

## Consumer Analyst Group of New York Conference

### Company Participants

- Bryan Spillane, Analyst, CAGNY Co
- Hugh Johnston, Vice Chairman & CFO
- Indra Nooyi, Chairman & CEO

### Other Participants

- Dara Mohsenian, Analyst, CAGNY President, Morgan Stanley
- Unidentified Participant, Analyst, Unknown

### Presentation

#### **Bryan Spillane** {BIO 2147799 <GO>}

Before we get started with our next presentation I just want to take a moment to recognize our President. CAGNY is a volunteer organization and the time commitment that goes into being a President is actually pretty significant. So first I would like to have all the past Presidents please stand. Thank you for your service.

And now please join me in thanking our current CAGNY President, Dara Mohsenian, for his time and effort on the CAGNY Board. He has contributed a significant amount of thought, time and effort to making this conference a success. Dara. All right.

Our next presenter is PepsiCo. So please join me in thanking them for their generous support by supplying beverages and snacks to the conference this week.

In a rapidly changing and increasingly volatile marketplace Pepsi has consistently delivered strong shareholder returns by remaining focused on its core strategy. I want to thank Pepsi's Chairman and CEO, Indra Nooyi. And Vice Chairman and CFO, Hugh Johnston for being with us today. Indra, I will turn it to you.

#### **Indra Nooyi** {BIO 1404395 <GO>}

Thank you, Bryan. Good afternoon, everyone. And Dara, thank you for serving as the Chair of CAGNY. Now it is our pleasure to be with you today. And before we begin, please take note of our safe harbor statement which is also available on our website. As you know, some of the statements today will include forward-looking remarks and non-GAAP financial measures.

So let me start with a snapshot of PepsiCo. Most of you know our Company; it is a global convenience food and beverage Company with \$63 billion in revenue that

gives us tremendous scale advantages. It is a business model that generates a lot of cash, over \$8 billion in 2015 alone.

A track record of very solid organic revenue growth, 5% in 2015. Attractive and growing core operating margins and core net ROIC, approximately 16% and 20% respectively. And consistent growth in earnings per share and dividends per share. And very strong cash returns to shareholders, \$24 billion over the past three years.

And as we reported last week, we met or exceeded every one of our 2015 financial goals, delivering 5% organic growth, revenue growth, core operating margin expansion, over \$1 billion in productivity savings, 10% core constant currency EPS growth and total cash returns to shareholders of \$9 billion. So we feel pretty good about our recent performance.

But I have to tell you it has not been smooth sailing and the world has been and is a volatile place. We have encountered economic slowdowns, currency devaluations, geopolitical instability, increased regulatory pressure exacerbated by financial market volatility. And a variety of trends, some new and some long standing, from what people consume to how they pay for it, continue to reshape our industry.

It all sounds bleak but it is not entirely bleak because there are pockets of economic stability and even recovery in markets like the United States, the United Kingdom and India. And our categories remain on trend and serve as affordable luxuries even through difficult times.

You know there is an old adage that a pessimist complains about the wind, an optimist hopes it will improve and a realist adjusts their sails. And adjusting our sails is what we have been doing. To adapt to a volatile and changing environment, as you well know, we have been on a transformational journey. We're transforming our product portfolio, balancing our geographic footprint, becoming leaner and more efficient and building new capabilities and changing our operating model. We have done all this while delivering attractive financial returns.

And our decisions and actions have been guided by our True North, what we call performance of purpose -- our vision to integrate sustainability into our business strategy and to leave a positive imprint on society and the environment, not just because it is good. But also because it is good for business all while delivering top-tier financial results. And our transformation effort so far has positioned us well.

Our product portfolio offers strong positions in categories with attractive global growth. And our products cut across various demand spaces that range from nutritional guilt free options to social pleasurable treats.

We have a clear number one global position in salty snacks. We have a strong number two global position in beverages with leadership or parity in a number of important markets. And because we have such a diverse portfolio, CSDs comprise less than 25% of our total revenue.

