Consumer Analyst Group of New York (CAGNY) Conference

Company Participants

- Hugh F. Johnston, Vice Chairman and Chief Financial Officer
- Ravi Pamnani, Senior Vice President, Investor Relations

Other Participants

- Ali Dibadj, Analyst, Sanford C. Bernstein & Co.
- Andrea Faria Teixeira, Analyst, JPMorgan
- Dara Warren Mohsenian, Analyst, Morgan Stanley
- Lauren Rae Lieberman, Analyst, Barclays Bank PLC
- Nik Modi, Analyst, RBC Capital Markets
- Robert Edward Ottenstein, Analyst, Evercore
- Unidentified Participant

Presentation

Unidentified Participant

All right. If we can make our way back to our seats, we'll get ready for the afternoon. Just one housekeeping note, I think Andrew had mentioned earlier this morning that somebody had left behind a Bloomberg B-Unit, left it in the room yesterday. So if you're missing one, you want to reclaim it, Andrew has it for a small fee. He'll give it back to you.

Right. We're very excited to have PepsiCo back at CAGNY again this year. Over the long term, Pepsi has stuck to its conviction that the formula to compound total shareholder returns include delivering balanced growth and disciplined capital allocation.

In 2019, the Company decided to increase its investments in businesses from a position of strength in order to deliver sustainable long-term growth. For 2020, Pepsi has guided to delivering 4% organic revenue growth and 7% core constant currency EPS growth and plans to return $7.5 billion to shareholders in the form of dividends and share repurchases. This includes a 7% dividend hike expected with its June payment and represents the 48th consecutive annual dividend per share increase. Joining us today is Vice Chairman and CFO, Hugh Johnston; and Senior Vice President of Investor Relations, Ravi Pamnani. Hugh, I'll turn it over to you.

Hugh F. Johnston {BIO 15089105 <GO>}

Great. Thank you, Bryan. Good afternoon, everyone. Glad to be back again this year. I'm going to spend some time today by providing background on our business, our 2019 performance and investment focus and then wrap it up with our priorities and financial objectives for 2020. Before I get into the presentation today, I want to just take a few seconds and make sure you take note of our Safe Harbor statement.

Okay. Now let me start off with a brief overview of PepsiCo. While most of you probably know us quite well, it's important to remember that PepsiCo is among the largest food and beverage companies in the world with more than $67 billion in net revenue and more than 265,000 employees. Our foods and beverages are consumed approximately 1 billion times each day in nearly every country around the world. And 23 of the brands in our portfolio, including Pepsi, Quaker, Tropicana, Gatorade and Lays, each generate more than $1 billion in retail sales every year. Our business has strong positions in global scaled categories that are growing. Our categories primarily span across snacks and beverages, which are highly complementary.

We have a clear number one position in snacks with a significant runway for growth as per capita consumption and premiumization opportunities remain vast. We're a strong number two player globally in beverages, and seek to grow in markets where we have scale and competitive advantages and compete nimbly in markets where we don't have as much scale.

Outside the US and Russia, a significant portion of the beverage business is franchised to third parties. These tend to be scaled local and global players, who can compete and execute more effectively in the markets, where we don't have leadership positions.

Geographically, nearly a third of our revenue comes from higher growth D&E markets, with the remainder coming from developed markets. And over time, we would expect D&E markets to become a bigger part of our portfolio.

Now I'll briefly recap our 2019 results and then update you on progress we've made against the framework that we set out for all of you a year ago, to become faster, stronger and better. This will set the context for our 2020 priorities and for our financial guidance.

As many of you saw last week, we reported our fourth quarter and full year 2019 results. It was a year in which we chose to invest more back into our business from a position of strength. And we met or exceeded our 2019 goals, which included an acceleration of organic revenue growth to 4.5% with every division delivering growth. FLNA and PBNA, our biggest divisions, posting their strongest rates of growth since 2013 and 2015, respectively; broad-based growth geographically, with developed markets growing 3% and developing and emerging markets growing 8%; productivity savings in excess of $1 billion and $8 billion in cash returned to shareholders via dividends and share repurchases.

But importantly, 2019 was a year in which we established the framework for the future of our Company, what we refer to as Winning With Purpose by becoming faster, stronger and better.

