

Good morning, and welcome to PepsiCo's Fourth Quarter 2019 Earnings Conference Call. [Operator Instructions] Today's call is being recorded and will be archived at www.pepsico.com. It is now my pleasure to introduce Mr. Ravi Pamnani, Senior Vice President of Investor Relations. Mr. Pamnani, you may begin.

Ravi Pamnani

Thank you, operator, and good morning, everyone. I'm joined this morning by PepsiCo's Chairman and CEO, Ramon Laguarta; and PepsiCo's Vice Chairman and CFO, Hugh Johnston. We'll begin with some brief prepared comments from Ramon and Hugh, and then open up the call to your questions.

Before we begin, please take note of our cautionary statement. We will make forward-looking statements on today's call, including about our business plans and 2020 guidance. Forward-looking statements inherently involve risks and uncertainties and reflect our view as of today, and we are under no obligation to update. When discussing our results, we refer to non-GAAP measures, which exclude certain items from reported results. Please refer to today's earnings release and 10-K available on pepsico.com for definitions and reconciliations of non-GAAP measures and additional information regarding our results, including a discussion of factors that could cause actual results to materially differ from forward-looking statements.

And finally, as disclosed in our earnings release this morning, we are now reporting four international divisions versus three previously. This reflects changes made to our management reporting structure. Therefore, certain international division results have been restated for the full years 2017, 2018 and 2019. Specifically, our former Europe Sub-Saharan Africa division has been reclassified as Europe and will no longer include Sub-Saharan Africa.

And our former Asia, Middle East, North Africa division has been reclassified into two divisions: Africa, Middle East, South Asia, or AMESA; and Asia Pacific, Australia, New Zealand, China, or APAC. There are no changes to the remaining divisions or our consolidated results.

And now it's my pleasure to introduce our Chairman and CEO, Ramon Laguarta.

Ramon Laguarta

Thank you, Ravi, and good morning, everybody. Approximately about a year ago, we embarked on a plan to make PepsiCo Faster, Stronger and Better. We've made very good progress against these initiatives, and I'm pleased to

report that we met or exceeded each of the full year financial targets that we communicated to you about a year ago. Most notably, organic revenue growth accelerated to 4.5% in 2019, our fastest rate of growth since 2015.

Our organic revenue growth was very broad-based across all divisions, with Frito-Lay delivering its fastest rate of growth since 2013 and PBNA delivered its fastest rate of growth since 2015. Our developing and emerging markets also delivered high single-digit growth despite ongoing volatility and uncertainty in certain parts of the world. We invested in becoming Faster by increasing our global advertising and marketing spending by more than 12% for the full year, reflecting investment across snacks and beverages, and in both our large and established brands and our emerging brands; expanding our market presence by increasing route capacity, adding merchandising racks and coolers and advancing the technologies that we deploy to drive greater and more precise execution; and investing in additional manufacturing capacity to remove bottlenecks and increase growth capacity for our products.

This includes investments in new plants, new lines and added distribution infrastructure. Whilst we intend to continue to invest back into our business, we know that sustaining higher growth would require building stronger capabilities, ones which will be difficult to match by our competitors. During 2019, we enhanced our consumer and customer-facing capabilities, strengthened our organizational culture and transformed our cost management. Specifically, we invested in data analytics and other information technology to build consumer intimacy and achieve precision at scale.

By capturing and analyzing more granular consumer-level data, we can understand the consumer in a more individualized way to both customize communication and executing in every store with precisely the right products placed in the right location and at the right price. We strengthened our omnichannel capabilities, particularly in e-commerce, but our retail sales were nearly \$2 billion in 2019. To meet the growing need across channels for greater customization and faster innovation, we're investing in an end-to-end agile value chain that can deliver more precision and variety to enable us to win in the marketplace.

We migrated our organizational structure closer to the market in order to improve speed, increase accountability and become more locally focused. And we evolved our way – our values and ways of working to foster a culture where employees act like owners with a greater sense of empowerment and accountability. We call this The PepsiCo Way, which includes a set of seven leadership behaviors that have been rapidly embraced by our organization.

And we took a completely holistic approach to cost management, one in which we manage all costs as an investment.

