2011 and is responsible for overseeing all aspects of PepsiCo's beverage business across North and South America. Al joined PepsiCo in 1981 and served in a variety of positions across snacks and beverages, including running Frito-Lay North America. With that, Al, I turn it over to you.

Al Carey {BIO 1985709 <GO>}

Thank you, John; good afternoon, everybody. Let me get started with the famous slide for safe harbor. They told me I had nine minutes so I'm definitely not going to read through it. Okay.

Today we'd like to spend a little bit of time talking to you about the concept of Better Together, the whole notion of taking our beverage and food together as one unit and providing an advantage for our business in the marketplace. Now, I've been with the Company for 33 years and I've worked in both sides of the business. And I can tell you that I've always felt it's an untapped opportunity -- but it's tricky.

Now, the companies are more alike than they are different, in my opinion, when you look at Frito-Lay and Pepsi. But you also have to be careful not to lose the focus on the two individual businesses as you try to work together to find scale advantage.

Now, I've run both Frito-Lay and also the beverages. And I can tell you this for sure: customers absolutely want one point of contact. So that's one reason to figure out how to be better together.

Our products are complementary. And there are lots of synergies. In IT and in global procurement and in R&D, we've already figured out how to get synergies working together as beverages and snacks.

But what about the commercial side of the business? Recently, Tom and I have been able to put some new initiatives in place that I believe are starting to deliver results. And we're going to share those with you today.

Three things are happening that's a little bit different. Number one, we are putting all the leaders that run in this business to -- we tried to have them work in both sides of the business. Everyone up on the stage here has worked both in the beverage division and also in the food division.

I think it gives you a better chance of being successful. I had worked in both. I remember days where I was at Frito-Lay. And I thought we were pretty competitive -- until I came up to Pepsi and I understood what it means to be in a severely competitive business in LRB. And on the Frito side, it's pretty challenging to have a 66% market share and to have to keep growing the businesses.

Both those experiences really build better leaders. So that's number one.

Number two, we are listening to the way the retailer wants us to serve them, rather than telling them how we are going to service them. You'll see some new structures in place and you'll hear about some new ideas on how we're going to go forward to the customer and serve them better as one organization.

And third, foodservice. Foodservice is a significant part of our business across PepsiCo. So instead of talking about it we've moved now to one global team that sells all of PepsiCo beverages in foodservice and snacks as one organization.

We've taken our sales organization, trained all the people on how to do both. I think it's providing some results in the marketplace. And you'll hear about some of that from Kirk Tanner later.

So for starters, our two businesses in North America add up to be a pretty good-sized business. 56% of our PepsiCo global revenue comes from North America. They're a disproportionate part of our profits and cash flow.

About equal mix; maybe beverages is a little bit bigger. But in most cases this situation allows us to be the largest food and beverage supplier to most of our retail customers. And in some cases not just in food and beverage, in total.

If you take a look, to my point, the MULO C data -- which is the IRI data, which is a proxy for about 60% of the ACV -- PepsiCo sales indexed at 100. Today we are about twice the size of our next-largest supplier in food and beverage.

Now being big alone isn't necessarily a good thing. But I'll tell you, it does get you a seat at the table when it comes time to speak to your big retail customers about strategies that are important to the overall business.

And I can tell you this. More than one of our customers have said: I've got to grow my business with my biggest supplier. So they have a vested interest in seeing that our business grows.

You take a look at our business from the customer standpoint, we've got two big categories that are important to them. Macro snacks. And we have the number one position in macro snacks; and the number two position in LRB.

But the center slide is probably the one that's most important. That is LRB turns for the total category are 43; snacks are 29, when the whole food and beverage business is 13.

Now our Frito and our PepsiCo beverage turns are actually better than those. But when you take those turns, combined with our payment terms and our margin and volume, we are clearly the biggest contributor to cash flow for almost any customer that we do business with.

If you look at our business on the far right from a private-label standpoint, it's a pretty unique set of categories in that private label has only achieved about a 5% or an 8% share of those total categories, versus 16% for the total market, which puts us in a pretty good place.

Now I'm going to just go through two slides on the beverage business. The only reason I'm showing these is because one of the reasons that our Better Together approach is working better is because now the beverage business has improved in performance. Nowhere near where I would like it to be yet; but I will tell you that the performance has improved.

You've probably -- those of you who've heard me speak before, I've talked about this notion of Hybrid EDV. And taking the spikes out of the promoted business in the carbonated soft drink business. Well it's finally starting to work. Not being so deep on holidays, not being so high every day, lessening the bandwidth. And overall the business has gotten better.

But the thing that has really improved in the slide that you are looking at right now is what I call our single-serve business, our on-the-go business or on-premise, all those smaller packages. Our business for the last eight quarters has improved dramatically.

I'd also tell you that our customers make more money on these products. So they are incented to go after it; and we make a better margin on these products as well. So we have high hopes for these recent trends.

But one of the biggest contributors to this trend on the small packages is our product innovation and our package innovation. Much of it has been in the single-serve business, on-premise. And on-the-go.

Our R&D investments are starting to pay off. If you take a look at some of these products and some of the ones that were introduced in 2014, they are on their second and third year of good growth. We are staying with those products.

Lipton Pure Leaf, for example, is up 40% on top of 40%. And the same thing with Kickstart from Mountain Dew.

