Good morning, and welcome to PepsiCo's Second Quarter 2011 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. Jamie Caulfield, Senior Vice President of Investor Relations. Mr. Caulfield, you may begin.

Jamie Caulfield

Thanks, operator. With me today are Indra Nooyi, PepsiCo's Chairman and CEO; and Hugh Johnston, PepsiCo's CFO. Indra will lead off today's call with a review of our overall performance and outlook, and then he will cover the financial guidance in more detail. We'll then move on to Q&A where we'll be joined by John Compton, CEO of PepsiCo Americas Foods; and Eric Foss, CEO of Pepsi Beverages Company who's joining us by phone this morning.

Before we begin, please take note of our cautionary statement. This conference call includes forward-looking statements, including statements regarding 2011 guidance based on currently available information, and our actual results could differ materially from those predicted in such forward-looking statements.

Statements made on this conference call should be considered together with cautionary statements and other information contained in today's earnings release and in the most recent periodic reports filed with the SEC.

To find disclosures and reconciliations of non-GAAP measures that we may use when discussing PepsiCo's financial results, please refer to the investors section of PepsiCo's website under the Investor Presentations tab.

Now, it's my pleasure to introduce Indra Nooyi.

Indra Nooyi

Thanks, Jamie, and good morning, everyone. I'd like to give you my perspective on the quarter, share with you how we see the macro and consumer picture and then comment on our priorities and outlook for the balance of the year, including guidance.

We delivered good results in the quarter because reported EPS was up 20% and core EPS was up 10%. Our worldwide servings increased 6%, with global growth across our broad range of convenient food and beverage platform. We had solid global volume growth in both snacks and beverages. Snacks volume grew 10%, and beverages grew 5%.

And within that, the global nutrition portfolio grew revenue 10% on an organic basis. Net revenue was up 14% overall and 8% on an organic basis.

I'm pleased that our global snacks performance was particularly strong. We had balanced top line and bottom line growth in our snacks business, with volume growth momentum accelerating from the first quarter.

Frito-Lay North America, our largest snacks business, had another very good quarter, with 2% volume growth, 3% net revenue growth and 6% operating profit growth. In fact, we saw positive performance in snacks in just about every one of our most important markets around the world.

We grew volume, revenue and profits in every one of our top 5 snacks markets. We're driving growth in developed markets by providing a wide array of innovative products, backed by strong commercial programs. And in emerging markets, we continue to grow per capita consumption frequency with locally-relevant products and then by expanding our distribution reach.

This is leading to double-digit volume growth across a number of markets. In the quarter, India grew 22%; China grew 25%; Turkey grew 24%; Saudi Arabia and Egypt each grew above 20%; South Africa grew in the high-teens; and Brazil grew in double digits.

Now to beverages. The international market performance was very good. We saw volume outside of North America grow 4.5% in the quarter and 5% in the first half on an organic basis, again with gains across many markets and double-digit growth in key emerging and developing markets.

China beverage volume grew 13% in the quarter; India grew 17%; Turkey was up 15%; Saudi Arabia was up 17%; Vietnam was up 11%; France is up 12%; Germany, 15%. And at the same time we are seeing carbonated soft drink volume and value share gains across a number of these important markets. This growth is being driven by innovation and by the traction we are getting from our brand-building initiatives. The growth in key emerging markets like China and Russia is coming directly from the actions we've taken to build out our go-to-market reach and capacity.

We are off to a good start with the Wimm-Bill-Dann acquisition in Europe. I am pleased with the progress, and I am monitoring it very closely. The Wimm-Bill-Dann management team and associates, who are now part of PepsiCo, are top-notch. The integration is right on track. And we are confident we'll achieve the synergies as originally planned, and the fundamental operating performance of Wimm-Bill-Dann has been rock solid. Further, majority of the portfolio is performing very well.

Now let me turn to PepsiAmericas Beverages and the North American beverage category in particular. In a difficult category environment, we are encouraged by a number of positives in the business. We are maintaining our focus on Pepsi Max and Sierra Mist with good results. Both Max and Mist grew in the quarter, with Max volume more than doubling compared to the prior year. And we have terrific programming against brand Pepsi for the remainder of the year, including the current Summertime is Pepsi Time campaign. And later this quarter, our sponsorship of the X-Factor kicks into high gear.

Gatorade had another strong quarter of strong growth. And the results from the C&G channel, where we're benefiting from our move to direct store delivery earlier this year, were especially strong. And Trop50 continues to perform very well, with volume up 40%, supported by the new Trop packaging and expanding the line with new flavors.