In doing so, we challenged the entire cost structure to evaluate cost and benefit of our spending. In 2019, we delivered in excess of \$1 billion in productivity savings and plan to deliver this amount annually through 2023. Finally, becoming Better reflects our aspiration to continually integrate purpose into our business strategy and brands as more is expected of corporations by society. We prioritized and embraced a set of focused initiatives to help build a more sustainable food system. These include advancing benefits to farmers and communities through more sustainable agriculture. We intend to achieve 100% sustainably farmer-sourced agricultural raw materials by the end of 2020, which include potatoes, whole corn, oats and oranges.

Improving water stewardship. We're striving to improve water use sufficiency and aiming to replenish 100% of the water we consume for manufacturing in high water risk areas by 2025. Circular packaging. By 2025, we intend to increase recycled content in our plastics packaging to 25% and reduce 35% of virgin plastic content across all our beverage portfolio.

Improving choices across our portfolio by reducing added sugars, sodium and saturated fats. Mitigating the impact of climate change by reducing absolute greenhouse gas emissions across PepsiCo's value chain by 20% by 2030. And finally, advancing respect for human rights, promoting a diverse and inclusive workplace and increase the earnings potential – earnings potential of women to drive economic growth and increased food security.

Our commitment to becoming Better was most notably demonstrated by appointing our first-ever Chief Sustainability Officer and by a green bond offering that generated almost \$1 billion in net proceeds to advance our sustainability agenda.

To complement our Faster, Stronger and Better initiatives, we also made investments to fortify our portfolio for future growth. Specifically, we invested in our SodaStream business, which grew net revenue more than 20% last year in order to capture an incremental growth opportunity. We announced our intent to acquire BFY Brands, the makers of the fast-growing PopCorners brand, which will enhance our premium snack portfolio. We're in the process of acquiring Pioneer Foods, which will build the foundation for future growth and scale in Africa, a key emerging market where our growth opportunities remain vast.

And we acquired CytoSport, the makers of Muscle Milk, which expands our presence in sports nutrition, providing opportunities for additional growth and category expansion. As we aspire to be the global leader in convenient foods and beverages by winning with purpose, we believe these investments position us well to win in the marketplace.

Now let me discuss our operating results. As I noted earlier, our organic revenue growth accelerated to 4.5% for the full year 2019 versus 3.7% in 2018, exceeding the initial target we set a year ago. All our divisions contributed to this growth, including a 3% increase in developed markets and an 8% increase in developing and emerging markets.

Frito-Lay North America had a very strong year with a 4.5% increase in organic revenue, along with an acceleration of volume growth in the second half of the year. The business gained value share in both salty and savory snacks in 2019 and improved its customer service levels. Frito's results were driven by the investments we made in innovation, marketing and consumer insights, supply chain and manufacturing and go-to-market capacity. This included a double-digit increase in advertising and marketing spend, additional plant, warehouse and distribution center capacity, and additional routes, racks and selling resources.

Frito delivered net revenue growth in all of its large mainstream brands like Lay's, Doritos, Tostitos, Cheetos, Ruffles and Fritos and double-digit growth in emerging premium brands such as Bare and Off the Eaten Path. Our multipack offerings also delivered very good growth as we have continuously expanded the variety of brand and flavor combinations. The breadth of our growth was also evident across every key retail channel. We increased net revenue growth in grocery, mass, club, convenience, foodservice and e-commerce.

And Frito-Lay was once again the number one contributor to U.S. food and beverage retail sales growth in 2019. With respect to the fourth quarter, Frito delivered 3% organic revenue growth, driven by 2% volume growth and 1% net price realization. The deceleration in net price realization. The deceleration in net price realization was largely a function of the timing of pricing actions taken in 2018. We expect our net price realization trends to improve over the coming months and have strong innovation and merchandising plans in place for the business to deliver very good growth in 2020.

PepsiCo Beverages North America delivered 3% organic revenue growth in 2019 with a sequential acceleration in the fourth quarter, which represented its fastest rate of organic revenue growth in four years. The business benefited from improved local market focus and execution driven by our new

field structure, increased go-to-market capacity, significantly stepped up advertising support, innovation and additional selling resources.