The product news -- we have an unwritten rule in our team right now is that all the news needs to be not dependent on deep discounting in take-home. We really want to see all of our new products in smaller packages, not dependent on the 12-pack, 12-ounce cans. And the 2-liters -- and we've made more money as a result of that.

Most all of these products that we are launching this year have health benefits beyond our normal portfolio. For example, juices: sugar reduced, zero calorie. And even portion controls. Eight of the nine products you see on this lineup up here are products that are launching in 2015, most of them just going out the door right now. And almost all of them have improved health benefits for the total -- for the consumer and the category.

So we have very high hopes for our product news from a profitability standpoint. I'd also tell you that in 2015, if you look at this slide right here, the two or three I'd highlight they have the most hope for is Kickstart in a slim can; it has coconut juice and it has 60% less sugar than a normal Mountain Dew.

You see Propel Electrolyte Water, which has got -- it's by Gatorade; it has the same electrolytes as Gatorade with zero calories. And Lipton Sparkling Tea, which has been a great start so far, with low calories as well. So that's a big part of our success on the beverage side.

If you take a look at 2014, we're starting to see some results with our plans. If you take a look at growth in IRI on dollar growth contribution to the categories, in 2014 we had four of the top six dollar growth contributors with Gatorade, Mountain Dew, Lipton. And Starbucks; and on the macro-snack business, Tom and his team have five of the top nine in macro snacks for 2014, giving us some good momentum going into 2015.

Now, if you look on the right side of this chart you'll see the actual dollar growth for our Company relative to the rest of the big suppliers that service the MULO C or the IRI retail panel. What it shows you is that our sales as PepsiCo were up 2.6% for the full year; and our sales were up 3.7% for the Fourth Quarter when the total food and beverage business was slightly over 1%.

So the total dollars that we grew in 2014 were 3 times higher than the next-best supplier for our customers. So we feel like we're making some progress. I don't think we're anywhere near where we could be. But I see a formula for success on Better Together that's likely to deliver some good results in the future.

I mentioned earlier that each of our leaders needs to spend time in both sides of the business so they have a better understanding of those two different businesses going forward as we try to do more Better Together work. The first one is our next speaker, which will be Tom Greco. Tom is the CEO of Frito-Lay North America. But he spent time as the EVP of the commercial side of the business in beverages. He was President of Canada.

He and I have worked together for 25 years. And I'm proud of the great leadership he's done. Taking over for me, I told him he had a low bar to jump over; but he's doing a terrific job with Frito-Lay's business.

We have Vivek Sankaran in the middle. Vivek is a McKinsey veteran. Came in to be the Senior Vice President of Global Strategy at PepsiCo. I convinced him to come down to Frito and become part of the operating team.

He went on to become the Chief Customer Officer of Frito-Lay; now the Chief Customer Officer of all of PepsiCo North America. And it's great to have him on the team. Both guys with both sides of the business.

Then finally, Kirk Tanner. I remember Kirk when he was just signing on from college recruit at the Frito-Lay business. That is a picture of him when he graduated from college, I think. We're going to have to work on that picture, Kirk.

But we've had him at Frito-Lay US; Frito-Lay Europe; he came back to Frito. And now he's been moved over into the global business for foodservice. And he's leading that now, which includes both the beverages and the snacks.

So we have a great team. We've got a lot of experience in both. And I think it's going to wind up paying dividends as we move forward on this Better Together. So now let me introduce my good friend and partner, Tom Greco from Frito-Lay North America.

Tom Greco {BIO 15063682 <GO>}

Well. Good afternoon, everyone. It's been just a pleasure for me to be able to work with Al Carey for these past 25 years. In the last several months we've literally had hundreds of visits with different customers across the country; and I've got to tell you -- I'm sure you all see this. Any retailer out there today, any food service operator out there today, they are looking for growth.

And believe me, that chart we just showed is really important for them, to see companies that are going to drive growth for them. Al and I basically connect on this virtually every single day; and thank you, Al.

I'm going to talk about how we build on the performance that we just showed, leading the industry in absolute growth in 2014. And do it again in 2015. At PepsiCo, we really benefit from the balance, a very thoughtful balance, of focus and scale.

When it's time to focus, we know exactly what it takes to win in each respective category. At the same time as all of you know, in today's world scale leverage is very important. So as examples, the Pepsi and Tostitos brand teams know their consumer intimately. And they take advantage of scale to leverage properties like the NFL to drive performance.

From a cost perspective, we have productivity objectives by business: units per hour, bags per minute, cases per hour. And we leverage PepsiCo's scale in procurement, back-office, go-to-market. And information technology.

Finally, as Al referenced, we have very focused price/mix plans by brand: Pepsi, Gatorade, Lay's. And we leverage scale through PepsiCo's sharper insights, to understand how our brands interact together at the point of purchase and at the point of consumption.

Of course, the Better Together agenda really starts and stops with the consumer. In fact, the incidence of co-purchase between salty snacks and liquid refreshment beverages is higher than peanut butter and jelly. That's because snacks and beverages occupy common demand spaces.

We've reviewed our demand space framework with you previously; I know you've seen it. The goal is to really understand the drivers of choice inside each demand space as it applies to food and beverage.