Let me give you a quick recap of what each of these three terms means. Faster means winning in the marketplace, being more consumer-centric and accelerating investment for top line growth. Stronger means developing capabilities that can give us a sustainable competitive advantage, building a differentiated organization, talent base and culture and funding these investments with what I refer to as holistic cost management, which I'll explain more later. And Better means integrating purpose into our business strategy and becoming leaders toward building a more sustainable food system.

Now let me start with the -- where the bulk of our investments were focused in 2019, becoming faster. We increased our A&M spending by over 12% in 2019. Spending was across both our larger core brands as well as our smaller developing brands.

In our core beverage brands, we saw continued growth in brand Pepsi and significant improvement in Gatorade as the year progressed. Trademark Pepsi posted its sixth quarter of growth, with continued double-digit growth for Pepsi Zero Sugar. This is behind a strong increase in brand media around the NFL, around holiday programming, and around the balance of the year.

Gatorade ended the year on a very strong note, with high single-digit growth in the fourth quarter, led by Gatorade Zero. And smaller, faster-growing beverage brands like bubly and LIFEWTR were also beneficiaries of the increase in spending. Through increased distribution and flavor innovation, bubly continued to take share in 2019, establishing itself as one of the largest brands in the sparkling water category. And LIFEWTR, a key leader in our purpose-driven agenda, continues to see strong double-digit growth.

At FLNA, A&M also supported both larger brands and smaller, faster-growing premium and more nutritious brands. Big brands like Cheetos, Doritos and Ruffles each posted strong growth in 2019, while smaller brands like Bare and Off the Eaten Path also posted significant growth.

With respect to our go-to-market systems, we added routes, merchandising racks and people and modernized our distribution facilities to accommodate greater SKU assortment. We executed hundreds of go-to-market projects in 2019, which modernized routes to increase SKU capacity, enhanced service to increase service calls and contributed to reduced turnover by creating better jobs.

And finally, we also invested in additional manufacturing capacity to reduce bottlenecks and expand capacity for our brands. This included new plants, warehouses, manufacturing lines and distribution infrastructure. Aside from the gross capacity additions, we're also aligning our manufacturing for the future shape of demand, with innovations that provide greater agility with respect to packaging and seasoning.

The expanded capacity will place more products and SKUs closer to the market to be more responsive to consumer demand. These investments have already benefited our business, which is seeing an improvement in our order fill rates.

Now let me move on to stronger, where we made some significant investments as well. Unlike faster, where we can realize the benefits typically in a year or two, stronger is about building advantaged capabilities, treating costs, all costs, as an investment and advancing our culture for long-term, sustainable business growth and value creation.

We're just getting started here and made some good progress in 2019 to strengthen our go-to-market systems, streamline our organization structure and lay out key behavioral traits to transform our culture. These investments will continue over the next several years, and I'll share some examples with you later in this presentation, which include certain capabilities we're building, how we approach cost management and thoughts around building consumer-centric innovation and the specific behaviors around transforming our culture.

And finally, the third pillar of our strategy is what we refer to as better. This means integrating purpose into our business strategy and doing more for our planet and for our people.

In 2019, we focused our priority around this agenda, created our first-ever Chief Sustainability Officer position and generated nearly $1 billion in proceeds from a green bond offering, the proceeds of which will be used to fund our key sustainability initiatives.

Becoming better also pertains to our corporate governance. Based on the feedback and collaboration with our shareholders in recent years, we've established a public policy and sustainability committee within our Board of Directors, enhanced our disclosure of sustainability progress and published a report on our website that describes the substantial steps PepsiCo has taken over more than a decade to improve recycling in the US and to advance our long-term approach to sustainable packaging around our food and beverage products.

So we've made some good progress in 2019, and I'll share some more examples on the initiatives for 2020 and beyond later in this presentation. But before I move on to 2020 priorities, I thought I'd mention the many awards and accomplishments that we're particularly proud of. I won't go through all of these, but I think it's a good depiction of the progress we're making as an organization.

Two recognitions I'd like to highlight for you all include the 2019 Kantar PowerRanking Survey, where PepsiCo was awarded the number one ranking for the fourth consecutive year, and the 2019 US Advantage Survey Core Food Multichannel

Report, where we were awarded the top two rankings. These surveys reflect our customers' view of PepsiCo as a valued partner and demonstrate the benefits of investing with our customers to help them drive growth.