We also invested in improving our presence in the away-from-home channel by becoming the preferred beverage partner for JetBlue, Carnival Cruise Lines and Regal Cinemas for the past year. Investing in our brands has been a big focus area for PBNA's advertising and marketing spend, increasing in a double-digit range for both the fourth quarter and full year with increases in our large brands, such as Pepsi, Gatorade and Mountain Dew.

Trademark Pepsi posted its sixth consecutive quarter of net revenue growth with strong double-digit growth in our Pepsi Zero Sugar product. Gatorade accelerated as the year progressed and ended the year on a very strong note with high single-digit growth in the fourth quarter, led by Gatorade Zero, which delivered more than \$600 million in measured retail sales in 2019.

Innovation played a very important role at PBNA this year with Gatorade Zero, bubly and Mountain Dew Game Fuel having cumulatively delivered more than \$1 billion in measured retail sales. Other brands, including Propel and Lifewater delivered strong double-digit net revenue growth, while Pure Leaf and Starbucks delivered high single-digit growth in 2019.

Finally, we have plans in place to build on our recent innovation successes. We will invest in BOLT24, a functional beverage we launched last year that supports athletes around the clock by providing advanced, all-day hydration. We recently introduced Zero Sugar variants of Mountain Dew and Mountain Dew Game Fuel, which offer the same bold taste as the originals without the sugar. And we will roll out Pepsi Cafe, a coffee-infused cola beverage that will be available for a limited-time offering in U.S. stores as of April.

Rounding out our North America performance. Quaker Foods delivered 1% organic revenue growth for the full year, with double-digit net revenue growth in our light snacks business and Gamesa cookies and mid-single-digit growth at Aunt Jemima and Roni. I want to conclude our discussion on North America by acknowledging terrific work of our customer and supply chain teams have done.

Specifically, PepsiCo was awarded the number one ranking in the 2019 Kantar PowerRanking survey, the fourth consecutive year we've claimed the top spot; and the top two rankings in 2019 U.S. Advantage survey core food multichannel report. These surveys reflect our customers' view of PepsiCo as a valued partner and demonstrate the benefits of investing with our customers to help drive growth.

Now moving on to international markets. Each of our international divisions delivered strong organic revenue growth in 2019. These results include some performance across our developing and emerging markets, with high single-digit organic revenue growth for both the fourth quarter and the full year. We continue to have a long runway for growth in many international markets, and our results reflect the benefits of our increased investments as we continue to leverage our global capabilities to drive higher per capital consumption and improve market share, while executing in locally relevant ways.

In Latin America, we grew organic revenue growth – we grew organic revenue 7% for the full year, with growth in both snacks and beverages despite ongoing macroeconomic volatility and political uncertainty in certain markets. Mexico, our largest market, delivered high single-digit growth for both the quarter and the full year. Our next largest market, Brazil, delivered mid-single-digit growth for the full year with an acceleration in the fourth quarter to high single-digit growth. In Europe, we grew organic revenue 5.5% for the full year, with very good growth both in snacks and beverages.

Our largest market, Russia, delivered mid-single-digit growth for the fourth quarter and the full year. The United Kingdom delivered low single-digit growth for the full year. But very encouragingly, it exited the year with mid-single-digit growth in the fourth quarter. Other highlights include double-digit growth in Turkey and high single-digit growth in Poland for the full year.

Moving to our Asia, Middle East and Africa regions. During the fourth quarter, we took the opportunity to think more strategically about this part of the world. We decided to split the organizational structure of our prior AMENA division into AMESA, which includes Africa, Middle East and Africa regions. During the fourth quarter, we took the opportunity to think more strategically about this part of the world.

We decided to split the organizational structure of our prior AMENA division into AMESA, which includes Africa, Middle East and South Asia; and APAC, which includes Asia Pacific, Australia, and New Zealand and China. By creating one operating sector centered on the Asian consumer and another centered on the Middle Eastern, South Asian and African consumer, we believe we can enhance our focus on accelerating top line growth. AMESA delivered 6% organic revenue growth for the full year.

This includes double-digit growth in Pakistan and Egypt and mid-single-digit growth in India and Saudi Arabia. APAC delivered 9% organic revenue growth for the full year, led by strong double-digit growth in China and Vietnam and high single-digit growth in Thailand and the Philippines.

