2023 Consumer Analyst Group of New York (CAGNY) Conference

Company Participants

- Hugh F. Johnston, Vice Chairman and Chief Financial Officer
- Ramon L. Laguarta, Chief Executive Officer
- Unidentified Speaker

Other Participants

- Andrea Teixeira, Analyst, J.P. Morgan Securities
- Bonnie Herzog, Analyst, Goldman Sachs
- Dara Mohsenian, Analyst, Morgan Stanley
- Kevin Grundy, Analyst, Jefferies
- Robert Ottenstein, Analyst, Evercore ISI

Presentation

Unidentified Speaker

Hi, again. Now, it gives me great honor and pleasure to introduce PepsiCo, one of the largest global consumer package good company with more than $86 billion in net revenue. And their senior management team lead by Mr. Ramon Laguarta, Chairman and CEO; and Mr. Hugh Johnston, Vice Chairman and CFO.

Ramon and Hugh have nearly 60 years of good buying [ph] experience at PepsiCO, and has been in numerous roles that stand across the company, including general management, sales, operations and finance. Following Ramon's elevation to the CEO role in the fall of 2018, the company began to undertake a bold agenda to meaningfully accelerate topline growth. That involved numerous investment decisions and actions that have led to strong performance we have witnessed in recent years.

With that in mind, Ramon will now take you through the decisions and actions in more detail, and the company's priorities moving forward. Ramon, I will now turn it over to you.

Ramon L. Laguarta {BIO 18967774 <GO>}

Thank you. Thank you, James. Good morning, everybody, and thank you for hosting us. It's great to be back together after so many years of being virtually. So before I get -- we get started, I'd like to please read our cautionary statements, and we will get going.

Okay. So I thought we would focus our time on three things: one is, a bit of a refresher who we are. We've grown a lot in the last few years. I'll give you a good sense from the category point-of-view from geography where we stand. I'll spend most of the time taking through -- you through the -- how we're accelerating our performance in the last few years based on a few decisions that we made. And at the same time, how we're transforming the company end-to-end to become sustainable for the future. And then we'll spend the balance of the time talking about the future, how we think we can continue to take a lot of growth from the market and continue to create value for our shareholders.

Before we -- I get started, I'd like to take one minute to thank all our teams around the world, our highly experienced local management team, especially our front-line that have done an amazing job over the last four years and navigating what it has been, obviously, very complex realities and with COVID and everything else.

Now, who are we? As Jim mentioned, we are one of the largest food and beverage companies in the world. We have closed '22 with $86 billion in net revenue and a bit more than $12 billion in operating profit in '22. As you see our brands, we have a portfolio of beautiful brands that consumers love, buy very regularly around the world, some of them billion-dollar plus brand, some of them with smaller but growing very fast. And I put here winning with net positive as this is the strategy we've been following for the last few years and it continues to be North Star of our company.

Now when you look at the two categories that we play on: convenient foods and beverages, both very large categories complementary in a good sense on the consumer side, on the customer side on a lot of occasions. Our business is 58% convenient foods, so almost $50 billion of convenient food, and about 42% in beverages, $36 billion.

On foods, we're the leading player in convenient foods with a very focused on savory snacks about expanding to other micro snacks occasions. And on beverages, we're the number two globally with pockets of leadership in many markets, and pockets of being a challenging -- a challenging player in some other markets. We play across most of the other LRB categories, especially here in the US from other European markets. But there's clearly a lot of opportunities for us to expand further into other LRB occasions.

Now from the geography point-of-view, we are a very large North America business, $49 billion in the US, the rest being Canada, 61% being in North America, 39% being international, about $34 billion of very large international business that is growing very fast. 31% of our business is in developing and emerging markets. So $27 billion when you put it against some of the other companies in the food space, clearly, a very large D&E market portfolio. Now you have the breakdown between the different operating divisions. So Frito-Lay 27%, PBNA 30% and then pretty big in Europe, Latin America and growing very fast in what we call AMESA, the Middle-East and Southern Asia and then APAC, our China business and Asia business.

Now what happened to us in the last few years? If you recall, last time we were here live, we presented to you, that was early '19. We presented to you a new strategy for the company trying to move from being a good company to being a great company, pivoting to growth, putting growth at the center of our strategy, how would create value for all of you regularly.