And our transformational efforts to date have also led to a well-balanced geographic footprint. We operate in over 200 countries and territories around the world. But five countries make up approximately three quarters of our 2015 total revenue. And we are well-positioned in these markets; we have the largest food and beverage market share in four out of those five top markets. And we were the largest contributor to retail sales growth in each of those markets from 2010 to 2014.

Our balance across developed, developing and emerging markets provides a good combination of strong current margins and returns with great potential for future growth. The emerging markets tend to be primarily top-line growth drivers with some potential for margin improvement in the short-term. Developing markets drive balanced top-line growth and ROIC improvement. And developed markets contribute relatively less to top-line growth but have very attractive absolute margins and returns.

Taken together this portfolio provides for balanced growth, margin and return improvement, attractive current returns and sustainable future growth opportunities. And while our transformation efforts have served us well and put us in a good position today, our transformation journey continues.

Looking ahead, our priorities for running the Company are very straightforward, I call them the five Cs and they are key to driving our sustained performance -- upgrading our commercial agenda, elevating our cost focus, exercising disciplined capital allocation, building new capabilities and fostering a winning culture -- the five Cs. Let me touch on each beginning with our commercial agenda.

We will build on an already strong commercial foundation while leveraging to a greater degree our demand space consumer framework. We want to do more to capture the health and wellness growth potential. We want to lift and adapt ideas across the PepsiCo world to leverage our global scale and focus on new partnerships and foodservice opportunities.

Much of our commercial agenda involves driving bigger, more scalable ideas for our global brands while maintaining local relevance and innovation. Here is how it works. First, we align our global brands around distinctive brand ideas like Live for Now, or Do the Dew, or For the Bold. Then having all our markets work off one idea creates increased effectiveness and long-term recourse.

Second, we design for execution across TV, video, social and retail channels and we create these programs that can be leveraged across markets around the world to drive efficiency.

Third, we adapt these global platforms and programs with local culture nuances to drive increased relevance.

And lastly, we just activate at the local level utilizing the latest in media and communications thinking. Let me quickly walk you through some examples of each.

Mountain Dew, the great drink, it is a great example of a brand with a strong global idea that is enabling growth all around the world. In 2016 the global Do the Dew campaign is taking on an inarguable trend for youth which is drones. But what would our active Dew consumers do with drones? Now they would create an entirely new sport, we call it drone hunting, let's take a look.

(Video in progress).

Now this commercial inspires an integrated effort that will run in over 30 markets in 2016 aiding the brand's growth. It is not just about mass media; this integrated effort will go all the way to on ground activation and sampling events where drone racing has already started to take off.

Another Dew example is the success of Kickstart. It shows the power of applying consumer insights to extend a powerful brand. Kickstart, as you know, was launched in 2013 and now has an estimated retail sales approaching \$400 million with plenty of growth as we expand this globally.

And from a marketing standpoint you would have to be living under a rock not to have heard about Kickstart's recent campaign. Kickstart combines three awesome things, Dew, juice and caffeine, just like a puppy, a monkey and a baby. And you want to know why I know you must have heard about it, because it was the single share of voice winner at the Super Bowl. The favorite of the trade and financial press alike.

Now this is no mistake, here is a brilliant example of designing a communication program for the world of the Internet. It was a commercial in the Super Bowl without a hashtag whose hashtag trended all night. And it earned more than 3 billion earned impressions and counting and has become a cultural phenomenon. Let's just watch.

(Video in progress).

I have to tell you, while some people tweeted the puppymonkeybaby was disturbing or a nightmare, 70% thought it was awesome. The commercial was a huge success. So that was puppymonkeybaby and Kickstart.

Our Doritos team, on the other hand, were pioneers in the integration of social and digital in its marketing. For the 10th and final year Doritos held its famous crash the Super Bowl contest where we invited fans to submit a commercial with a chance to win \$1 million. And also thrown in was an opportunity to work with directors Zach Snyder and have the ad aired on Super Bowl Sunday.