For example, both Pepsi and Tostitos focus on the Fun Times Together demand space. This occasion is a social occasion; it involves friends; and fun is really the priority for this occasion. So we go very deep to understand it and capture the growth potential inside Fun Times Together.

This includes a forced ranking of the attributes that we know drive performance inside the demand space. This knowledge informs our entire growth agenda: our brand building, our innovation, our in-store and in-market execution. And it is all fueled by the productivity agenda that we construct to drive it.

Allow me to review our plans for 2015. First of all, we continue to invest in our brands across all of PepsiCo. Our plans build on successful legacy programs. And we encourage our young marketers to unlock new ways to engage consumers.

This year one of the most powerful brands in the world is celebrating its 50th anniversary, Gatorade. Gatorade will give consumers the chance to win one of 50 epic athletic experiences that only Gatorade can deliver. Top-tier prizes include chances to train with Dwyane Wade, Serena Williams. And Peyton Manning.

Let's take a look at our Gatorade heritage spot. video playing [ph] It's very exciting for us. And as a matter of fact, PepsiCo is also celebrating our 50th anniversary this year.

Next, we were thrilled with the marketing impact that we had during this year's Super Bowl. For example, 2015 was the ninth year of our Crash the Super Bowl campaign for Doritos; and of course, this is our consumer-generated advertising campaign.

Here's the winning spot on Super Bowl Sunday. video playing [ph] I think we've all protected that middle seat in one way or the other over the years. But this one took it to another level.

Of course, Pepsi was hyped for halftime this year with a spot that ran throughout the NFL season into the playoffs and ultimately the Super Bowl. Here's the spot that was shown at halftime to introduce Katy Perry's outstanding performance. video playing [ph]

Finally, Tostitos is the Official Chip of the NFL. We had some fun with another chip with this mostly digital campaign. video playing [ph]

So we didn't just come to Super Bowl this year; we literally took over the town. For the entire month, the PepsiCo teams executed and delivered. Our brands were front and center, with our Pepsi image blanketing the Phoenix skyline and right beside the Tostitos Party Boulevard, which was big, bold. And very impactful.

Of course, the game concluded with the traditional Gatorade Bath for Bill Belichick, coach of the New England Patriots. It's a beautiful sight, particularly for Patriots fans and for all Gatorade fans.

Our customers understand PepsiCo's investment in the NFL and provide tremendous support as a result. In summary, we continue to make big investments in our brands; and secondly, the Super Bowl is the first of several Better Together events that we will run through the year.

Now let's talk innovation. As Al referenced, we had an excellent year on innovation in 2014. In 2015, we'll build on this momentum.

On snacks, we rolled the Tostitos Rolls! and Tostitos Dip-etizers, which I understand are selling well from the back store in here. We're also launching a product on Doritos called Roulette, where we have an extra spicy chip in the bag -- several extra spicy chips in the bag -- but you just don't know which one is extra spicy and they all look the same.

At Quaker we launched a differentiated three-SKU lineup of Quaker Steel Cut oatmeal. The steel cut segment is growing rapidly and the Quick cook lineup has fortified our share position.

Al talked about the strong beverage innovation on Propel, on Kickstart. And the other products you see pictured. Brand building and innovation are critical building blocks in our growth model.

Let's talk about execution capabilities that allow us to bring this great innovation and our great brands into the marketplace. We are providing our world-class sales organization with rigorous selling processes and best-in-class tools and technology to win in the marketplace every day.

To effectively plan our business, we leverage a mobile digital playbook that aligns priorities, segments customers and stores. And integrates activation. We sell leveraging store-level insights to execute custom assortment, custom marketing. And custom displays. And finally, we evaluate by reviewing sales and category metrics to assess performance and enable continuous improvement.

What makes these brand-building, innovation. And execution investments possible is a robust productivity agenda. Productivity is an overwhelming priority for all of our North American businesses and for all of PepsiCo.

Within supply chain, we continue to expand GES. GES is a huge unlock for us, enabling more SKU capacity, fewer facilities. And reduced inventory levels. The exciting part about GES is it is both a productivity generator and a growth enabler.

In addition, we continue to leverage automation. This includes automating packaging, case picking. And forklift transportation. Third, we are continuing to optimize our network across all of PepsiCo.

Finally, over the past several months, Al and I have really elevated the focus on some big ideas that leverage PepsiCo's scale. We're elevating our game with three Better Together territories in our commercial agenda: customer management, ecommerce. And foodservice.

Vivek Sankaran will take you through customer management in ecommerce. And Kirk Tanner will take you through foodservice. But I will tell you that both of them are bringing a tremendous level of intensity and really a new dimension to our thinking against these three big opportunities for PepsiCo. Vivek?

Vivek Sankaran {BIO 16613348 <GO>}

Thank you, Tom. Good afternoon. I'm going to take a few minutes here to tell you what we do with our customers to generate the $1 billion of growth that you saw us deliver last year in 2014.

The number of customers that you see here, for a number of those customers there we were the number-one contributor to growth in food and beverage. That kind of growth on a consistent basis gets us exceptional access to the leadership, to the C-suite of our customers.

What we do, we go through every year something we call a joint business plan with our customers. Imagine many, many months of work that leads to a one; to two-day working session where we accomplish several things with them.

First and foremost we reinforce their confidence in our brands. We identify what we call demand pockets: pockets of growth very tailored for these customers. We agree on joint targets with them, targets that we then work into our businesses and their businesses for the next year.