There were a few key pillars of that strategy, becoming a faster company, accelerating our investments are becoming much more consumer-centric. Being a stronger company, elevating efficiency as part of our strategy, holistic cost management and elevating talent and empowering our operations globally to be much more owners of their decision end-to-end in the marketplace. And then becoming a better company, elevating people and planet to the center of how we compete our brands compete in the marketplace, create value for consumers and customers and communities, with the objective of continuing to deliver consistently on our long-term algorithm of four to six organic revenue growth and high single-digit operating EPS.

Now, let me take you through each one of these pillars. So we got to unpack [ph] a bit more what's happened. The first decision we made was to increase our A&M and increase our CapEx in a very substantial way because we thought the company was under-invested in their brand, under-invested in their capital. As you see there, 24% increase in A&M over the last four years. Now our A&M is $5.2 billion, mostly against our large global brands, but also investing in building new smaller brands that fill the portfolio in new cohorts or new spaces are obviously coming up in our categories. We're being very diligent on improving the ROI on our brands, making sure they're working. A&M is much -- it's getting larger every year against non-working A&M. And all the efficiency metrics that you can expect from a company like ours under A&M.

On the other hand, we increased our net capital investment substantially as well against three key areas: one, investing in capacity and debottlenecking [ph] our bottleneck -- our supply-chain. Second, digital investments, make sure that we become a more intelligent company, more precise, more agile, more forward-thinking. And the third one, making sure that our go-to-market, you get even more capillarity to become more extensive as we're trying to get our products in front of consumers.

Now, the results so far have been pretty good. The business has reacted pretty well to the investments that you can see the 2022 average growth for the company has been 9.4%. On the top line, 8% on EPS. Obviously, we have COVID between those years. So excluding the COVID cost, 11%. So way above our long-term range. Five consecutive quarters of double-digit top line growth in the last five quarters and pretty, two years of double-digit EPS. So very good response of the business to the investments we've made. And this has been pretty broad as well. So has been in the US, so big acceleration of our US business going from what was a around a 2% net revenue growth for the 2016-2018 timeframe to 7.3% the last three years -- four years actually. And the same internationally. So the D&A business growing from 7.4% to 11%, while the international business growing from 6% to 9%. And also, both in our convenient foods and in our beverage business acceleration that is obviously across most of the geographies that I showed earlier.

Now, as I said earlier, we decided to invest behind our core global brands. Obviously, it was a fine-tuning their position in improving their packaging, improving their portfolio under the brand and then increasing the investment behind those brands that we thought had a -- they had a whole lot of runway. If you see the growth of some of our global brands is quite positive. So Gatorade grew 13% in the last two years, Doritos 11%, Cheetos 11%, Lays 9%, et cetera. So a big growth from our global brands. And as I said earlier, smaller brands that I'll show later that also growing very nicely along the big global brands.

Portfolio transformation has been critical for those brands to grow at the pace that they're growing. And I'm showing here three pillars, how we think about our innovation. Centrally to our portfolio transformation is positive choices, making sure that our portfolio evolves with the consumer around what we call positive choices in beverages. That means putting zero sugar at the center of the portfolio transformation and investing a lot disproportionately our A&M behind zero sugar. You see here Gatorade, you see here Mountain Dew, Pepsi, obviously, and innovating in non-sugar brands like Life Water, brands like Propel, brands like Bubly also driving positive growth for the category.

And in Foods, we're working on the sodium reduction, fat transformation, but also new substrates, multi-grain in SunChips, Rice and Peas like Off The Eaten Path, (inaudible) and emphasizing a couple of cooking methods like baking or popping that are healthier for consumers. The same we're extending our brands into new spaces. So for example, if you take the beverage category, we are premiumizing coffee with cold brew, we're premiumizing colas with Nitro. We are moving brands like Gatorade into caffeine or energy plus hydration. We fast it. We are entering gaps in our portfolio, like we did with Starry, and we are complementing our energy portfolio with brands like CELSIUS that obviously compliment very well our coffee, our Rockstar or some of our other Energy choices.