Taken together, the positive signs we're seeing in the brands we have innovated and executed strong marketing programs give us confidence that our brand-building initiatives are beginning to pay off. However, the operating and financial performance in North America beverages was below our expectations for the quarter, and let me take you to the drivers and address what's going on here.

As we knew we would, we had exceptionally high levels of commodity inflation. That said, it's the consumer and competitive picture that's become more difficult than we expected. Consumer category demand was lower than we anticipated because overall retail foot traffic and basket sizes have declined, and the category pricing environment was tough. These factors led to lower-than-expected price realization and a delay in some of our planned pricing actions.

As a consequence, our North America operating profit performance for the quarter was impacted. However, our analysis shows that our North American profit growth for the first half compared favorably with that of our primary beverage competitor on a pro forma basis.

Of the 3 factors impacting North America beverages: inflation, consumer demand and pricing, the consumer demand picture is the most concerning to us at this point. In fact, the modest pickup in total consumer spending almost all U.S. businesses saw earlier in the year has reversed in the past several months. And the general consumer weakness is driving reduced traffic in key retail channels.

These factors are going to impact the discretionary categories like beverages, where we all know, consumers have non-packaged alternatives. And because beverages are also an impulse-driven category, the reduced traffic is also having an effect. Given the reduced retail traffic, the fact that Frito-Lay North America continues to perform well in this environment speaks to the relatively high resilience of salty snacks and the strength of the Frito franchise.

In developing and emerging markets the growth picture is brighter. In most of the emerging and developing markets, we are still seeing healthy GDP growth. But global commodity inflation is pushing our food inflation in these markets, and wages in the short term are not keeping pace. The disposable income and consumer discretionary spending is under some pressure.

So as we operate in this environment, we are focused on a few very important guiding principles. First, we'll continue to support our brand-building and other consumer-facing initiatives. Given the stress that many consumers are under, and the fact that we're putting more pricing in the market, it's more important than ever to communicate the value of our brands to our consumers to keep them engaged in our brands and our categories. You will continue to see us on air and using digital media to stay top of mind with our consumers and keep them engaged.

Second, we are staying committed to our emerging market initiatives to expand our go-to-market reach because emerging markets growth appears to be holding up, and we want to maintain the momentum we have by strengthening our franchises in these important growth markets. Third, in principle, we will try to cover as much of the commodity inflation as we can. As a disciplined operating company, it's critical that over time we've tried to cover our costs. This applies in both developed and emerging markets. So we are taking more pricing across all of our businesses. In the case of North American beverages, our pricing actions have been communicated to our customers, and pricing actions went into the market beginning July 11.

Fourth, as we deal with many consumers' sensitivity to affordability given their limited disposable incomes, we are using every tool we have at our disposal, including price/pack architecture and efficient targeted promotions to continue to provide value to the consumer. We've done a rigorous review of our portfolio to make sure we have established price points that appeal to the more value-sensitive consumer. For example, in the U.S. this includes the 1.5-liter take-home pack and the 16-ounce PET bottle in the cold channel in beverages.

On the snacks side, we have expanded our $2 monthly-served value line with encouraging results. And we're going to continue to put the power of our portfolio to work by executing cross-brand promotions to increase value to the consumer, to motivate higher verticals in total.

Fifth, we are focusing on premium innovation to help mitigate the cost and pricing challenges. Higher-income consumers are in better shape financially and are less price-sensitive. So it's important we maintain a focus on them. We are driving growth in our premium products like our Tostitos Artisan, where unique flavor, texture and taste command higher revenue per pound, or products like the G series, which captures new high revenue and marginal cases for Gatorade.

And finally, we're accelerating and intensifying all our productivity initiatives that can have a positive outcome on both this year and upcoming year's financial performance with focus across the entire compressible cost structure.

But as you all well know, we're going to have to deal with the uncertainty in the months to come, and this applies to all CPG companies, I believe, so we are not alone in this. Many companies have recently announced pricing actions, and this will further complicate the consumer outlook and the competitive environment. Understanding how all these impacts demand elasticity, both within categories and across categories, would require careful monitoring and adjustment.

Taking these 3 issues into consideration, the uncertain macros and inflation, the immediate actions we are taking to mitigate them and our commitment to continue to support our strategic initiatives, we've updated our financial outlook for the year. We announced our updated outlook in this morning's release, and Hugh will discuss the guidance in more detail in just a minute.