Fans voted for the winner from a pool of 50 semifinalists and three finalists. And while we had amazingly innovative submissions, I want to show you just one of those

adds today, it was a runner up and it was a funny and creative at and generated a lot of media attention. Let's watch.

(Video in progress).

Now a great example of global and local execution using a central theme is our 2015 Say it with Pepsi campaign. Emojis are the language of today. But no one has put them in the world like Pepsi will in 2016. With more than 70 global and local unique predesigned emojis printed on cans, bottles and cups all over the world, you're going to be able to stay for the Pepsi all through the summer of 2016.

Our design center has designed all these emojis and we've created a copy which shows emojis and a Pepsi really come in handy. For example, when you find yourself stuck at a train station in a foreign country or at a concert when it is too loud to speak you can use your emojis to communicate. And our customers are very excited about this program and this will run in about 100 markets this summer.

So moving from advertising to innovation. Deep Ridged Chips are a great example of the intersection of great R&D and the deployment of list and adapt. MAXX Deep Ridge is a unique proprietary deep cut chip for maximum crunch and intense flavor. It is designed for the young and hungry (inaudible) seeking a more satisfying snacking experience. This chip has launched in 33 countries and is delivering approximately \$250 million in retail sales today. That is Deep Ridge.

Walkers Sunbites is the range of snacks full of goodness from sun grown ingredients that naturally taste good. Our product line includes multigrain chips, ready-to-eat popcorn, multigrain crackers and bread bites. The full range of Sunbites deliver tasty bites of crunchy goodness. And the products today are in eight markets and will launch in Mexico in 2016. Sunbites are delivering approximately \$400 million in estimated retail sales globally.

And addressing consumer demand for on-the-go great tasting nutrition we launched Quaker High Fiber Oats Drink in China this past year. Using a proprietary process we blend quicker oats with high-quality milk from New Zealand to retain the ingredients -- the natural ingredients of natural grains while boasting a smooth and silky texture with plentiful dietary fiber. Quaker High Fiber Oats Drink was launched in two flavors, the original flavor and the nut flavor. And was recognized as the best dairy drink of 2015 at the World Beverage Innovation Awards.

Exploiting another growing consumer demand, we recently introduced a new line of gluten-free oatmeal so that those who consume gluten-free foods can also enjoy the great taste of Quaker oats. The oatmeal is available in three varieties all of which are clearly labeled as gluten-free. Quaker quick one minute standard oats, Quaker instant oatmeal single serve pouches in both original and maple brown sugar flavors.

And even though oats are naturally gluten-free (technical difficulty) wheat, rye, barley and spelt may be introduced during the farming, storing and transportation processes. But our R&D team partnered with our expert millers and they've taken the time and extreme care to develop processes to now offer great tasting gluten-free Quaker oats which meets FDA standards and is a product that consumers can trust.

We also continue to elevate our product to reach premium plus consumers and Pure Leaf is a great example. Pure Leaf was launched in 2012 to target consumers looking for a real brewed tea experience in a ready-to-drink format. Unlike other ready-to-drink teas, Pure Leaf is brewed from real tea leaves versus being made from tea powder. And we have experienced double-digit growth for four years in a row.

Last year in 2015, we launched our first national advertising campaign called, (inaudible) leaves and we activated the (tea influencers) that spoke with real passion for the ingredients and the authenticity of the brand.

In 2016 we are extending the Pure Leaf family to a range of super-premium organic iced teas called Pure Leaf Teahouse Collection. It comes in three delicious unique flavors: organic black tea with a hint of (inaudible) lemon and honeysuckle, organic black tea with a hint of wild blackberry and sage; and organic green tea with a hint of Fuji Apple and ginger.