To conclude, our priorities for 2020 remain consistent with our discussions today. We expect to deliver 4% organic revenue growth and 7% core constant currency earnings per share growth in 2020. And we will continue to invest back into the business to evolve our portfolio and transform our value chain; build next-generation capabilities, particularly leveraging technology to enhance our insights, speed and precision; grow our talent and simplify our organization to be more consumer and customer-centric; invest in our brands, both large and emerging; and reduce our cost structure to free up resources to fund our investments. These priorities will always be executed with an eye towards enhancing our marketplace competitiveness and delivering, of course, long-term value creation. With that, let me now turn the call over to Hugh.

Hugh Johnston

Good morning everyone. As Ramon noted, for 2020, we expect to deliver 4% organic revenue growth and 7% core constant currency earnings per share growth. We expect foreign exchange to have an approximately negative 1 percentage point impact on net revenue and core EPS growth and, therefore, expect our core U.S. dollar EPS to be \$5.88 in 2020. For 2020, we also expect our core – annual core effective tax rate to be approximately 21%, free cash flow of approximately \$6 billion, reflecting CapEx of approximately \$5 billion. The higher rate of capital spending is associated with accelerating progress on our strategic growth priorities, as Ramon laid out earlier. We expect our capital spending to remain at or around these levels for the next few years and now expected to moderate to 5% of sales by 2023.

We expect total cash returns to shareholders of approximately \$7.5 billion in 2020, comprised of dividends of \$5.5 billion and share repurchases of \$2 billion. The expected cash returns reflect a 7% increase in the annualized dividend per share effective – with the dividend expected to be paid in June 2020. This will represent the company's 48th consecutive annual dividend per share increase.

With respect to your models, please keep in mind the following: In the first quarter of 2020, we face a difficult comparison for both organic revenue and core constant currency operating profit growth at Frito-Lay North America and our international divisions. With that, now we'll open it up for your questions. Operator, we'll take the first question.

Question-and-Answer Session

Operator

[Operator Instructions] Your first question comes from the line of Bryan Spillane of Bank of America.

Bryan Spillane

Good morning everyone. So I guess, I just got a few questions this morning about Frito and the kind of the deceleration there this quarter, and I guess, what's implied in the first quarter commentary now. So maybe, Ramon, can you talk a little bit about the dynamics there, I guess, lapping some price increases? And then kind of what gives you confidence that, that can reaccelerate as we move through 2020?

Ramon Laguarta

Good morning Bryan. Yes, listen, we feel very good about Frito performance in 2019. So we accelerated the highest level, I think, in the last seven years, so overall, a very good year. Volume went up and volume across all our brands, the big brands and also the new brands that we're trying to build for the future. So very positive performance and also, as I said, across all channels. So very, very holistic, very good performance, I would say. The deceleration in Q4, as I said on the statement, is based on the pricing decision in 2018.

We took price in Q4. This year, we didn't take any price in Q4. It will be more of a price decisions now in Q1, second half of the Q1. So that's the main difference. We feel good about it especially the volume acceleration. The fact that our pounds went up almost 1% this year versus last year, it's a pretty positive to us testament that our investments are working in driving per capita consumption, which at the end is the long-term driver of the business.

Operator

Your next question comes from the line of Steve Powers of Deutsche Bank.

Steve Powers

A question actually on PBNA. As you think about the fourth quarter performance across that division and the acceleration you saw, I guess, which brands or businesses performed best versus your expectations in the quarter? And as you look forward to 2020, how do you think about the trajectory there, just balancing the current momentum against what will be difficult laps in Gatorade and bubly, especially there's lots of competition and the expansion on the shelf and in the cooler of an energy category in which you're still underrepresented? Thanks.

Ramon Laguarta

That's a good question. Listen, we feel – I mean, if there's any division that we feel very strong about the turnaround this year, it's PBNA, right? We feel good about the way we're exiting the market and the year and also how we've driven that performance. So if you think about our innovation has been very, very strong across the year, and you mentioned, some of the successes. So Gatorade, clearly driving sustainable growth by innovating in a new space like Zero.

Zero has driven a lot of new consumers into the sports category, and so it's not like a summer-related growth of Gatorade. It is a, I would say, a structural, more penetration of the brand into consumers that were not consuming Gatorade. So we see that as sustainable. Actually, it accelerated during Q4. We see Pepsi, as I said, with sustainable growth. So that makes us feel good. That's also driven by new variants like Zero, smaller packages that are driving consumption.