Moving on to 2020, we plan to continue to invest in the Faster, Stronger, Better framework. While our investments around becoming faster will continue, we will place greater emphasis on becoming stronger and better in 2020.

So let me recap quickly what we mean by stronger. It starts with building advantaged capabilities to sustain growth and win in the marketplace well into the future. It involves managing costs as investments to make prioritized growth decisions or what we refer to as holistic cost management, and it involves building a culture in which employees act like owners and focus on consumer centricity.

Let's move forward to some of the examples in this framework. First, let's start with building capabilities. We're developing the tools necessary to stay ahead of the evolving consumer marketplace. Some examples include becoming more data-driven through digitalizing our marketing and consumer insights efforts. By enhancing our ecosystem of data and consumer insights, we can increase the efficiency of our promotions and become more dynamic with our A&M spending, in effect, getting more growth for the same spend. This includes leveraging our in-house automation capabilities to deploy targeted higher ROI marketing programs in a manner that's both efficient and scalable.

With proprietary algorithms and models that we continue to train to become better, we're improving marketing ROI on a continuous basis. And we can tailor and target ads with greater precision, optimizing the ROI of individual campaigns or of the digital elements of the media mix and building a single view of the consumer by integrating consumer data from various sources, such as CRM data, brand sites, cookie and ID data as well as second party and third party assets, IRI, location-based data and so on. By capturing and analyzing more granular consumer-level data, we can understand the consumer in a more individualized way.

To both customize communication and execute in every store with precisely the right products in the right location at the right price. We'll also invest in building a more agile supply chain that can deliver more precision and variety to enable us to win in the marketplace. This means building new manufacturing sites as well as optimizing our warehouse footprint to ensure we can be nimble and agile to handle SKU complexity, whether it be different packages, brands or flavor combinations.

We'll also invest in building out our e-commerce business, which delivered nearly $2 billion in retail sales last year. E-commerce is transforming the way we all do business and provides valuable data that can be critical to provide critical insights and learnings that can be leveraged across the entire organization.

We've also expanded our capability to ship SKUs directly to consumer, and we can fulfill orders placed on our retailers' online platforms and on our own direct-to-consumer websites. I expect us to do even more of this in the coming years.

Another area where we're investing to become stronger involves relevant consumer-centric innovation. For example, we're investing behind more data-driven predictive analytics to help improve cycle times and drive more incremental innovation beyond just line and flavor expansions.

Past and present examples of this include premiumizing the water category with LIFEWTR and bubly, building and enhancing our Lays poppable product, expanding and growing the sports drink category with Gatorade Zero and Bolt24, introducing Game Fuel to introduce -- to address the energy needs of a targeted set of consumers and enhancing our better-for-you snacks with Simply and Off the Eaten Path, and introducing bolder and spicier flavors of existing products, such as Doritos, to address consumer preferences.

In addition, we believe there's still opportunity to lift and scale with existing brands in new geographies and capitalize on successful brands with new line expansions and flavor expansions. For example, Pepsi Black is now available in 94 markets compared to just 28 at the beginning of 2016. This includes the launch of Pepsi Black in the Middle East and the North Africa region.

We continue to expand and build our Gatorade franchise globally. The brand posted mid-single digit volume growth internationally in 2019. And we've had strong success with our Flamin' Hot platform, which began with Cheetos and has expanded to other snack brands around the world. Flamin' Hot has now been applied to tortilla chips, potato chips, popcorn and nut brands, with iterations developed to meet the needs of consumers across all of our markets. In 2019, we doubled the number of international markets for Flamin' Hot and we expect that trend to continue in 2020.

Another critical part of becoming stronger in our investment framework is what I referred to earlier as holistic cost management, which means managing all costs as investments to make prioritized growth decisions. We've committed to delivering at least $1 billion of annual productivity savings through 2023, and some examples include optimizing our manufacturing and supply chain footprint and models to become more efficient to deliver products with consumer affordability in mind with the D&E market consumer; eliminating excess waste throughout our system, both labor and materials; simplifying and harmonizing our IT systems to connect and integrate various components of our businesses from around the world; reducing the total amount of non-working A&M as a percent of our total A&M; matching jobs and global talent more effectively to maximize efficiencies and free up resources and people to focus on new capabilities; utilizing automation to drive agility and efficiencies while also creating better jobs, which includes replacing highly manual, high turnover positions that are difficult to fulfill. And in addition, we are digitizing our plants to allow for remote monitoring and auto adjustments, thus improving uptime and reducing quality variability.