Those are our products in innovation and activation. Now partnerships, key focus to driving our commercial agenda as evidenced by a recent Super Bowl execution for the NFL. In 2015 PepsiCo brands became the official foods and beverages of the NBA, the WNBA, the Development League and USA Basketball. Gatorade has been the official drink since 1984 and we are pleased to have brands like Mountain Dew, Aqua Fina, Doritos and Ruffles join this powerful (inaudible).

We're also extremely proud of our new partnership with UEFA Champions (League). Lay's, Walkers, Gatorade and Pepsi Max will serve as the lead brands for the prestigious European Cup football tournament and Doritos, Lipton and 7 Up will be integrated into the sponsorship programs.

And our commercial agenda extends into the enormous food-service opportunity. For example, Pepsi beverages have become the official sponsor of Live Nation. We have always been a leader in music and now, along with exclusive pouring rights with Live Nation, we can continue to deliver new and exciting music experiences to our consumers, Live Nation.

And our design center partnered with our food service innovation team to develop fizzology. It is an innovation that combines the future of CSDs with mixology to create unique and unexpected flavors in the ultimate consumer beverage experience. We are unleashing culinary innovation far and wide with our NSPIRE mobile (inaudible). I hope some of you were at the Super Bowl; it was just amazing to see all of this innovation in action.

And we are reimagining the fountain with our Stubborn Soda which pours craft beverages while expanding our foodservice footprint. And our world-class design team is creating the future of on-demand nutrition with our Hello Goodness healthy vending machines. You can see an example of that Hello Goodness machine right outside this room.

And the good news is in initial testing these vending machines have higher revenue throughputs than our traditional offenders. And only PepsiCo can fill them with a variety of food and beverage products ranging from guilt free to pleasurable indulgence. So we are putting many, many of these spending machines out this year.

And a few weeks ago we unveiled plans to launch Kola House, the first experimental cola bar, restaurant lounge and event space in the US market. Everything at the Kola House will be centered around the cola nut and we are using the space as a social hub for testing new products. The flagship location will be completed this spring and will open in New York City's meatpacking district. I hope to see many of you there.

As you can see, we have a lot of exciting opportunities ahead of us that we will continue to drive innovation and price utilization as we continue to capture new channel distribution opportunities. So that is the commercial agenda.

Our next priority is the cost agenda, making every penny a prisoner and using them effectively to drive value creating growth. We are targeting \$1 billion in productivity savings annually through 2019 through leveraging our global capabilities of scale, exploiting automation and advanced technologies and implementing smart spending, which is our version of zero-based (inaudible).

Here is a snapshot of the composition of our entire \$53 billion cost (inaudible). While our \$1 billion annual productivity target is directed at operating costs which we define as all costs excluding direct materials and (A&M), we are driving for greater productivity in virtually every bucket. We are optimizing our direct materials cost through a combination of procurement excellence to lower the rate, reducing usage through improved operational (technical difficulty) sustainability initiatives and by increasing our local sourcing.

In labor we have reduced layers of management; we have increased spans of control. We are increasingly automating our manufacturing and warehouse. We are more precisely aligning wages with work. And we are increasing productivity through advanced operations metrics monitoring. We are increasing the productivity of our logistics, transportation and manufacturing efficiency by optimizing our network improvement.

And in marketing, we are increasing effectiveness by shifting more of our spending to consumer facing marketing while applying smart spending principles and procurement excellence to many of our marketing activities and vendors. And we are very, very aggressively applying smart spending to a broad range of discretionary G&A categories.

Our smart spending approach is disciplined; it's actually embedding new behaviors across PepsiCo. For 2016 we have fully implemented smart spending across the organization with significant productivity to be realized across discretionary spending categories including travel and entertainment, sponsorships, consulting and facilities (technical difficulty). And much of our productivity is being harvested by our global operations group and let me give you just a couple of examples.

This operations group was instrument in the clean sheeting of our global manufacturing footprint in 2013 which has led to a rationalization of about 30 plants globally. We have standardized a (route to) engineering playbook based on global best practices; an implantation of technology, much of it pioneered at Frito-Lay North America, leading to significant DSD route productivity.