The same way the snacks, we move into new substrates like black beans, rice, starra [ph] in plantains, so different ingredients that make our portfolio choices where consumers much more broader. And then, we're leveraging packaging a lot to offer new occasions for consumers. I have some examples here, how we're playing, saw their stream very strategically to move consumers to personalizing their drinks at home. We're moving into powders and tablets with Gatorade make sure that consumers also make their choices, make their drinks without plastic, avoiding CO2 emissions with transformation -- with transportation.

And also in the snack business, we're moving into solutions like multi-packs where we leverage the variety of our portfolio to with consumer choice. It's been a huge success for us. We have launched Minis, a portable canister for some of our big brands, that's also been very successful. And we're moving into closer to food solutions with things like walking tacos where consumers can kind of add ingredients to our tortilla chips or some other products and create their own mini meals. So clearly, portfolio at the center of how our brands have been very successful.

We've been investing a lot on e-commerce, making sure that our consumers can find our products in multiple ways. I'll give you some examples of how SodaStream is obviously using direct-to-consumer in a big way. gatorade.com, how we can -- our consumers can have -- can be tested on what is their hydration needs and then adopt their portfolio, powder or other solutions, and they can order obviously their equipment from that. Or Snacks for You [ph], a platform that we have where consumers can choose their ideal multi-pack based on whatever family composition is, whatever their preferences are.

So clearly, investing in e-commerce, beyond e-commerce into D2C. And the same [ph] away from home, an area where we're growing very fast. We're creating solutions for our retailers to connect with us and order in a very unique way. We're investing a lot in food trucks and more giving consumers the opportunity to buy our products beyond a bag in a much more holistic food experience. And the same with unattended retail where we have -- we're placing much more equipment in -- for opportunities for the consumer to buy our products. The net consequence of this is our net revenue in these channels are growing double digit and accelerating as we go.

Now that was how much faster -- our faster pillar. If I move to the second pillar was stronger. Stronger, we wanted to create a company where we elevated efficiency at the center of the strategy, thinking about holistic cost management end-to-end -- looking at cost end-to-end and elevating that in the way we create funding for investment. We wanted to digitalize the company, make sure we come more agile, more precise, leaner. And also, we wanted to evolve the culture of the company to make sure that we empower our people in the field to make decisions that are much more relevant to what is the local context. Those three pillars, I would unpack a little bit.

In terms of the holistic management, as you can imagine, we've been working on this for many years now. But we've accelerated the agenda on where do we do the work and how do we -- how many times across the company we do the work. So we've invested a lot in global business solutions, and we're trying to minimize the duplications and maximize the power of doing things once in the company. That's working very well for us.

We had a very, I would say, multiple technology systems across the company and systems that were not connected between themselves. We're narrowing that. We're harmonizing systems across the company, making sure that our people can make decisions real time in a much more connected way. We're leveraging automation as much as we can with labor shortages around the world. We keep automating our packing, our loading, unloading and that is creating a lot of productivity for us.

And the same with our routes, as we're trying to optimize the way we get to many, many more points of sale, we're optimizing with intelligence the way our people get to the store, what they do in the store, how they do it with much more information. And that's also giving us a lot of productivity. The net result of all this, we've been delivering above $1 billion of productivity every year for the last four years, and we continue the journey as we have to continue investing in the business.

Now on the digital side, I want to spend a lot of time on this, but you can imagine we've invested a lot in AI, we've invested a lot of Internet of Things, automation, et cetera, to drive the output. I would maybe go deeper on what I think is one of the most important competitive advantages of our company is the fact that we get to the point of sale ourselves. And we've been investing in technology and information for our salesmen to optimize the portfolio with precision store-by-store. So we can read who lives around that store, who buys in that store, and our salesmen have that information to optimize the planogram on that particular store to maximize the throughput. And that has been a pretty powerful tool. I think we have -- we're only scratching the surface. The more information we get, the more efficient our go-to-market system work, the more efficient our people are in the point of sale. And you can read some other areas, obviously, where we're leveraging technology, we're leveraging information to continue to drive the business forward.

Now this is an important one. Sometimes the soft side doesn't get so much attention. But I think it's critical in a company global like us, in the environment that we've lived in the last four years, empowering our local teams and giving them the information, the compensation, the whole system so they can make the best decisions for that market given the conditions of the marketplace has been critical for us to elevate our performance. This is something we started at the beginning of the transformation. We reorganized, we empowered our people, we delayered. And that's making -- that's made us a much more agile company, much more local, although connected to a global kind of priorities, but very empowered company.