And the final piece behind becoming stronger is about transforming the culture. Last year, we developed what we call the PepsiCo Way, which are seven principles around empowering our employees to act more like owners and to take a consumer-centric lens to everything we do.

The heart of this agenda is around investing in our people, and it's something we will build upon in years to come. I won't bother to read every item on this slide, but the key elements include becoming more consumer-centric by innovating and factoring the end consumer to every decision that we make, acting as owners of the Company and focusing to get things done fast.

One specific example I'd like to conclude on this topic involve -- includes the reporting and division changes we made to our businesses in Asia and Africa to become more consumer-centric by tailoring and optimizing our resources to better capture the very different consumer needs in different continents. The new reporting structure also ensure accountabilities and responsibilities are clear, so everyone acts like an owner.

Now I'd like to move on to the Better portion of our framework, another area in which we will ramp up our investments in 2020. As I mentioned earlier, we started by identifying priority areas, which we believe can have the greatest impact. These include sourcing ingredients through a more sustainable and resilient agriculture, being even more responsible stewards of water, building a world where plastic packaging never become waste, improving the portfolio of products we offer to consumers with less added sugar, sodium and saturated fat, working towards our climate goal to reduce absolute greenhouse gas emissions across the Company's value chain, and supporting the people who are the backbone of the Company and the communities in which we operate and serve.

While many of the detailed goals are highlighted in our 2019 sustainability report, let me take you through just a couple of them. Let me start with mitigating the impact of climate change. We aim to reduce our absolute greenhouse gas emissions across PepsiCo's value chain by 20% by 2030. We also announced earlier this year that in 2020, we will be shifting to 100% renewable electricity in the United States, our largest market, and already used 100% renewable electricity in our manufacturing operations in nine European markets. Additionally, we want to improve the efficiency of water use in our agricultural supply chain and in manufacturing, replenishing the water we use locally in water-scarce areas and expanding safe water access to more people with the ultimate aim of long-term sustainable water security.

We're striving to improve water use efficiency and aiming to replenish 100% of the water we consume for manufacturing in high-risk water areas by 2025. We're also innovating to deliver a circular future for packaging by reducing the plastic waste that we use, recycling more plastic and reinventing the very nature of packaging. This includes our goals to use 25% recycled plastic content in our packaging, reduce 35% of virgin plastic content across our beverage portfolio, and design 100% of our packaging to be recyclable, compostable or biodegradable.

With respect to our portfolio, we're also focused on improving choices by reducing added sugars, sodium and saturated fats across many of our products. In the US alone, we have nearly 500 beverage choices with 100 calories or less per 12-ounce serving. And our nutrition targets include reducing added sugars, 67 -- greater than 67% of the beverage portfolio will have less than 100 calories from added sugars per 12-ounce by 2025. In reducing sodium, greater than 75% of the Foods portfolio will not exceed 1.3 milligrams of sodium per calorie by 2025. And in saturated fats, greater than 75% of the Foods portfolio will not exceed 1.1 grams of saturated fat per calorie by 2025.

And we're investing in advancing respect for human rights, promoting diversity and inclusion in our workplaces, and increasing the earnings potential of women in our communities. Women comprise 40% of our managers globally. And since 2016, we've invested more than $27 million to support initiatives that benefit women in the communities in which we operate.

Finally, we're integrating this broader agenda into our brands. We're transitioning LIFEWTR to be packaged in 100% recycled plastic in the US and producing bubly exclusively in aluminum cans.

Our Lays Smile campaign continues to raise awareness and funds for Operation Smile, which improves the health and lives of children and young adults. Our Walkers brand has created a recycling program for chip bags made from flexible film, helping us to reduce the impact of packaging on our environment.

Now moving on to our guidance for 2020. And as we mentioned on our earnings call last week, we expect to deliver 4% organic revenue growth and 7% core constant currency earnings per share growth. Our capital allocation priorities remain disciplined and unchanged in that our number one priority is to invest back in the business. These investments will span across snacks and beverages and include a combination of expanding capacity, implementing technology and automation, maximizing efficiencies and enhancing existing facilities.