Similarly, our sustainability efforts are also producing greater productivity. Since 2007 we have improved water use efficiency by 20%, reduced packaging waste by 350 million pounds and significantly reduced our landfill waste. So that is the cost bucket.

Our third C focuses on exercising discipline on Capital Return. We discussed our commitment to capital allocation discipline and enhancing Capital Returns in detail on our Fourth Quarter call. So I'm not going to cover it at length there. But rest assured that we are driving higher return on invested capital and greater CapEx efficiency through a broad menu of initiatives including: focusing intently on relatively lower returning businesses (technical difficulty); leveraging our partnerships; and implementing lower-cost business models.

We have made particular progress in our capital spending efficiency having reduced CapEx as a percentage of sales by 70 basis points since 2011. And one of the key ways we've done this is by increasing the capacity utilization of our existing assets. So for example, we have extended the productivity of our logistics by increasingly integrating the over the road network of our businesses to eliminate any empty miles in the system.

And in manufacturing we are increasing throughput by boosting line productivity. As a result our core net return on invested capital has steadily improved and has increased over 430 basis points since 2012.

And to further advance our commercial agenda I outlined earlier, we are building new capabilities, which is our fourth C. Here we have particularly focused on five capabilities for building, capabilities to do eCommerce, taking design to a whole new level. Revenue management, which I think is a critical capability going forward. Front line selling tools and data analytics.

We are enhancing our design capabilities to deliver more compelling experiences to our consumers and our customers. And to accomplish this we have established a global design team with world-class talent and now they are spread in many parts of the world. They are highly engaged with our brand teams to enhance brand identity,



brand experiences (in campaigns), as well as being highly integrated in product, packaging and equipment design.

We continue to develop and refine our revenue management capabilities to convey greater value to our consumers through packaging and price points and promotions that are tailored to the shopping occasion, channel and customer. And we are extending our DSD advantage through the development and deployment of advanced frontline selling tools, especially those leveraging mobile technology.

With these tools and applications we continue to enhance our frontline ability to optimize assortment, (technical difficulty) using granular market and product performance data and execute new product launches and promotions. So that is what we are doing on the capability front.

And finally the fifth C, culture. Here our priority is to foster a culture of learning. The great news is that PepsiCo has a terrific culture. It is strongly based in values and people with a can-do spirit with a must-do sense of responsibility and accountability.

So our priorities here are to have in place incentives, communication, direction and organization that reinforces our values and accentuates three specific cultural elements: making sure our pay is aligned with performance and that we are rewarding true excellence. Second, cultivating efficiency and accountability. And third, driving collaboration across functions in geographic business units.

These are the elements that we have always stressed at PepsiCo. But when we look at our priorities these are the behaviors we have to keep stressing to ensure that we remain successful and we are winning in the marketplace.

So tying it all together I would say to you that the PepsiCo model works. We have the right balance, the right priorities, the right vision and a commitment to creating long-term value for all of our shareholders. So with that let me turn it to Hugh.

## **Hugh Johnston** {BIO 15089105 <GO>}

Great, thank you, Indra. Good afternoon, everyone. For the remainder of the presentation I will share with you how our transformation and five C priorities have and will continue to translate to attract financial results. And it really comes back to the virtuous circle of financial performance that we have shared with you in the past.

It begins with top-line growth that is enabled by the many portfolio and capability advantages that we have been talking about. This feeds into scale advantage, which combined with aggressive productivity programs drives strong earnings growth and cash flow generation. And that enables sustained reinvestment in brands, innovation and further capability development which continues to fuel the top-line growth. This in turn translates to an attractive overall financial model.

We believe our business is capable of delivering over the long-term mid-single-digit organic revenue growth, operating margin expansion of 30 to 50 basis points per year on average, which together with financial leverage should generate sustainable high-single-digit core constant currency EPS growth.