We tailor our innovation launches with them. We develop very specific programs for multiple periods during the year that are just right for them and their shopper. Very importantly, we build commitment to execution: commitment to execution from the merchant all the way down through to a store manager.

Now, access is fine. But it's not sufficient. We need to have a consistent track record of delivering the kind of growth and building confidence in our customers that we can in fact execute.

As Tom described, we have built over the years a suite of end-to-end capabilities. I'll highlight a few. And I'll then share with you how these can manifest in the store.

First and foremost, everything we do -- everything we do -- is anchored in a very, very deep understanding of demand. We don't talk about categories first; we talk about the demand first.

By demand I mean demand at the point of consumption and demand at the point of sale. This understanding of demand is unlocking several Better Together ideas for us.

Now, this understanding of demand is very, very granular, too. Growth, as you know, is very elusive. But we are squeezing it from a number of these granular opportunities.

Because of this demand in our stores, we are getting to what we call hyper-local assortments, extremely tailored assortments, even across street corners in a store. We are applying very precise designs to what we put in the perimeter and what we put in a gondola; and I'll share with you some examples of that.

We are in fact going towards custom POS material in stores. And we're not stopping there: we have custom and tailored and targeted digital overlays that we are bringing to shoppers in particular stores. We are pushing the capability to continue to capture extremely granular demand with our customers.

Now, all of this will not happen without technology. As you know, we have 40,000 people out there who are implementing things in the stores for us. And this cannot happen without technology.

We are enabling those, the front-line, a very capable front-line with new technologies to execute these -- from what we call media-to-shelf events on a consistent and integrated basis across the multiple businesses every time in a store. I'll also show you an example of that.

I talked about the notion of understanding demand, leading to very, very powerful and somewhat counterintuitive portfolios in stores. I'll share with you a few examples here.

In a Dollar General, we're going to be placing in about 9,000 stores an endcap That provides what Dollar General believes is affordable luxuries to their shoppers. Okay? Imagine a Starbucks with Quaker cups, Quaker hot cereal, Quaker cold cereal. And Quaker bars around it.

This insight came from a deep understanding of something the Dollar General shopper aspired to and also a nuanced understanding of what was missing, something about the Dollar General store locations. This is rolling out as we speak.

We were also working with retailers to rethink and redesign the center store. As you know, the center store is challenged. And we are in there helping them redesign and rethink it.

We all know that Mountain Dew and Doritos go better together, okay? But what we did understand is that there is -- for this particular consumer, putting single-serve along with take-home makes a huge difference. So we're inserting those kind of endcaps in parts of the center store.

Our understanding of the overall repertoire behavior in LRB is convincing some retailers to try different combinations in the beverage aisle and rethink the beverage aisle. What you see there is an example of Starbucks cut into what might be a very traditional beverage aisle to drive incrementality, to drive additional beverage products into the basket.

We complement these merchandising solutions with several anchor programs. These are anchor programs around holidays. And it might be anchor programs that the retailer picks to do for special occasions.

These are codeveloped with the retailers. And invariably, in just about every case, these programs pivot off multiple categories in our portfolio.

For example, we had a program last year in Dollar General called We've Got Your Back. It ran all summer; it included Ruffles, Pepsi. And Tostitos.

Our salty and CSD sales were up 10% during the event. The competitive portfolio was up 6% during that period.

We are in year four of the Dew general store program at Dollar General. And it was just Dew until 2014; we added Doritos last year. Sales of each of these brands were up 19%. Co-purchase during this program was up 24% for these two brands in DG.

We understood that a lot of parties are last moment, are usually unplanned. People shop for it at the very last moment.

We developed a take-home destination with 7-Eleven for the party shopper and overlaid a football pizza party program on top of it. The business was up 6%; the category was up 4% in that same period.

And most recently over the Super Bowl our business with Amazon was up 75%. We had a portfolio program there on Amazon Prime Pantry that offered a whole range of our products. And we had tremendous success.

What we find in ecommerce is that we are not constrained by the tyranny of the shelf. We are able to focus holistically and purely on the notion of demand.

We are most proud of our ability to bring all these capabilities together at the store on a very large scale. I want you to imagine for a moment what it takes to execute the picture on the left side of that page in every store, in a centralized fashion, in a very small time window.

What you see there is a number of our brands merchandised together and brought together with choreographed displays. And in all those cases, the plan was approved way back when, when I talked to you about the joint business plan. So that the stores were ready for it.

Now, simultaneously with the physical display coming together, with the DSD organizations working together, we worked with Walmart in this case to have the tabs, to have digital media coverage, to have our own media coverage and their media coverage. We grew 6% in this two-week period and gained 420 million impressions.

Our products were in fact featured prominently in their game-time commercial; take a look. video playing [ph] They do that because they have great confidence in our ability to execute.

I hope I gave you a lens into how our portfolio wins together in retail. I invite my colleague, Kirk Tanner, to talk to you about foodservice.

Kirk Tanner {BIO 19640168 <GO>}

All right. Thanks, Vivek. It's an honor to be able to talk to you about our foodservice business.

Al, thanks for shouting out on my picture there. I'm the only guy on the panel here today that had his mom send his picture in from high school, okay? All right.