With respect to the dividend, we announced the 48th consecutive increase to our dividend last week, which will be made with the June payment, and we expect to pay $5.5 billion in dividends in 2020. We'll also look to continue to strengthen our portfolio through strategic M&A. And finally, we'll look to return cash to shareholders through share repurchases, which should approximate $2 billion in 2020.

To conclude, our priorities for 2020 remain consistent with the framework we've discussed today. We'll continue to invest back in the business to evolve our portfolio and transform our value chain, to build next-generation capabilities, to grow our talent and simplify our organization to become more consumer and customer-centric, to invest in our brands, both large and emerging, and to reduce our cost structure to free up resources to fund our investments. These priorities will always be executed with an eye toward enhancing our marketplace competitiveness and delivering, of course, long-term value creation to our shareholders.

Thanks again for your time, and I'm happy to jump to questions. Ravi, you'll handle the question -- the picking.

Questions And Answers

A - Ravi Pamnani {BIO 6230658 <GO>}

Ali, and then we'll go to Dara.

Q - Ali Dibadj {BIO 15328592 <GO>}

So just on that last part of long-term value creation. I have two questions that are pretty much the only thing I care about right now about long-term value creation. One is, you said at the outset, you want to become a bigger player in the D&E markets. Right now, ex Mexico and Russia, that's less than 15% of your business is D&E. What does that mean? What does that entail? What does it entail in terms of investments? What do you have to do differently? That's question one.

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

Okay.

Q - Ali Dibadj {BIO 15328592 <GO>}

The other question is around Frito, which you've clearly had asked a lot, but people are still wondering whether this is hiccup, everything will be back to normal, or continued pressure on top line and margins, partly because everybody else who's been in this room this week has said we're a snack company for the third year running.

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

Thanks, Ali, for both. On the first question around what do we need to do to continue to expand our presence in D&E markets. On the snack side of the business, frankly, there is a world of snack opportunities that are out there to be taken advantage of and to be fulfilled. As consumers' incomes grow in these markets, their lives get busier. As their lives get busier, they look towards convenience. And as they look towards convenience, they naturally migrate towards packaged snacks, which is obviously the place we have enormous strength.

What we need to do as much as anything is, number one, to be able to create a product portfolio that's affordable for those consumers as they work their way up the income scale; number two, continue to build infrastructure and build manufacturing capacity; and number three, make sure that the seasonings and flavors on those products are relevant for the local consumers because there really are about, I don't know, call it, seven or eight big food cultures around the world. We need to be able to play into those food cultures as distinctly as we possibly can.

If we do those things, and I expect we will because they're well within our capability and well within our funding, that business just has an enormous amount of growth, frankly, for probably decades to come. The per capita consumption between the United States, Mexico and many of the other D&E markets, the gap is simply enormous, and consumers have always come to these products as we put them out there.

From a competitive advantage perspective, we're well situated to do that. On the beverage side, it's really continuing to -- in the markets where we have higher share, basically executing in the marketplace, investing, building capacity capability, building out the product portfolio, and obviously, competing effectively with our biggest competitor in that market. So lots of confidence that the particular portfolio we have, both snacks and beverages, is capable of delivering growth for a long period of time and doing so in a value-creating way.

Your second question on Frito-Lay. So we talked a lot about Frito-Lay. And over the course of last year, Frito-Lay had really one of the best years it's had in a long, long time. I mean, we saw tremendous growth in the business. There were share gains in the business. The fourth quarter, the revenue number was slightly lower, and what we explained during our conference call last week was we have previously always taken pricing in February. In 2018, we moved that pricing up to November of 2018.

And therefore, as we hit 2019, we were lapping that pricing. We made a decision that we wanted to move the pricing from that November time frame that we did in '18 back to February, which is our typical timing. That accounts for virtually all of the change in Frito-Lay's revenue. As our pricing moves into place as we get to the latter part of the first quarter and into the second quarter, I expect you'll see Frito's algorithm go right back to the things that you've come to expect over a period of time. Okay.

A - Ravi Pamnani {BIO 6230658 <GO>}

Dara, we'll go to you next.