Further, with our disciplined capital allocation and focus on maximizing cash flow we expect to generate free cash flow growth in line with earnings growth, drive continued attractive cash returns to shareholders through dividends and share repurchases as well as continued improvement in our net return on invested capital.

So assuming a constant multiple high-single-digit EPS growth, combined with a dividend yield of about 3% should yield a compound TSR in the low-double-digits. So let's see how that has played out over the last few years' actual performance.

For the past three years we have had organic revenue growth of 4% to 5%, in line with our target, enabled by enhanced revenue management capability, a strong innovation agenda, increased marketing and solid in-market execution. We've achieved approximately \$1 billion of productivity savings annually since 2012. We completed our first program of \$3 billion over three years, 2012 to 2014. And this past year completed the first year of our current five-year \$5 billion productivity program.

And as Indra mentioned, cost and productivity is one of our priority areas going forward with plans in place and good visibility into delivering the current program. Our efforts have led to good increases in our key productivity metrics including for operating profit for employee which is up over 8% since 2011. And it has also translated to steady expanding gross and operating margins.

Gross margins have expanded by 285 basis points over the past three years and operating margins, excluding A&M and R&D, which we do not target for dollar reduction productivity, have expanded by a cumulative 195 basis points over the past three years.

So the organic revenue growth and productivity have enabled us to continue and invest in growth initiatives. This is the virtuous circle that I just mentioned in action. We took A&M as a % of sales up by 40 basis points in 2015 and it is up over 110 basis points since 2011.

At the same time we've made a lot of progress in shifting our marketing mix. We are spending a greater percentage of our marketing dollars on consumer facing so-called working A&M and we have shifted a greater percentage to social and digital where we see a higher return on our marketing investment.

Another area of investment has been in R&D where investment is up 44% since 2011. And these investments have yielded very good returns and have accelerated the pace and stickiness of our innovation. In fact, innovation is now approximately 9% of

net revenue, a 120 point basis increase since 2012. All of this has ultimately translated to very attractive earnings performance.

Core constant currency EPS is increased 9%, 9% and 10% over the past three years, at the high end or above our long-term targeted range. And it is important to note that a substantial portion of these earnings has translated to free cash flow. In fact, over the past three years our free cash flow, excluding certain items, is at an index of 119% to core earnings.

This reflects not only the generally high cash generative nature of our business. But also the focus we have had on capital spending efficiency and working capital management. In absolute terms, our core free cash flow has averaged \$8.2 billion a year for the past four years, or a cumulative free cash flow of \$24.5 billion.

And ultimately this has generated attractive total shareholder returns on both an absolute and on a relative basis. Our three year cumulative TSR is ahead of the S&P 500 by 640 basis points and ahead of the consumer Staples index by 310 basis points.

So to conclude, Indra and I would like for you to take away four simple messages from our presentation. First, PepsiCo has a well-balanced product and geographic portfolio constructed to deliver consistent and stable results and returns.

Second, we have and will continue to transform our business to survive and thrive in the rapidly changing external environment and deliver on our financial commitments as we do so.

Third, we have a clear set of priorities to advance our financial and strategic agendas and we are executing well against them.

And forth, our goal is to maximize long-term shareholder value creation, what we refer to as managing for both the level and for the duration of returns.

And with that we will open it up for your questions.

## Questions And Answers

**A - Bryan Spillane** {BIO 2147799 <GO>}

Bill.

**Q - Unidentified Participant**

Indra and Hugh, can you just give us a bridge to where the \$1 billion of annual restructuring savings are going? Because it's about 10% growth itself. So is there a way to kind of map that in local currency terms? Then is the \$1 billion really like \$1.1

billion because of the currency? Because I think you call it in dollars. So how do you to kind of toggle that when sort of currency moves?

**A - Indra Nooyi** {BIO 1404395 <GO>}

(Sort of a standing slide to you). What I want to do is leave you a construct to think about where the productivity comes from and where it is going, okay. So think of our earnings growth, let's say the earnings growth for the (Company), operating earnings growth is (6% to 7%), just pick a number.