At the same time, we're elevating diversity. And not only how many male or female or black people or hispanic people, much more beyond that. And you can see that in our values, the PepsiCo way. We've elevated voicing opinions fearlessly and raising the bar on talent diversity of two of the core values of the company. And how do we maximize really the potential of each one of our associates when they come to work, we value their diversity and make sure that, that diversity it is reflected in the output of the company. At the same time, as you see in our values, acting as owners, focused on getting things done, we're trying to become a faster company, much more empowered when our employees take risks and maximize value for us long term.

Now this is a passion of mine and a passion of the company. We think that we can create advantage for our brands, for our people, for our consumers, elevating pep+. Pep+ is the framework where we put the planet and people at the center of our brands, at the center of our supply chain, at the center of how we do procurement. We do agriculture. You can see some of the examples here. But we think that -- and we will continue to double down on this because we think that PepsiCo will be a much more durable, better performing company if we continue to invest in these three pillars of sustainable value chain, positive agriculture and positive choices.

Okay. So that's the past. Now how are we thinking about the future? This is probably the most important chart that you guys want to think about the potential for growth of this company. We operate in two beautiful categories, global growing, accelerating very fast with good economic conditions and performing very well in difficult economic conditions. So we are fortunate to be playing in two beautiful categories, global convenient foods and global beverages. These categories are large, $500 billion, $600 billion and growing nicely, 5%, 5%, driven by population growth, even by urbanization by a lot of the trends that we're all familiar with.

We have right to win in both categories, but we're still very small in both categories. If you think about our share of the global convenient foods business, it's only 8%. And the same in the global beverage business. Clearly, the opportunity to leverage the growth of the categories and becoming more competitive within the marketplace, taking occasions into our portfolio in those two large categories is an amazing opportunity. It is in the US, it is in developed markets and it is in developing and emerging markets, where, obviously, as you can imagine, that is even a much bigger opportunity.

Now we want to stick to our strategy, what we have been doing over the last four years, making sure that we create more smiles every day with every sip and every bite, make sure that we become a faster, even stronger and even better company, pep+ at the center. And we live our values, the ones that I was sharing with you earlier, across our 300,000 people organization.

Now a bit more kind of narrow, how we're going to take that into the different large businesses? So in the US, PepsiCo Foods North America, we think that we have a huge opportunity to broaden their portfolio, not only to continue to gain occasions in existing categories but probably expand it even more into macro snacks and capturing some of that opportunity. And at the same time, moving our portfolio closer to food, being part of meals, either on kind of the food trucks that I was showing to you earlier or being part of recipes and how people cook. And there is a huge opportunity for us to move into those spaces. We'll continue to make our portfolio stronger around positive choices. We'll continue to reduce sodium. We'll continue to go into a new substrates, improve the fat, go into new cooking methods, could be baking, could be popping, it could be other alternative ways.

And we continue to make Frito-Lay and our Quaker business stronger and what is the number one competitive advantage, which is supply chain and go-to-market. And that business is extremely powerful in the reach, in the execution capabilities. We'll continue to invest in capacity. We'll continue to invest in making our go-to-market stronger, making it more intelligent, more agile, covering away from home, covering retail, covering e-commerce, direct to consumers. So that's Frito-Lay. We think that business can continue to grow in a very accelerated pace, still the share of macro snacks is small, and we can capture a lot of occasions.

The second big business for us in North America, obviously, the beverage business. We want to compete to win in the marketplace with the portfolio transformation we've been making, especially around the energy portfolio. We think we can win in the marketplace. Our sports nutrition business is stronger than ever. Our coffee business, very strong. Our tea business is very strong. Our water business, very strong. Our energy business, with the inclusion of CELSIUS is very strong, and we are performing very well with Pepsi and we will do a pretty good job with Mountain Dew.

So clearly, we can win in the marketplace. We'll continue to put zero at the center, we'll continue to put functionality at the center, we'll continue to put packaging transformation at the center of how we evolve. We'll optimize our productivity, we modernize the company and we are confident that we can continue to improve the profitability as we've been saying regularly during our investor calls.