Q - Dara Warren Mohsenian {BIO 3017577 <GO>}

Thanks. So Frito-Lay North America, obviously, very high-margin levels that are the envy of a lot of consumer companies here today. You just talked a little bit about some of the greater competition. Just thoughts going forward on the margin expansion opportunity at Frito-Lay North America, particularly given the last couple of years. We haven't seen much expansion, and as it relates to the competitive environment?

And then just to follow-up on the D&E markets, obviously, strong top line growth and it sounds like you think it will continue. Does it require a lot of incremental investment or do you think you can sort of harness margin expansion with that strong top line growth as you look out over the next few years here?

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

Sure. So let me answer the second one first because I think it's pretty straightforward. I think that the expansion opportunities are within the algorithm that we crafted for all of you. So yes, I think we can drive margin expansion while capturing top line. The question with D&E markets is always, how quickly do you want to drive margins high versus expand per capita consumption by virtue of gaining distribution or driving frequency once you pull consumers in. And that's a choice that, frankly, is well within our management's decision. We could choose to make margins higher earlier or we could choose to expand the business and build a bigger business with stronger competitive advantages first and then bring margin -- higher margins in later.

So -- and that's a balance that, frankly, we strike basically every year and every quarter. That decision is always being made. Regarding your first question, was...

Q - Dara Warren Mohsenian {BIO 3017577 <GO>}

Just the expansion potential in terms of margins of Frito-Lay North America over time.

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

Oh, Frito. Yes. Okay. So Frito-Lay North America, I think what you're going to see as we come out of 2019, it's going to be a P&L pretty consistent with what you've seen from Frito in the past. Maybe a little bit faster top line growth, maybe a little bit slower margin, but by and large, Frito is a business where it's got enormous competitive advantages. Frankly, the competition that's entered the marketplace, I view generally as more good than bad because competition, I think, makes the category better and makes us sharper. So I'm actually -- we welcome the competition. I think Frito is well positioned to capture its share of growth and more. And I think, with that growth, not just growth from pricing, but growth from volume, will leverage the P&L. And I think we'll get margin improvement there

A - Ravi Pamnani {BIO 6230658 <GO>}

Robert, you had a question. Let's go to Robert, and I'll come back this way.

Q - Robert Edward Ottenstein {BIO 1498660 <GO>}

Great. Thank you very much. Obviously, you're starting to see some nice improvements in the North American beverage business. A lot of that had to do with some of the stepped-up investment in advertising and marketing. But you also made some important organizational changes last year. I was wondering if you could talk about a little bit those organizational changes and to what extent -- where are you in terms of improving execution, what are the -- where are the big opportunities on the execution side and initiatives along those lines over the next 12 months?

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

Sure. Yes, happy to talk about that. So for all of you who don't know, one of the moves that we made at the beginning of last year was we took the North American beverage business and we reorganized it and put resources into four divisions that were located around the country. So essentially, pushed our management resources much closer to our markets and much closer to our customers and consumers and created sort of -- for lack of a better term, let's call them business units that are very focused on their region of the country. That happened, I'm going to call it, I think it was around March, April of last year. For those of you who've lived through reorganizations, it takes a little while to really get -- to get the organization running again properly, right? Just sort of a disruption of human beings, right? Moving people, changing alignments, changing bosses and all the sort of things that happen with changing an organization structure. It takes a good six, seven months to sort of get that organization to regrow.

To answer your question specifically, Robert, I think we really started to see some of the benefits of that in the second half of the fourth quarter. I really think, before that, we were still kind of getting ourselves organized. So to use a baseball metaphor, I would probably put us in the first or second inning in terms of the benefits that we expect to get out of the organization, which is enhanced local execution, more targeted focus on the consumers in those marketplaces, getting the customer relationships built in a different way because now you've got different people connecting into those customers. I think we're very, very early in that. I'm expecting a meaningful amount of benefit from that in 2020. And what gives me confidence is, I started to see it towards the end of 2019.

A - Ravi Pamnani {BIO 6230658 <GO>}

Catherine, we'll go to you and then we'll come back up.

Q - Unidentified Participant

I'm really intrigued with the intersection between technology and consumer demand. And in the Procter breakout, we talked a little bit about it. But they had shared the example of a toothbrush and how it increased compliance because they could see where there was this spot, and it addressed tooth extractions, very specific example. Are there examples in snacking?