The way we think about it start with the earnings year zero, the combination of volume, price, commodity (inflation) and marketplace investment like routes and racks, the four of them should net out to give you the earnings (technical difficulty).

Then we look at operating expense inflation, OpEx productivity and investments in our operating expense productivity. The combination of those three should net to neutral. That is really how we look at a country by country, region by region, cluster by cluster. What has been happening in the past?

We have been getting the operating expense productivity. But the OpEx inflation has outpaced OpEx productivity because the business model has changed. So what we are trying to do is make investments in operating expense productivity. But that combination has still not netted out to a (technical difficulty) different.

So what we are really -- I will give you an example. When the product portfolio in North American averages fragments, all of a sudden you have got to source the product differently from a different network than from the distributed network we have (technical difficulty) the costs go up. So OpEx inflation goes up.

So we have to rethink the entire manufacturing process to see how we can recapture the benefits of our network as opposed to single sourcing a few plants. So that is what contributes to OpEx inflation more than the OpEx productivity. So we are making OpEx investments to increase the OpEx productivity. So there is a lead lag effect.

So net-net, the algorithm works because we make the volume price commodity inflation bucket generate the earnings growth to the extent possible and we balance the OpEx inflation productivity. That is how we play the global portfolio.

**Q - Unidentified Participant**

Is it overly optimistic to think there might be a point in time when some of the macro volatility slows that you will be way above trend (inaudible) more of that?

**A - Indra Nooyi** {BIO 1404395 <GO>}

You know what; we would love to see this macro volatility slow. But at this point where the eye can see I don't see the macro volatilities growing. When we get there we will be here to talk about it. Okay?

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**A - Bryan Spillane** {BIO 2147799 <GO>}

Brian.

**Q - Unidentified Participant**

Just a question about the productivity goal each year, with the macro environment being more challenging in developed and developing markets that -- I think you had a slide that kind of showed some of the productivity will come from those markets. Does -- in the scenario where things deteriorate, does it become more difficult to actually realize those cost savings if sales are lower or there are some other sort of mitigating circumstances?

**A - Indra Nooyi** {BIO 1404395 <GO>}

You know, Brian, I will take a shot at it and then, Hugh, why don't you chip in too. I think actually -- I think costs is easy. You can just say every other person is gone or cut the people by 20%, that is easy to do. What happens in those cases, you lose the best people because the best people find new jobs and leave. And you typically cut growth initiatives because they are not yielding in the next quarter. And those are the initiatives that you can never rebuild fast enough.

And so, if you look at all of these haunted stories about cost-cutting, what do they struggle with? Delivering the top line. That is really the trade-off you are making. So when we looked at smart spending and looked at productivity end-to-end we always separated our growth driving costs and sort of management and administrative costs.

We looked at cost reduction in each bucket very, very carefully. So I would say even in a downturn it is important to protect the growth initiative, because we're not going to be in a permanent downturn forever. The question is how do you deploy those growth initiatives to do other things, creative things so that when we come back we can capture whatever growth (technical difficulty). I don't know, Hugh, what do you want to add to that?

**A - Hugh Johnston** {BIO 15089105 <GO>}

Yes. No. I think that is exactly right. We spend a lot of time making sure we not only protect but we continue to over index on investments and growth driving initiatives. And that is why you are seeing such healthy top-line growth.

Probably the biggest challenge. And Bill, it connects a little bit back to your FX question. To the degree that the dollar continues to be strong it does create local inflation in lots of countries which does put pressure on operating expense inflation which pushes us to push for more productivity.

Now we have drawn some lines in the sand around growth investments and said as long as they're returning well we are going to continue to protect them. But that is

probably the biggest pressure factor in terms of balancing OpEx inflation and OpEx productivity as Indra has pointed out.

**A - Bryan Spillane** {BIO 2147799 <GO>}

Let's just continue along the front here. Dara.