Now, the big opportunity for this company is international. International is a huge opportunity for PepsiCo. When you think about our right to win in the food business across the world, it is strong and we're continuing to put new layers of advantage to our businesses in emerging and developing markets, make sure that we -- especially our savory snack business becomes a very powerful business, profitable and scalable. The same with LRB. We think that there is huge growth in LRB as more consumers are moving into commercial beverages around the world. We play very strong in many markets around the world. We'll continue to invest selectively. We don't want to go -- we have a strong right to win in some markets and we have low right to win in some other markets. So we're playing smarter in beverages than we are in food where we think we can win almost in any geography in the world. But this is the biggest opportunity. We already have a $34 billion business. We will scale this business up in the coming years.

Now on the portfolio. I've covered earlier, we're going to continue to put zero and positive choices at the center of the portfolio transformation. In the food business, we have the popping technology, the baking technology. We continue to reduce sodium, the same way as we've done a pretty good job, I think, in changing the beverage portfolio from full sugar to zero sugar and asking the consumer to make very little sacrifice to go from a very refreshing full sugar beverage to a zero full sugar beverage -- zero beverage.

We're doing the same in snacks. We're reducing sodium with very little sacrifice in terms of taste for the consumer. The consumer can hardly notice that we're reducing sodium. And that is the strategy. And that is -- we are -- in some countries, we are way below the WHO sodium standards already. And consumers haven't even noticed. They continue to be in love with our products. So this is a strategy we'll continue as we go forward.

In terms of new occasions, you see there a couple. We believe that the sports nutrition business has a huge potential for us, right. And it's Gatorade but it's some other brands like Propel, Muscle Milk, Evolve, some others, we're putting that together. We're adding personalization. We're adding science to that portfolio. We put in liquids and solids, we're putting pre-game, during game, after game. We're giving the consumer a whole set of solutions so that we're empowering this consumer to -- as consumers think about wellness, very sensible to their lives, we're going to be there providing them solutions. And you see here some of the alcohol opportunities that we have. We're tested on learnings. The truth is that we're tested on learnings, but we have much more learnings now than we had a year ago on how we can scale this business in the US and potentially internationally.

When you think about the food business, the -- clearly, multipack is a huge idea for us, but we're starting to learn more about mixing savory with sweets in our multipacks. And this giving us a huge lift in our performance. We're using the Quaker portfolio at this point, but I'm sure we can have partnerships or other ways to give the consumer solutions with savory and sweet that will enhance the number of occasions that our products can play. You see here a concept that we have in the US, but we have created in Mexico, which is called Tosticentro, centro is kind of -- imagine like a food truck concept, where consumers go and they can choose different ingredients to create a meal with our products. So we think that there's a very easy move from our products into meals, quick meals, convenient meals and giving the consumer the empowerment to add ingredients, in this case, more tomatoes and it's peppers and some other ingredients to make a meal. We call it Tosticentros.

And I put here positive culinary. We want to move our products, as I said earlier, more into meals, being accompaniment to a meal, but also being part of the recipe of the meal. And more and more, we're experimenting how Lays can substitute potatoes in many dishes around the world, how Doritos can be part of how you make a pizza. So clearly, there is a lot of opportunities for us to move into that space and create additional locations for our food business.

And then packaging, I won't repeat it, but we believe in powders, we believe in tablets, we believe in concentrate that through SodaStream, each one of you can create your preferred carbonation levels, flavor levels, whatever you want, we empower you to do it. And by the way, we save a lot of transportation, we save a lot of plastic and we do a good thing for the world.

And the same as you look at our snacks business, we're focusing on canisters. Canister will be an option for our consumers. You saw minis, some other options we're taking -- we're testing in Europe. Functional packaging in some of our Quaker products. We have heat and eat already solutions that are much more functional, or obviously compostable and bio-degradable packaging solutions that we're testing around the world.

Now I'll talk about pep+. We believe in pep+ being a clear area of differentiation for us. It's not an ESG kind of concept. It is we want to put this at the center of how we grow the company, how we create advantage with our brands, with our portfolio, with our supply chain. And so I think when I talk to my associates, this is a passion point of all my people. When I try to recruit people, this is a passion point for a lot of people. I attract better people if I do that. I talk to consumers, they do -- customers, for sure, communities, this is critical for us to continue to be welcomed in the communities around the world, water conservation and some other things, especially as you look at emerging and developing markets. So this is central to us.