Foodservice is an exciting space. And I just want to talk a little bit about the industry. This foodservice is really an ability for PepsiCo to get at the consumers: where the consumers go to eat and drink, where they go to work and play. And when they are generally just on the go, which is happening more than ever. The industry is $700 billion strong. And it's got a 4.2% CAGR projected over the next five years.

But if you look at the industry back in 1970, only 26% of food and beverage was purchased outside the home. By 2012, that number went to 43%. By 2020, should be greater than 50% of total food and beverage sold away from home.

I think most importantly, foodservice channels like restaurants, workplace, rec and retail, travel and entertainment, all those places of access are great places for PepsiCo to grow its muscular brands. I'm going to talk to a little bit about our approach and how we get after that growth.

Our approach is to be organized as one PepsiCo foodservice team selling the total portfolio. This gives us scale and it also provides benefit for our customers, as Al talked about.

Our team is equipped as well with the latest technology, enabling better execution and portfolio development, delivering the needs for our customers. When you couple that with the technology, our Better Together selling team. And our brands we really bring portfolio power to drive our customers' business.

I want to talk a little bit about scale and how that pays off for PepsiCo. If you think about college campuses, there's over 21 million students on college campuses today that we have access to with our brands. And that's only growing; enrollment is projected to grow 13% by 2021.

In addition, important consumers are also in this space, of course. 43% of 18 to 24-year-olds are enrolled in college and universities today.

So how do we get at this growth? We put a model market representative from foodservice on a campus to service and sell and execute all of our brands, from vending to concessions to the C-stores on campus to the bookstore on campus to the fitness center, where we're selling Naked, Gatorade, Quaker. And of course the dining halls across campuses. This has proved to be a huge success, selling our total portfolio on college campuses.

In addition, our customers definitely win with an all-access partnership approach. It all starts with great pairings. This is an example of Papa John's Chili Fritos pizza paired with Pepsi. Brilliant combination. But it doesn't stop there.

We are working on menu innovation with our customers. This is an example of a menu innovation that we did with Marriott Courtyard in 875 of their locations. We also leverage Recipe Wizard, where we've created over 80 recipes with 12 of our brands to give to our customers to drive excitement on their menu.

Our customers are also talking to us about customization to drive traffic and excitement. And we're delivering on that as well. If it's unique fountain beverages, we deliver that. Mixology in restaurants and bars, we are delivering on that.

I've also included an example of a culinary execution that we did in LA at the Staples Center, with a Tostitos Cantina. It is just doing tremendous. Just fun ways to bring our brands to life where consumers are and where they are on the go.

So what does this lead to? It leads to our promise. Our promise is to provide the very best of PepsiCo, to create really customer value and drive our business. And we do this in four ways: of course, brand building, innovation, execution. And productivity.

It all starts with brand building -- brand building in products and formats specifically designed for this unique foodservice space and away-from-home channel. We are delivering on these packages.

Our customers are looking for solutions that are efficient to keep their food costs down and can be executed with ease. We have solutions, like Pop-n-Go [ph] for our C-stores.

We have Quaker solutions for our travel partners, that you can take Quaker on the go. And we have new equipment platforms that drive variety and choice and engagement. All very exciting, focused on meeting the consumer where they are.

Breakthrough innovation we know drive our customers' business. And Taco Bell is a great example of this. Taco Bell has continued to develop on the platform of Doritos Locos Tacos, which I know we've talked to you in the past. But because they have stuck with that innovation, they've sold well over 1 billion Doritos Locos Tacos.

In addition, we've paired that with six new fountain beverages to match up with their menu items, including a proprietary new Sangrita Blast designed to go with their foods. And we're not just done with that; we've got a pipeline of innovation with both our Frito-Lay and our beverage snacks to help drive excitement at Taco Bell.

Lastly, Mountain Dew Baja Blast is still a signature beverage after over 10 years. It was launched in 2004 and has more than doubled since that time and continues to perform excellent at Taco Bell. It is the number-two beverage only to brand Pepsi.

Another example of how innovation really comes to life is the 7-Eleven partnership that we did this last year. We paired Doritos Loaded, this new innovation, with a new Mountain Dew Solar Flare to drive excitement. This is an example of a Doritos Loaded-Mountain Dew Solar Flare store takeover, okay?

This is a first for us. We had to really bring our very best to get 7-Eleven to partner with us in this fashion.

But with this program we delivered 617 million positive impressions. We sold 3.2 million Doritos Loaded servings in the first 30 days; and the Doritos snack portfolio inside 7-Eleven grew 13% at the same time.

It was a tremendous success. And we were awarded by 7-Eleven at their annual meeting with the Proprietary Beverage Supplier of the Year, the Innovation Leader of the Year. And the Digital and Social Marketer of the Year. 7-Eleven is a great partner to drive innovation. And we continue to do that today.

I got another example of a great partner. And this is where execution manners. We partnered with Buffalo Wild Wings to drive traffic and excitement in their restaurants. We've done that in several ways.

One, it starts with fantasy football. Football is critical to the success of Buffalo Wild Wings. And we made it even more important by partnering with brand Pepsi and the NFL. In addition, when they are going to open a restaurant up in Times Square, we're out there to partner and celebrate that to drive traffic and excitement for the restaurant.