So we see Pepsi as well driving sustainable growth. We continue to see very strong performance in our coffee business, and our partnership with Starbucks is as more robust than ever. I think the kind of innovation we're bringing to the market and how we're moving that category also into new premium spaces with innovation is very powerful. Very strong performance across the year, including Q4. The same with our tea categories. Pure Leaf continues to drive a lot of growth and develop the category. You mentioned bubly.

I think bubly is just scratching the surface as a brand. It's still very underpenetrated. It's a brand that, I think, space-wise also has a lot of opportunities. So I think a lot of people don't even know about the brand or haven't tried the brand. So I think it's already a pretty meaningful-sized brand. So we feel very strong about the way we're driving growth for PBNA. It's not short term or it's really developing the different segments of the category where we participate, expanding those categories, bringing more consumers into this space.

There's another lever, I think, of sustainable growth for PBNA, which is driven by better execution. And this better execution, obviously, comes from more focus on execution. But I think the organizational change we've made to the business where we have decision-making closer to the consumer and to the market is making us a better execution company in PBNA. I think that is, again, it's not a 1-year event. It's a multiyear opportunity that we're going to get better with better tools and better focus. So we feel strong about where we finished. We feel strong about the drivers of that growth, not being one-off, but being very sustainable drivers of growth.

Operator

Your next question comes from the line of Ali Dibadj of Bernstein.

Ali Dibadj

Just want to go back to FLNA for a second. I get the price increases in 2018. But even on a stacked basis, it looks like there's been some challenges. I think, as you can imagine, or you've probably seen almost all of us have written about FLNA and concerns about it. And I get, Ramon, that you said that you're going to see some price realization improving through 2020. But I wonder with all the consumer work that you guys do, if you see anything at all that gives you pause from a structural perspective.

So are you seeing any changes driven by the consumers, in particular, on health and wellness that are accelerating? Or are you seeing anything from a competitive perspective as well? And we're all going to be at CAGNY next week, and every food company is going to say they're a snack company. And they like your margins, and they like your growth. So how does – are you seeing anything there at all? And how does that play into, if at all, what seems to be a little bit more, I guess, subdued guidance as a – of the company at the lower end of your long-term plan, especially after a heavy up year like you just had?

Ramon Laguarta

Yes. Listen, good question. And I think obviously, we're looking at long-term trends of the consumer and trying to adjust the portfolio to those trends. If you look at the way we're driving the growth in 2019 and the way we think we'll drive the growth in the next year, it's been across all brands. So we've seen the consumer continue to go back to our classics, Lay's and Doritos and Cheetos and Tostitos. The truth is that we're trying to improve the way we market those brands in a way we are personalizing the messages, the way we're creating unique content for different types of consumers and the way we innovate against those large brands.

At the same time, our kind of more permissible portfolio, our premium portfolio, that segment of our range is growing about two times the average of the company. So if you think about Off the Eaten Path, Bare, Simply, Smartfoods, I mean, all those brands that you would say they are probably preferred by some type of consumers that prefer more permissible snacks, they are growing two times.

But the beauty of our Frito-Lay portfolio and the same would apply to our PBNA portfolio, is that we're trying to grow both our classic brands, large brands that are well established, trying to modernize them, keep them very

attractive to the consumers and then innovate into future spaces where the consumer might move at a different speed in different parts of the country as they decide to change their consumer habit. So we're evolving the portfolio. Some of the acquisitions we've made also will help us in that respect. But we're also – we're innovating in those spaces ourselves. Off the Eaten Path is a great example.

The Simply portfolio is a great example that is giving us very high penetration in those consumers that you referred to. What we're seeing – and I think we talked about it last time, is there is a trend towards smaller packages. And that might be a way the consumer is also approaching snacking categories with portion control being a key driver of the occasion. So we see small packs.

And the fact that we're moving a lot of capacity into smaller packs, I think would continue to give us good growth in that space of more permissible snacking, either by portion control by new brands and products that are preferred by those consumers. We don't see a deceleration of the category. That's why you mentioned there's a lot of new players that want to participate in this snacking trend, which I think is true and is going to be here for a long time. And that would make us feel very positive about Frito because there are a lot of tailwinds to the snacking category.