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

Yes. I think the things -- and we're in early days on this, but I think where we've actually gotten sharpest in terms of leveraging technology is through e-commerce and snacking, right? Whereas previously -- because a lot of people said, gee, it's an impulse product. Are you worried about the impulse nature of snacking as it relates to e-commerce.

And I sort of view it as the opposite because through e-commerce, we can actually talk to an individual consumer much more directly, and we can actually create demand with that consumer much more directly. So to be very specific, you may particularly like Sun Chips, right? Sun Chips, as a product, it's a terrific product for us. As a brand, it's hard to put it on display. It gets on display some, but it doesn't get on display as much as it should because it's not one of the bigger brands and it can't necessarily justify an end cap. Whereas, Ali [ph] may like Doritos. Is that fair? It is.

Doritos is obviously a huge brand. So by virtue of sort of having a relationship with you, either directly or a relationship with you through our e-commerce partners and our customers, we can actually much more effectively understand what your needs are and deliver basically advertising, pricing, product, some way to reach you to prompt that purchase of Sun Chips. So I used that as just sort of one example in that regard.

Another example to me is much more around store assortment. So right now, our store assortments, and we have a lot of different planograms, but they're still sort of more driven by local intuition. I think when you combine local intuition with a much more data-driven understanding of the demographics and the consumer types in a particular store, you're going to get the assortment in that store much, much more precise. And we've done some work on that in Frito-Lay. And it suggests double-digit types of growth. Now that's early days, but we've learned a lot about how to get precision assortment done properly on a smaller scale. The challenge for us now is to take that technology and apply it to a much larger scale.

Q - Unidentified Participant

Okay. Super. And just one follow-up. Of all the things you've outlined here today, which do you think will best address unmet consumer needs five years from now?

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

It's an interesting question. I actually think the thing that's going to give us the most insight is going to be sort of understanding individualized consumer data. And by virtue of doing that, not just getting our existing product portfolio right, but understanding what consumer unmet needs are and to be able to innovate more effectively against those needs. And that's something that we do now, but we still do it, I think, in a more, call it, a more intuitive way. I think, again, when you combine the intuition with a much deeper understanding of what consumers are not just saying they want, but indicating they want even though they're not saying it, I think it will enable us to innovate much more effectively.

A - Ravi Pamnani {BIO 6230658 <GO>}

Let's go to Lauren. And then Andrea, and then I know I've got a couple more there, too.

Q - Lauren Rae Lieberman {BIO 4832525 <GO>}

Thanks. So 2019 was an interesting year in that you had an adjusted algorithm and a lot of flexibility to reinvest in a new CEO as an approach arguably said. Is there something we think we can do growth-wise, let's go for it. And there are examples that very visibly paid off, whether it was like the Super Bowl last year or Chinese New Year, but there are others that didn't go quite the same, Quaker being the most obvious.

So it'd be great if you could talk a little bit about how the approach may be changing to evaluate those opportunities and where to put incremental dollars if 2019 was, let's just see what happens. What is 2020, '21 and so on look like as you make those decisions?

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

Sure. A couple of examples, I think I'd point to. I mean, if you look at the Quaker business, since you pointed that one out, the investment in oat beverage, obviously, didn't work at all, right? We've launched the product, we thought we had a good product, the product just didn't do well in the marketplace. Repeats weren't there, the product just didn't sell through.

So that was a meaningful investment of dollars launching that product, particularly in a warehouse environment. Taking that money and redeploying that elsewhere within the Quaker portfolio where we know we've got some good growth tailwinds or we have some competitive opportunities we need to address, to me, is sort of a redeploy type of an example.

Second one, Mountain Dew. I think we made some progress on Mountain Dew in terms of the advertising level and the sharpness of our advertising. To me, the big outage on Mountain Dew was the fact that we had a diet Mountain Dew product that's good, but consumers, other than the sort of base of consumers that like a diet product, they want zero sugar. They don't want diet. And they prefer the newer sweetener systems to the older sweetener systems. Hence, the launch of Mountain Dew Zero Sugar, which I'm optimistic is going to actually create a lot of positive momentum for us in that business this year.