Now, let's talk about a topic that is very relevant, obviously. How do we deploy capital to capture these opportunities that I was sharing with you? Now, our priority number one, and we've been consistent with this as we were talking to you in our investor calls, is investing appropriately in our business. We think this business has so much ground for growth that we need to continue to invest in capacity, digitalization, optimization and creating new layers of advantage for our business. The second one is very important, and we give it a lot of priority for us, is dividends. Make sure that our investors get bigger and better dividends every year. And we have increased now our dividends for 51 consecutive years, which is pretty powerful. We will continue to tweak our portfolio. So as we -- that we will divest and we will invest in new brands or opportunities that continue to put our portfolio against the high growth spaces in our categories. And obviously, we will continue to do share repurchases as we go along.

Now, our capital, familiar with in between 5.5% to 6% in the last four years. Few areas of investment, clearly growth. Growth has been priority for us, manufacturing capacity, warehousing, supply chain de-bottling go-to-market. We've been investing a lot in IT, as I mentioned earlier, productivity, but also growth and intelligence. And then we've been investing in sustainability. We expect our capital to be around these levels for the next couple of years and then go down as we start already kind of capturing the value of our investments in IT especially, and we don't have to invest so much in the further years.

Now dividends, as I said, is priority for us to make sure that our investors keep getting more dividend every year. We just announced a 10% dividend growth for '23. We'll continue the journey as we go forward. And share repurchases varies depending on the -- what is left, like basically after we made what are the priority decisions for the business with our intention to continue to have a business that is sustainable, that continues to win in the marketplace, grow at the top end of our category. We continue to elevate productivity, make sure that we continue to expand the margins in a sustainable way, make sure that there's room for investment and room for a sustainable business performance. So we are talking about a 4% to 6% net revenue, we're talking about 20 51 consecutive

To 30 bps of margin expansion every year and EPS of around high single-digit. I know we've did it in the last couple of years, but we continue to think that we can continuously deliver high single-digit every year with a dividend of about 2.5% -- 2.5% to 3%, depending on the stock price. So this is the way we're thinking of our business.

Hopefully, you guys walk away convinced that we can continue this journey. We have a momentum. We're -- we feel strong about our brands. We feel strong about our growth opportunities and how we're building a more capable company, how we're building our talent, how we're building a long-term sustainability around our brands and our business.

With that, I think we're running out of time. So we'll go into the Q&A. Thank you.

Questions And Answers

A - Unidentified Speaker

Is the mic on? Okay. Great. Let's go to Dara and we'll come around the audience.

Q - Dara Mohsenian {BIO 3017577 <GO>}

You talked about the huge growth opportunity internationally. Can you dial down a bit more on the snacks opportunity and D&E markets, how do you develop per capita consumption at the consumer level going forward? Maybe give us a little bit of a review on how that development has trended over the last few years. But also, as you think about your portfolio, you generally have the brands you need. Are you in the product categories you need? Or might there be areas to fill in from an M&A standpoint as you look out over the next five years here?

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

I think we have a pretty good playbook on how we build the category internationally, emerging markets. It starts with agro. In agro already, we create a big competitive advantage. We have, I think, working class -- world-class capabilities in potato farming and corn farming and some others. That gives us already a pillar of advantage. We add to that the branding, we add to that the go-to-market, and we can create pretty powerful businesses internationally.

Now the journey we've been in is kind of gaining scale across the different markets. I would say five years ago, we had a lot of businesses in the $100 million range. Those businesses now are $200 million and to go into $300 million. At that point, those businesses have a lot of scale and it can be very profitable already. Now we have the playbook, how we take Lays, Doritos, Cheetos, those three brands, across different age groups and portfolio.

Now in some markets, we leverage third-party products to give scale to our go-to-market, especially in the early development stages of the business. Could that be an opportunity? Why not? But right now, we've been able to build those businesses with scale, profitability without the need of third-party products.

A - Unidentified Speaker

Okay. Kevin?