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

Indra, I was hoping for some thoughts around the third C, capital. And if you go back relative to the restructuring announced four years ago, clearly you have had a focus on returning cash to shareholders over the last few years. But since then you have delivered (inaudible) or above what you promised. (inaudible) going to be a very strong financial shape as (inaudible) today. The world consolidated around you, rates are still low, multiples have moved down for some of the possible targets out there.

So can you give us some updated thoughts on where M&A fits into your priorities versus four years ago? And particularly doing something larger as opposed to just a bolt-on deal?

**A - Indra Nooyi** {BIO 1404395 <GO>}

You know, Dara, one of the things that we don't shy away from is investments that can grow this Company meaningfully in a value creating way in the long-term -- over the long-term. We have the management bandwidth, we have the capability, we have the talent, we can do it. What we are struggling with is finding the right opportunities out there.

The small ones are just excessively priced because everybody wants to go after it. And the big ones each have their warts, whether it is management team not there, the business model doesn't fit or it is a conflict of what we're doing in our own strategy.

So we have yet to find that gem of a Company out there that we think can meaningfully create value and grow PepsiCo better than what we are doing today. So there is nothing out there at the moment. But if you have any ideas, let us know. We will certainly listen to you.

**A - Bryan Spillane** {BIO 2147799 <GO>}

Anybody else?

**Q - Unidentified Participant**

Yes, I noticed in the presentation the total cost -- a detailed question and then a big picture question on marketing spending. 6% of the \$53 billion gets you a little bit lower than what the 10-K number was at like \$3.9 billion or something. And what (inaudible) technically what the discrepancy is there. And a lot of people have talked about the different ROI on marketing spending today, marketing and advertising, particularly moving to digital. Do you anticipate an opportunity for that number to trend over time?

**A - Indra Nooyi** {BIO 1404395 <GO>}

To trend lower?

**Q - Unidentified Participant**

Yes.

**A - Indra Nooyi** {BIO 1404395 <GO>}

You can address the discrepancy issue if there is any. But let me -- we were in -- when we were in California just before the Super Bowl we had a whole discussion with all of the gaffer types and all of the people dealing with networks on what is an ROI on A&M? Who really has a model to calculate ROI and A&M? Because each person comes in and says, the ROI is 25%. But if you total it up, it is not there, okay.

And really I'll speak for myself. I was a big TV watcher and I am now binge watching Netflix or HBO NOW, which worries me because I have so many TVs at home and I never turn it on. My kids have never turned the TV on in their apartment. So I really worry about the future and what is the A&M ROI.

Having said that what we all do know is if we don't advertise what the negative consequences are, what we don't know is what is the positive ROI on all of the investments we make? Individual investments we can tell what the ROI is. But it is a terrible way to calculate ROI based on if you don't invest, people sort of worry why you didn't put -- you were not in the Super Bowl, why didn't you put out a great digital campaign.

So it is proving positive through a negative as opposed to proving the positive through a positive. I think today the networks and the Google, Facebook's are all focused on calculating -- developing a good methodology of calculating ROI and A&M. That is the single biggest assignment that all of them have because companies are demanding it right now.

So -- and we are doing our own work with some (inaudible) firms to think about is there a good model we can come up with that looks at the digital world where people can blank out these eyeballs advertising to really calculate an ROI. So I would say a work in progress.

**A - Hugh Johnston** {BIO 15089105 <GO>}

I was just going to say, Bryan, a couple things on your technical question, number one, (the K) is right. Number two, I think the difference is some of it is rounding and some of it is the characterization that we have done here, which is more of traditional marketing characterization whereas sort of the very pure accounting definition, where the geography is in the A&M between sitting inside of these cost buckets and sitting inside of trade spending. So I think that's the difference between the two.

**A - Bryan Spillane** {BIO 2147799 <GO>}

Okay, from here we're going to move to the breakout. Please join me again in thanking Pepsi for their participation.

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