Operator

Your next question comes from the line of Dara Mohsenian of Morgan Stanley.

Dara Mohsenian

So just following up on some of the questions. I was hoping you could review a bit your visibility around the 4% corporate organic sales growth top line target for 2020. You're obviously coming off a solid year, so we'll have a tough comparison. There's some global volatility. So just wanted to get your perspective on the level of visibility at the corporate level. And obviously, we just covered Frito-Lay North America and PBNA, but perhaps you could also review what drove the strong momentum in D&E markets in 2019 and sustainability as we look out to 2020? Thanks.

Hugh Johnston

It's Hugh. I would say we have a good level of visibility into the revenue guidance. You know historically, we've been pretty accurate on that, and I would expect that to continue to be the case. That said, as you sort of slightly noted, the world is certainly a volatile place, lots of events going on in a lot of areas of the world even as noted a bit with some of the news this

morning. That said, we take the facts that we have and we always try to plan for at least some level of volatility as a part of developing our expectations for the year. Because history tells us most years, we'll have some volatility.

So I think, generally speaking, we have good visibility. Regarding developing and emerging markets at 8%, that's really a continuation, I think, of what we've seen over a number of years. The per capita consumption opportunities in those markets are quite large. And I think we're doing a very good job. But we're also barely scratching the surface relative to what the ultimate opportunity could be. It's one of the reasons we're investing in growth because we think by virtue of realizing those per cap opportunities and driving growth, we'll be able to sustain this algorithm for a very, very long period of time.

Operator

Your next question comes from the line of Andrea Teixeira of JPMorgan.

Andrea Teixeira

Hi, good morning. Thank you. So I was just hoping that if you can elaborate more on the top line guidance being, as you said before, on the low end and then embed your comment about 12% growth in investment in A&P in 2019. How – do you think you'll reach the normalized level now? And what is the growth in marketing investment that you're assuming for 2020 embedded in your guidance? And if you can kind of compare that with the \$1 billion cost saves that you normally have? And if you can update us on that metric as well? Thank you.

Hugh Johnston

Yes, good morning, Andrea. In terms of the guidance, actually, the guidance that we're giving this year is exactly the same as we gave 12 months ago. So obviously, we saw a world where the investments that we were making paid off a little bit better than we expected. And as a result, we got results and growth that were higher than that. Regarding whether we've leveled off, I don't think you'll see the same level of growth in advertising and marketing this year. It will still grow. It might even grow a little bit in excess of the rate of sales growth. To a great degree, it's going to depend on the opportunities that we see in front of us.

We've certainly funded our advertising line well going into the year. But frankly, if we see innovation taking off or if we see an opportunity in the marketplace to accelerate investment in order to capture even more growth, we're not going to be shy about doing that. And we've put room into the way

that we guide to give us the ability to take advantage of those opportunities. As I mentioned, we think we're in great categories. And we think right now, there's lots of opportunities to grow faster. So we're going to continue to do that, and at the same time, we're going to continue to invest in the stronger capabilities that allow us to sustain performance for a longer period of time.

Ramon Laguarta

And then, if I may add. The way we're approaching in every market, the opportunity, I mean, for 2020, we have, I think, very strong plans, well funded both on customer and consumer ideas. We're investing in additional capacity across the world. So our purpose here is to gain market share in every market where we compete. We've been doing that in the – in 2019. We'll continue to do that in 2020. The compensation in the company is very geared to top line and market share growth. So that's the way we're starting the year. Our guidance, as Hugh said, includes the possibility of events during the year that might surprise us on the negative front. But I think the guidance reflects that positive attitude towards market share and then some uncertainty room in the overall number.

Operator

Your next question comes from the line of Lauren Lieberman of Barclays.

Lauren Lieberman

Good morning. I wanted to get maybe a little bit of an update on progress in expanding some of your – you put some classic brands in snacking internationally. As I understand it, Ramon, one of your key priorities or areas you thought there was sort of really untapped opportunity was getting distribution of Doritos and Cheetos and these classic brands into international and emerging markets. So if you could speak directly to what's been done this year, how much that's still really more of a 2020 plan, it would be really interesting. Thanks.