Q - Kevin Grundy {BIO 16423871 <GO>}

Great. Thanks for taking the question. Ramon, I wanted to pivot to the power of one, and it's been a little while, I think, since we've talked about that, probably more than a decade, I think since there's been a real push from the public markets and for good reason because the results have been particularly good, certainly in the past few years. Maybe just an update there on the power of one, the biggest synergies of having the portfolios together and whether there's still more work to be done in that area? Thanks.

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

Yeah. It's a great question and one that we're, I would say, testing and learning more and more every year. I think the consumer complementarity is becoming more and more obvious. And as we learn -- like take the latest Super Bowl. We were able to create combined locations and combined purchasing moments for our brands in a way that we haven't done in the past. And customers keep coming to us, like help us create those bundles that increase the basket size and increase the purchase incident. So that is clear.

Now we're in developing emerging markets, we have proven the go-to-market scale as well. right. So there, if you think about warehousing, if you think about go-to-market, logistics and channel advantage, we put in the portfolio together, gives us scale that other companies don't have. So that's clear. In developing markets, large scale like the US, less obvious how you capture the value of a combined go-to-market, especially on the logistics side. But we can capture a lot of value on the selling side.

So if you take any channel, putting our two businesses together as a selling unit to the retailer makes a lot of sense. We have that with all the top retailers in the US. That gives us a tremendous advantage in terms of moving our conversations from very tactical to super strategic. We are number one supplier to most of the retailers in the US. That gives us a seat at the table in terms of sharing data, joining infrastructure, talking five years out versus just next quarter. So that is proven.

Now we're testing and learning in smaller format what is the value that we can create by combining selling of the two organizations, the same in foodservice, the same in e-commerce, the same in direct-to-consumer. And we have pretty good learnings that I think give us a lot of optimism how we can, on the selling side, combine the two businesses. Logistically, it's complex in the US, even the velocity and the scale of the business. Obviously, the G&A and everything else, there's obviously a lot of synergies, right, IT systems or back office, et cetera. Yeah.

A - Unidentified Speaker

Okay. Andrea. Thank you. And then, well, go-around.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Thank you for taking my questions. Andrea Teixeira from J.P. Morgan. So I wanted to go back to the IT investments that you showed case. In particular, I believe recently North America, the rollout of SAP will be next year and the following year. If you can give us an example of how we should be thinking of the other divisions that have implemented, how is the go-to-market improve? I mean, you're obviously excellent with your speed to market. So I was curious more how to think about it, is more like integrating the speed to market or perhaps synergies, how we should be thinking of the revenue synergies and the cost synergies as we go forward?

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

Yeah. Thanks, Andrea, I'll handle that one. You have to think of SAP as sort of the foundational piece of all those, right. It's fundamentally a transaction system. And we're all going through the upgrade as SAP is moving to the cloud, moving to S/4HANA. I expect if they're not talking about it, most of our peers are probably doing the same thing because it needs to be done by the end of the decade.

Once you have that foundational system in place, it forces a couple of things. Number one, it gives you synergy in terms of the internal G&A that you have. Number two, what you get out of it is more harmonized data, which allows you to build platforms and products on top of it. So some of the things that Ramon referred to in his presentation around precision selling, being able to take granular data store by store and get real insight as to what's happening inside that store, and therefore,use AI and use projection tools to say, okay, this is the product assortment we need in there. That's sort of one good example.

Another is now take that assortment, back it up into the supply chain. As you become more predictive with what's going to happen in the store, you can produce much more efficiently so you'll get revenue or inventory synergies out of that. And in addition to that, you just have less waste because you're not scaling out as much product. You basically keep your product more fresh and current. So that piece works effectively as well.

Beyond that, there's a whole variety of other things in terms of the way you run the logistics network to sort of be more efficient in the way you're moving product around. So, I mean, we could go on probably for the next 20 minutes on that, but just a couple of quick examples to sort of give you a sense for there's a ton of power once you get the data right and SAP is the thing that forces you to get the data right.

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

Yes. And if you connect that to the question earlier about power of one option is clearly as we have the two businesses in the US and all the company and the same systems, then we can -- we have many more options on how we do power of one.

A - Unidentified Speaker

Hey, Robert, let's go to you.