So to me, those are sort of twp examples. Obviously, I could probably talk all day about the things that we didn't do as well as we should have done. The thing I would tell you is, as we see them not working, we're -- as a team, we, the PC, basically meets every six weeks. And as a team, we're constantly working as a group to say, okay, what's working? What's not? How do we take that money and redeploy it? And we cut it across divisions and across functions and across priorities very, very quickly. So this notion of focusing and getting things done fast. It's not just words that you put on a wall somewhere. It's actually changing the way the Company operates.

A - Ravi Pamnani {BIO 6230658 <GO>}

To Andrea.

Q - Andrea Faria Teixeira {BIO 1941397 <GO>}

Thank you. Hugh, you discussed like two years ago, I guess, the whole decision into keeping the bottling system, not refranchising. So I was hoping if you can update us on how it evolved in terms of potentially integrating more the practices in beverages with -- I mean, the practice is next with beverages and how beyond bundling the products just being based on best practice is being shared across the board.

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

Yes. I think two things I would point to. Number one, the two businesses are certainly sharing data in a much more significant way, particularly consumer data where you had two pretty independent silos. And now, as we're sort of working towards one insights team that works across North America, both at the consumer and on the customer level, we've actually gotten a lot better in terms of not just sort of going to customer meetings together, but actually sort of saying, okay, why don't you do this and we'll do that. And you've seen some of the examples, whether they're promotions in-store or advertising of products jointly.

So I think we've gotten a lot more effective at sort of sharing consumer data and sharing customer information. That's number one.

Number two, I think we're moving talent between the two organizations much more effectively than we probably did in the past. And it is having a positive impact on the business. So I mean, again, you can point to 1 million little things and I can tell you about a promotion on Circle K or something like that. But I think that's sort of the macro that gives me confidence that, yes, in fact, the combination of the two works better.

As far as the question around, does the bottling entity report in -- need to be a part of PepsiCo, I think, generally speaking, with the improved performance, we're not talking about that much anymore. The one thing that we saw as an opportunity with the bottling organization inside of PepsiCo was making it more local the way Frito-Lay tends to operate more locally. And that's why we went to the division structure that we did, basically moving resources out of New York and out into the field organization. And that learning, taking it from Frito to beverages has actually worked quite well, both in terms of making the business better and, frankly, making it more competitive versus the big competitor.

A - Ravi Pamnani {BIO 6230658 <GO>}

All right. Nik, let's go to you. We'll take this last one, then we'll have plenty of time in the breakout for everybody else.

Q - Nik Modi {BIO 7351672 <GO>}

Thanks. Hugh, just two questions. One is on e-commerce. Obviously, a lot of growth being driven there. You guys have been very focused. How do you align your offline and online teams to make sure there's integrity on pricing online because that's becoming a really big problem in terms of price leakage?

And then the second question is, when you think about enterprise-wide PepsiCo over the next three to five years, where do you think the biggest whitespace opportunity will be for the Company?

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

Yes. In terms of e-commerce, the e-commerce team works directly with the big division. So you know we have a separate e-commerce team that cuts across all the North American businesses and operates really as a unit that connects into our international businesses as well, although the logistics of that are such that the international businesses tend to run it more on their own. But with respect to pricing, particularly in North America, if the e-commerce team wants to do things on pricing, they have to very much coordinate with either PBNA or PFNA, so that we do maintain some discipline around how pricing happens online versus offline.

Now with our customers that are omnichannel that have both online and offline, that's relatively straightforward. Obviously, with customers that are just online, we need to make sure that we manage our pricing properly to ensure that connectedness.

On your -- your second question was, white spaces in the portfolio. I think the biggest ones are much more around geography than anything. So you know we're in the process of acquiring Pioneer Foods. We obviously had a significant gap in Africa, Sub-Saharan Africa, and Pioneer very much helps us to fill in that gap.

Other geographies around the world where we have relatively low presence, more in Asia, probably than anywhere else. So that's not to suggest we're on the verge of going in and making an acquisition or doing anything in that regard. But as we look at populations that are relatively underserved, they tend to be more in Asia. The rest of the world, Latin America, Europe, Middle East, we tend to be fine. Obviously, North America, we're an enormous presence. So those are probably the places I'd point to.

Q - Unidentified Participant

Okay. With that, we're going to move to the breakout. Hugh, Ravi, thanks for spending time with us, and we'll move over to the breakout right now.

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

Thank you.