Ramon Laguarta

Yes. Lauren, good morning. We have a good playbook on – especially in the snack business, on how do we develop the category and what are the levers that we need to play in every market to deliver the per cap growth that we normally deliver in the markets. And there's obviously innovation, there's brand building, there's visibility, there's value, there's many levers that we play in that playbook. So to your point on brands, brands are part of that playbook. We have Doritos, I would say, in 75% of our international markets maybe, that's the number. We have Cheetos probably in 90% of our markets.

Lay's is, obviously, the brand that we normally tend to lead than Ruffles, the potato business because that's where I think we have more differentiation possibilities with our agro programs and our flavor programs. So – but don't take it as a brand exclusive per capita development opportunity. But it's a very holistic development opportunity that includes brands, innovation, and we're getting better at lift and shift or lift and adapt, as we call it, taking successful products from one market and rolling them out globally.

But there's a lot of work in our playbook in how we develop the point-of-sale, and we become available everywhere and also how we understand consumers in their pocket money and their affordability and then how do we adopt in every market, the price levels to the pocket money of the consumer, and it's working very well. I mean, the truth is that the snacks category, it's growing consistently at a very high level internationally. And we don't see any reason why it would not do that in 2020.

Operator

Your next question comes from the line of Laurent Grandet of Guggenheim.

Laurent Grandet

Good morning, Ramon and good morning, Huge. And congratulate Ramon on the very strong first put you as a CEO. I'd like to focus on the Lipton opportunity. I mean, two weeks ago, Unilever CEO said the company was beginning a strategic review of its tea business. As we have been saying for quite some time now, we believe the acquisition of the balance of your JV with Unilever will be a net positive for PepsiCo. It is one of the fastest-growing segment globally, one where you have a market share leadership. So the acquisition would make a strategic sense, but also a financial one because you will be capturing 100% of the profit rather than just half. So could you comment on this opportunity and the role of the tea segment for PepsiCo in general, especially as you are now facing, I mean, a renewed competition with Fuze mostly in Europe, but also in international markets. Thank you.

Hugh Johnston

Good morning, Laurent. Thanks for the question. A couple of comments on that. Number one, we launched the tea venture with Unilever a couple of decades ago, and they've been a terrific partner over the course of the last couple of decades. We've built a nice ready-to-drink tea business, both in the U.S. and internationally. So we certainly feel good about that. As regards the JV, we really like where we sit very much right now. We think the JV has got good balance, and I think we find the ready-to-drink aspect of tea to be attractive. So we like where we sit. Obviously, the announcement may have

some ramifications for Unilever, but we think it shouldn't have substantive ramifications for us going forward.

Ramon Laguarta

Laurent, we continue to do very well in the tea business. And it's a category that we see growing internationally. It's growing very fast in developed markets and also in developing. To your point on Europe, we continue to be leaders. We keep innovating there. The Pure Leaf brand is doing very well. The Lipton brand is continuing to expand. We like this category. We like what we're seeing. As Hugh said, we'll wait for events from Unilever.

Operator

Your next question comes from Rob Ottenstein of Evercore.

Rob Ottenstein

Great. Thank you very much. You announced some interesting changes, I guess, in the way you're managing the international business to capture more of the opportunities in Asia and Africa. I was wondering if you could give us a little bit more granularity in terms of how the strategy may change. Any changes in tactics, investment that you see putting behind those changes going forward? Thank you.

Ramon Laguarta

Yes. That's good. Yes. So there were a couple of reasons why we made this change in the organization. One is to manage a huge geography like from Africa all the way to Australia from one location, as what we're doing from Dubai, was a big burden on our people and our executives. So that was not the ideal. But fundamentally, more than that, which is also important, is that there are clearly different consumption patterns, different trends, different food cultures between, I would say, the group of countries centered around China and the group of countries centered around the Middle East and Africa.

So we think that by making this change, we're going to be innovating with more local relevance. We're going to be activating our brands with more local relevance. We want to be able to have resources close to the marketplace in the critical differentiators like R&D, like sales execution that will help us to perform better in the market. One of the critical opportunities for PepsiCo is to develop the international business. And I think Asia remains by far our number one opportunity. And China, of course, is a huge market, where we have a good business. It's growing very well, as I said in my remarks. But the opportunity is much, much higher.