Q - Robert Ottenstein {BIO 1498660 <GO>}

Robert Ottenstein, Evercore ISI. Ramon, very big picture question. As things normalize, is this a new normal or return to the old normal? And maybe just focusing on the US, the consumer and also retailers and how they look at the category and suppliers? Thank you.

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

Yeah. I guess you're referring to inflation or just in general how consumers are behaving? Yeah, I think there's some secular trends that I think COVID has accelerated and maybe this new inflation will accelerate even more, which is people are eating their 2,000 calories or whatever in the day in a much more unstructured way. That continues to be the case. And as people are spending more time at home, those calories are becoming more of a home-based unstructured. And we see more snacking occasions during the day, and we see more cooking both happening at home, actually more entertainment at home, so socializing at home.

So those are trends that are happening that we think will benefit our categories. I think there is a short term on inflation. And obviously, consumers will have to strategize short term what they do with their more limited budgets, and we're seeing our categories actually not being impacted so much now because people are prioritizing food over discretionary. And within food categories like ours where private label has less of penetration there, we're being prioritized by consumers. People like our brands and people enjoy our products.

So -- but I think long term, and we think in our case it's going to be a couple of years, we're going to go back to levels of inflation that are closer to the 2%. I don't think we're going there this year. We think that we will continue to have higher inflation this year and potentially in '24 as well.

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

Okay. Jim, I think we'll take our last question from Bonnie, and then we'll move to the breakout.

Q - Bonnie Herzog {BIO 1840179 <GO>}

Thank you. Thank you. You still have a goal to achieve the mid-teen margins in PBNA. So maybe highlight a few of the building blocks or initiatives that you're going to be implementing to accomplish this goal and maybe realistic timing. And then in the context of that, how do you plan to balance or prioritize market share and then profitability, specifically for your CSD business? Thanks.

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

I'll answer the first and take the second. Yeah, Bonnie, not much has changed versus what we've talked about in the past. And just as a reminder, we increased margins by 40 bps in PBNA last year and I think a roughly similar number the previous year. A couple of factors go into that. Number one, net revenue management obviously gives us an opportunity to enhance margins, smart packaging, getting the right assortment in place, driving single serve, obviously, gives us a good margin uplift as well.

On the cost side, as we're sort of digitalizing and modernizing the supply chain, S&D has opportunity and manufacturing has some opportunity as well, and we'll get good chunks of basis points out of the cost structure there. In addition to that, right now, we're in the middle of SAP in North America and in particular in PBNA this year. As those costs start to wind down, just the project cost of implementing all of that, there's a good chunk of margin that can be added to that as well. And that's also an enabler to shifting more work into our global business services operation, which means we're not just going to save on the lack of IT investment costs, but we'll also save on the people cost over time. So those are the biggest chunks. Time frame, we've talked about '25, something like that. We're shooting for that. We'll see how quickly we get there, but I don't think it's seven or eight years out. I think it's still a handful of years.

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

In terms of the how we're thinking about it, Bonnie, is we're tasking the business to grow LRB share, including third-party brands. So that is the way we're measuring the performance of our business. So we want our business to continue to improve margin every year, I'm talking PBNA, and their share measurement is LRB including brands like CELSIUS, for example, right. So that's how we're thinking about our competitive performance.

So yes, CSDs are relevant. They are very relevant. There are still a very high growth. We have obviously beautiful brands and they're pretty profitable parts of the portfolio. But we want the business to look at sports nutrition, coffee, energy, water and everything else because that's where consumers are going, and we don't want to focus so much on CSDs then we miss what is the bigger picture, where the consumer is heading. And where we have actually much higher right to win in terms of our market share performance, right.

So that's how you should be thinking about improving our full LRB share, including third-party brands that we have in our tracks and then improving margins every year with the intention that Hugh was saying, that we get to these mid-teens levels as soon as possible. But obviously, the two are very important. Otherwise, we would be sacrificing the long term for the short term. But we don't want, we don't do that. I mean, the company is much broader than just PBNA, and we have the luxury if you want, of making choices and still delivering very good performance for our shareholders on an annual basis, right.

A - Unidentified Speaker

So we're actually going to move over to the breakout room a little bit early. We have a special presentation. I have our next session, featuring Bill Morris.