Lastly, only at PepsiCo could you do something like this, where you launch a Ruffles-inspired chip, inspired by Buffalo Wild Wings hot sauce. With that we've created 38 million retail imprints just by launching that product. Been a smashing success.

A couple other expectations of customers is to drive excitement with the brands in the right way. We were excited to partner with SLS Hotels in Las Vegas at their grand opening. And we did it in a way where we brought our brand activation with Pepsi to meet the experience that their customers were looking for and to fit their brand.

We developed several mixology items, sharing new ways to enjoy PepsiCo products. It also increased awareness, of course, for our customer and drove our performance as a foodservice business. By doing this we created 33 million incremental positive impressions for our partner.

Talk a little bit about our equipment. Our equipment platforms -- we have a range of equipment that meets the needs of our expensive customer base, ranging from efficient equipment to high-engagement equipment. We continue to innovate on our equipment platforms, from lean equipment for low-volume customers, to healthy vending equipment to drive our total portfolio in the marketplace. And our interactive, highly engaging equipment that provides an amazing amount of choice.

That's our foodservice business that we're tremendously excited about driving and capturing the growth. As I wrap up our presentation today I just wanted to reiterate three things that we are completely focused as a team, one PepsiCo.

Look, we've talked between Al's presentation, Tom's presentation. And Vivek. Hopefully you felt the sense of urgency around what we're doing to plan together as one team, sell together.

And I can attest that Al and Tom are always together. It feels like you have two bosses all the time. They are working incredibly hard to drive this with our customer base. And it's visible leadership that goes from the top all the way through our organization.

Finally, when you plan together, you sell together, you execute together in the marketplace, our customers win. And finally, when you pull those three things together, you win together. And you win together with our customers and our consumers.

Finally, just want to thank you on behalf of myself, Al, Tom. And Vivek for your time today. And I'd like to turn the time over to Jamie Caulfield for questions.

Questions And Answers

A - Jamie Caulfield {BIO 17051951 <GO>}

Great. So we'll open it up to Q&A right now. Ali?

Q - Ali Dibadj {BIO 15328592 <GO>}

Thanks. I have two questions. One is just if you have any reaction to the headlines that hit from the dietary guidelines advisory committee, saying their view is that there should be a sugar tax put in place in North America to help on obesity. So that's question one.

Question two is -- trying to phrase this appropriately. You guys have been together for 50 years, right? So 1965 is when Frito and Pepsi got together.

It looks like there was a lot of activity; that's great. But what were the hurdles perhaps is a good way to ask -- what were the hurdles in place to not have this stuff earlier? Why wasn't foodservice together? Why weren't you guys having these top meetings as much as you are now?

And if you were, why are you talking about it so much now as opposed to before? Okay? Two questions. Thanks.

A - Jamie Caulfield {BIO 17051951 <GO>}

I don't know, Hugh or Al take the sugar tax question; and then I think Al and Tom can both comment on Better Together.

A - Al Carey {BIO 1985709 <GO>}

On the sugar tax, we're working together as an industry with the American Beverage Association, Coke, Dr Pepper. And us; and I think we've got a good plan moving forward to work against of these things. Of course we don't agree that -- places that have shortages in their budget come after this, the soft drink business.

So we are working against the productively. We have a program called Mixify that is in the marketplace now, which talks to teens and moms about the importance of balancing calories. We are working together on a number of projects; I feel like we are making some progress there, working together as one.

On the other question you asked about -- here we are 50 years into it; how come we are just getting around to doing some of this work as Better Together. Having been around for a long time, I would just tell you that these businesses are incredibly granular and operational; and it's hard to break away from that focus and lift yourself up above it and make things happen.

I would say that the four of us up here have all worked in both sides of the business. So we have an appreciation for the challenges on each side of the business and know the right ones to go after now. I think in the past, we didn't do enough trading off of beverage people over to snacks and vice versa.

I think we're heading in the right direction. And I think some of it starts from the top. Tom and I are linked at the hip. We are committed to making it happen. And it's on our personal objectives.

A - Jamie Caulfield {BIO 17051951 <GO>}

Great. Judy?

Q - Judy Hong {BIO 3773182 <GO>}

Two questions on the beverage business, Al. First, related to your energy drink strategies, obviously the competitive implication -- if you see any -- from the Coke and Monster deal; and is your answer really the Kickstart and really focusing on that brand as your energy drink platform?

Secondly, obviously you've been in the industry for a long time. So you know the trends and the evolution from the consumer perspective. Both Coke and Dr Pepper are partnering up with Keurig Cold this fall. Understand there are some limitations initially in how you can participate.

But just broadly, how do you see that as an opportunity? And what are some of the ways, as you think about Pepsi participating in that opportunity?

A - Al Carey {BIO 1985709 <GO>}

Okay. Let me handle energy; and then, Hugh, might throw it over to you on the equipment.

A - Hugh Johnston {BIO 15089105 <GO>}

Sure.

A - Al Carey {BIO 1985709 <GO>}

So I'm not going to comment on Coke's business; ask them about it. What I would say is in our business we have an energy entry in that we distribute Rockstar. And we also have a product called AMP. Between those two we have about a 12% or a 13% share of the business.

But we've looked at these demand spaces. And we find that it's not so much an energy drink; it's a demand space. And I think we can get near that demand space and meet consumer needs with things like coffee, Kickstart. And other drinks that consumers look for in the middle of the day to give them a lift. So overall the demand space is a broader thing than just the energy business.