So that's how we're thinking about this new organization, enabling a more sustainable and focused growth in those two parts of the world. Africa is another big opportunity for us. We're – hopefully, we're almost very close to concluding the Pioneer acquisition. That will give us a lot of scale in Africa, which serves also more focus than what we had in the past. And we're also allocating additional resources to Africa, which will help us expand in that continent, which obviously has a huge opportunity for our products.

Operator

Your next question comes from the line of Kevin Grundy of Jefferies.

Kevin Grundy

Great, good morning everyone. Ramon, can we come back to the energy drink category and kind of get more of an update on the company's strategy? It's not an area that PepsiCo has participated in, in a meaningful way. Company's had a partnership with ROCKSTAR, which is a brand which has lost share over time. Mountain Dew Kickstart hasn't really gained any traction in the category.

And your key competitor, of course, has been more aggressive historically both with its investment in Monster and now the extension of the Coke brands. So the question is, is this an area of emphasis for PepsiCo either organically or through M&A? Or are you reasonably fine playing on the periphery? Thanks.

Ramon Laguarta

Thank you. Good question. Listen, obviously, we – the consumers are looking for more caffeine, right? I mean, it's clear that this is an opportunity that they're looking for. As the day is becoming longer and the commuting is longer, I mean, there's a lot of tailwinds to the use of caffeine. The way we've been approaching this opportunity is, as we said in the past, from multiple dimensions. So we're playing in energy with ROCKSTAR. It's a brand that we think we have the opportunity to – working together with the ROCKSTAR owners, to develop and to reinvest, and I think we can do a better job there. But we're also especially working in those spaces from the coffee category, and I think our partnership with Starbucks has been great.

Triple Shot Starbucks this year has been a massive innovation, and it's nothing but a very good way to consume caffeine as well. We're looking at participating in lower caffeine levels from – and we just announced some innovation in our bubbly brand, some innovation in our BOLT24 brand. So we plan to participate in the caffeine space from multiple dimensions, including doing a better job with ROCKSTAR and our partnership there. Brands like

Mountain Dew Kickstart and Mountain Dew Game Fuel are good innovation from our own brands into that space, a bit more focused on particular opportunities, one on the morning occasion, one on the gaming occasion. They're getting good traction for us as well. So that's the way we're thinking now of participating in what is, as you say, a large opportunity and quite profitable.

Operator

Your next question comes from the line of Bill Chappell of SunTrust.

Bill Chappell

Thanks, good morning. Just going back to Steve Powers' kind of questions on – can you quantify a little bit more what gives you confidence on, I guess, specifically, Pepsi in North America and kind of the momentum this year? Maybe what stage we are in different pack sizes or innovation on the horizon or something just that gets you – because the comps don't get any easier, and certainly, there are other products out there. I'd love to hear what you're seeing or quantify what you're seeing that gets you excited.

Ramon Laguarta

Yes. I mean we're excited. We have six quarters of growth for Pepsi continuously. And we're seeing the brand equity going up as we invest more in the brand, as our advertising gets better, and we're able to talk to consumers, the different segments with different messages and that's working very well. From the product point of view, we're seeing high growth, as I said last time, in smaller packs. So that's continued to help the penetration in households that had stopped buying CSDs. Now they're going back with the smaller packs.

So that's great. Zero is a very fast-growing brand. And for us, it's a great brand internationally. We're trying to develop it faster in the U.S. You saw our focus in the Super Bowl. Our execution is quite focused on Pepsi Zero. I mean Pepsi regular is growing back again. Again, I think there is more our execution and the fact we're able to execute with more granularity and better precision that's helping the Pepsi brand, along with the brand equity development. So that's what makes us feel very strong about Pepsi continuing to grow 2020 and in the coming years. We'll keep innovating. We're innovating in Pepsi flavors. We keep innovating with Pepsi Cafe. So we will keep bringing some news to the brand to continue the consumer engagement with our brand, our products.

Yes. That's good. Okay. Thank you. I think that concludes the Q&A. Thank you for your time and your participation in this morning's call. We're very

pleased with the progress we've made to date, and we're executing well against our key priorities. We look forward to updating you again on our progress throughout the year, and we thank you very much for the confidence you've placed with us with your investment. Thank you.