Hugh, what about --?

A - Hugh Johnston {BIO 15089105 <GO>}

Yes, I'm happy to jump in on that, Judy. I think a couple things on that. One, this whole area of making it at home, we refer to it as make-my-own, we think is going to be a slow build. We don't know that, obviously; but we think it's going to take some time for consumer adoption on that.

Number two, we view it as an additional channel. There's likely to be multiple players in the channel over time. And with that we expect we will be playing with all of them, as opposed to locking in with one or another.

Three, regarding the one I think you are referring to, the limitations are pretty limited in terms of how and when we can participate. So as this channel starts to evolve, I think you'll see us there in a meaningful way. I don't see it as a disadvantaged channel for us going forward.

A - Jamie Caulfield {BIO 17051951 <GO>}

Bryan?

Q - Bryan Spillane {BIO 2147799 <GO>}

I guess for Al and Tom, as you -- part of the presentation, if you take away from a high level, is just you're changing the way you're serving the consumer or the customer; and some of that is based on what the customer is telling you about the way they need to be served. When you look, I guess, specifically at beverages, your primary competitor is making a change in terms of the way they serve consumer, with a distribution model that is intended to be both local but also give them some advantages or differences in terms of the way they serve national accounts.

So I guess if that's the way that that model is going to evolve, how does that affect the way that you're thinking about your model? Particularly in beverages in terms of franchisee, franchise model, or not; and also just the way you would be able to compete against that if that becomes the standard that retailers are looking for.

A - Al Carey {BIO 1985709 <GO>}

I would say that I like the way we're set up. About 80% of our total beverage business is done Company-owned and about 20% is independent bottling franchise. The reason I like the structure we're in is because when we go after productivity in our own operating system, we can take those savings and invest them back into the business.

And we're a decent operating Company. So I think we have a good chance of taking those savings, moving them back into brands and into R&D. So that's one of the reasons that I don't think you get from a pure franchise operation.

And the second thing is the customer. I think there is a fair amount of complexity dealing with price and trying to align your entire system with the price and the programs that the customer wants. Having been at Pepsi a long time ago when we had a 100% franchise, very difficult to go out and actually have a success with a customer. And come back to the office and find out now the real work starts. And often couldn't get full alignment to align with those programs.

So I can only say what we're doing. I like the program we're in. I think it will work better for us.

A - Tom Greco {BIO 15063682 <GO>}

Bryan, if I can build on that answer a little bit as well, because I did a lot of work two years ago looking at different models that could work for our system, anywhere from obvious stuff like re-franchising to some more creative channel-split re-franchising, which is going on from what we understand elsewhere, to more interesting things like synthetic master limited partnerships and tracking stocks and all of that stuff.

The conclusion we came to after studying it for a year was this is the model that we think is going to be most successful going forward for the reasons Al just articulated. So this isn't just us operating off a set of beliefs. We've done the homework in a pretty deep way. And we're pretty convinced that this is the right way to go.

A - Jamie Caulfield {BIO 17051951 <GO>}

Caroline?

Q - Caroline Levy {BIO 1494597 <GO>}

Really appreciate the power of one or Better Together presentation. But on a separate but related topic, diet cola is under so much pressure, or diet soft drinks -- CSDs I guess specifically. Regular CSD is under pressure.

How does this activity reverse that, or is it irreversible? And what do you think is going on with diets in particular? Do you think it could be cheap water, or do you really think it's the people don't like aspartame?

A - Al Carey {BIO 1985709 <GO>}

Yes, I wish I knew the exact answer to that. But I would say that right now in the CSD business, in our CSD business, Mountain Dew is doing terrific. We had great growth on Mountain Dew last year and it's continuing this year.

On the colas and the other CSDs, there is some growth now back into the CSD sugared side of the business. And it's coming from mini cans, glass bottles, different packs that weren't in existence before.

And in fact, flavored CSDs is growing; so that includes Mountain Dew and other flavors of products that we've got out there. In fact, our Cherry Pepsi was up double-digit last year.

Now, the diets are way off. They have moderated a bit here recently. But I still think it's a negative.

And the number-one thing we see from consumers is a complaint about aspartame. Aspartame is just one sweetener. But it's the one that seems to get most of the negatives in the press and on YouTube. And as you research it, that's where the negatives are coming.

So I'd say that that diet business stays down for a while. We have some ideas on how we might address it. But yes, it's a definite drag on the business.

Now, at one point when I first came back to Pepsi about three years ago, I thought: boy, you just can't sell enough of these other drinks like tea, coffee, sport drinks. And Naked Juice to make up for the decline in the carbonated soft drinks. The answer is: yes, you can; and we are seeing that now. So I would say that these other brands -- and then Mountain Dew contributing -- gives us a chance to grow the business.

A - Jamie Caulfield {BIO 17051951 <GO>}

I'm going to go to John. We'll work our way across: John, Nik. And then Mark. And if we've got time we'll keep going.

A - Unidentified Speaker

Thanks. Tom, when you guys announced GES five or six years ago or however long that was, it seemed like it was going to be a transformational process. I guess from our perspective it's been a little tougher to see the progress.

So can you talk about where you are on GES relative to your expectations, how that's flowing through the results? Then what's the outlook potentially for layering beverages on top of that type of distribution model?

A - Tom Greco {BIO 15063682 <GO>}

Sure. From our standpoint, we're exactly on track with our original plan. We are bringing up two sites per year. And all of the key metrics that we measure with GES we are delivering against.

We are very happy with the expanded SKU base. We are significantly increasing the number of SKUs that we can get out.

Of course, we eliminate basically distribution centers with GES. It enables us to ship product directly from a manufacturing facility to a store. And that expands the SKU capability up to as much as 1,000, literally.

Now whether we get to 1,000 is a big question in terms of the store and the size and all that kind of stuff. But we have the ability to do that and to flex into multiple categories.

So we're very happy with the growth enablement. We typically deliver what we call premium growth that we've actually modeled into GES. We are right on that number.

Then we also are very happy with the productivity that's generated out of it with the elimination of facilities, reduction of inventory. And the overall economics for it. So very, very happy with GES. And it's on track.

We just put one up in Killingly, Connecticut, closer to the tri-state area. So we are pretty excited about that particular project. And we're just going to continue to drive it. I'll let Al talk to beverages.

A - Al Carey {BIO 1985709 <GO>}

Yes. We're little behind Frito on the GES. We had a separate initiative called Geo Box and automation in our plants, which is really very similar to what Frito is doing.

It gets at the same things: reduction of inventory, reduction of fleet, facilities reduction. And also improving the jobs for the front line. So they are doing a lot less lifting and driving.

We started our first initiative. And instead of doing two separate programs we are now calling it GES in the beverage business. It's very similar to what they are doing, with a few nuances.

We began that in Baltimore last year. We've got another market coming up this year and look forward to -- I think it should be able to deliver similar kinds of results as Frito does.

A - Jamie Caulfield {BIO 17051951 <GO>}

So we'll take two more. I think we've got three more minutes in this room. So you guys keep your answers short and then we can expand on them when we go to the breakout. So Nik and then Mark; and then I think we'll head into the breakout.

Q - Nik Modi {BIO 7351672 <GO>}

Yes. Thanks. So Al, Tom, I was just curious if maybe you can provide some context on the incentive structures between snacks and beverages, where they have been. And if they've changed. And if there's anything you can do to tweak it going forward to really incent both sides to work more closely together.

A - Al Carey {BIO 1985709 <GO>}

Well the way we have it set up now is really exciting. Essentially Vivek, Kirk. And also Steven Williams, who reports in to us -- he heads up our Walmart team down in Bentonville -- they essentially dual report into Al and I. So to that end they are incented to drive the total performance of PepsiCo in aggregate. So it works really well.

I have objectives that we have to hit and it's part of our bonus objectives. What we're doing with the front-line sales force right now is doing some fun things that aren't expensive but it gets people excited on working together.

For example, if the teams hit targets on Super Bowl performance growth, brand performance on growth, they get a trip to the Pro Bowl next year. And we bring the groups together. It's terrific to watch the front-line get together. There is a lot of power there.

But we haven't tried to manipulate the compensation structures for those front-line people. They need to be very focused, we think.

A - Hugh Johnston {BIO 15089105 <GO>}

Nik, to that point, we don't want to use the compensation structure to motivate people to do things that don't make sense. So we're letting it happen organically: use the compensation structure just enough to seed the ideas. And then people catch on to the fact that working together actually gives them a better outcome and us a better outcome.

Then it's just sort of happens on its own. So we're not artificially driving that.

A - Al Carey {BIO 1985709 <GO>}

Nik, I would say one other thing, though. The way the leaders behave is the way the team behaves. If the leaders are talking it up and on the docks -- Tom visits my facilities; I visit him. We finish each other's sentences. And I find that our teams behave that way also if that's the behavior the leaders project.

A - Jamie Caulfield {BIO 17051951 <GO>}

One last question, I think, then we have to head to the breakout.

Q - Mark Swartzberg {BIO 3344004 <GO>}

I guess for Al and Tom, the level of spend behind FLNA and PAB is higher today relative to sales than it was a few years ago. Can you just speak to what's -- and it's very evident that it's working, right? So what's in place to ensure that the level of spend will remain where it is or even go higher in future years?

A - Al Carey {BIO 1985709 <GO>}

On A&M? Yes. In 2012 when we did the reorganization we committed as a % of sales what our new A&M budgets will be; and we have a boss that holds us to it.

Also, Hugh, on your scorecard, we see that every period. So we are committed to leaving that level up as a % of sales.

A - Hugh Johnston {BIO 15089105 <GO>}

And Mark, if they cut it, they don't get paid for the cut. Simple.

A - Al Carey {BIO 1985709 <GO>}

We can't use it as productivity.

A - Hugh Johnston {BIO 15089105 <GO>}

It's been a rule.

A - Al Carey {BIO 1985709 <GO>}

And we also -- I would also add that the % has to be delivered against. But we're also getting more working. I think you've heard that from us before; but we've moved a lot of funds from non-working into working. And we are getting better efficiency out of the working.

So as we move more into digital we get smarter about what we're doing with mobile. All of those things have helped the overall effectiveness of the advertising as well, which is another dimension.

A - Unidentified Speaker

Well that's all the time we have. There will be more time for questions over in the breakout. Please join me in thanking PepsiCo for a great presentation and for drinks and snacks all week. Thank you.