But before I hand it off to Hugh, I want to be clear about my enthusiasm for the performance and potential of our portfolio. There are so many good signs that our plans are aimed correctly. I believe our global volume and revenue growth in the quarter is a good reflection of our portfolio's strength. We remain absolutely committed to leading this great company on a path that effectively addresses the current uncertainty and at the same time, strengthens the long-term health of our business and company.

Thanks, and I look forward to our discussion in the Q&A after Hugh's remarks. Hugh?

Hugh Johnston

Thanks, Indra. I'll start with guidance.

We communicated updated guidance for 2011 in our release this morning. Our updated guidance targets high-single digit EPS growth on a core 52-week basis. Let me highlight the key underlying changes.

First, the new guidance of high-single digits is on a U.S. dollar basis. Our previous guidance of 7% to 8% was on a constant currency basis. Second, while the currency neutral growth under our previous guidance was 7% to 8%, our new guidance would imply 5% to 7% currency neutral growth as we expect 2 percentage points of ForEx benefit for the year.

So let me address why we made the change. First, our primary beverage competitor is benefiting from significant ForEx tailwinds. This gives them a lot of competitive flexibility, and it isn't logical for us to hold ourselves to a constant currency standard that our primary competitor isn't using.

Second, the commodities environment has been quite challenging this year, and our commodities forecast is a headwind that has moved to the high end of our range. These commodities have appreciated in part due to the depreciation of the U.S. dollar.

Our international earnings, on the other hand, benefit from U.S. dollar depreciation when they are converted, but we don't get that benefit when we measure our performance on a constant currency basis. The combination of these 2 items actually causes ForEx to be a performance drag on PepsiCo results under our old constant currency measurement.

Finally, as Indra mentioned, we, along with a number of other CPGs, have announced price increases for the back half of the year and are doing so in a relatively weak U.S. consumer environment. While we're implementing this pricing, which we began to do on July 11, we'll also need to gauge the consumer reaction in this uncertain environment and make adjustments accordingly.

As such, predicting the ultimate pricing realization for the back half of 2011 is more challenging than it would be in a more stable consumer environment. I expect that we might have some questions on guidance later, but thought it would be useful to provide this context before we engage in a discussion.

Because Indra has covered many of the operating trends in our business, I'll comment briefly on the below-the-line items for the quarter. Our tax rate for the quarter came in better than expected, driven largely by recognition of tax benefits in our international business. These were anticipated in our full year guidance, but were realized earlier in the year than we had previously anticipated. Consequently, our Q2 tax rate was lower than we had expected but our full year outlook remains unchanged at approximately 27%.

On share repurchases, year-to-date, we repurchased approximately $750 million of shares against our full year target of $2.5 billion. So our pace of share repurchase is expected to accelerate in the second half. The timing of share repurchases is completely consistent with what we communicated at the beginning of the year.

As you model out the balance of the year, I want to call your attention to a few items. First, incremental pricing actions will be realized during Q3 and into Q4, so they'll have a more meaningful impact on the fourth quarter because of that timing.

Second, timing of concentrate shipments will likely be a net negative in the third quarter as we expect bottler inventories to be a net drop. Third, as we intend to implement a number of accelerated productivity actions that we plan for the balance of the year, and they will also have a bigger impact on the fourth quarter than the third quarter because of the timing of execution. The net of all that is we anticipate a much stronger operating profit EPS growth rate in the fourth quarter than in the third quarter.

With that, we'd be happy to take your questions.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from Christine Farkas of Bank of America.

Christine Farkas - BofA Merrill Lynch

A couple of questions. First thing on C-stores. I just wanted to clarify the strength in Frito-Lay because we didn't see that in the scanner data but certainly the dollar channels seem strong. I wonder if you can take us through a little bit why the snacks are holding up so much better in the immediate consumption. And then my second question was on organic growth in Russia. It wasn't listed in the countries with double-digit growth on your beverage review, but wondering if you're seeing difficult consumer trends that seems to be hitting juice for some of your competitors.

John Compton

Christine, this is John Compton. On the single-serve business at Frito-Lay, we're benefiting from a new line of flavor that we've launched behind Ruffles and the Hispanic line of flavors that we've launched across the entire portfolio of brands, Doritos, Cheetos, Lay's and Ruffles. And that's the Tapatio products that we've launched in about half the country. That combined with -- we have 2 different price points, as you know, that we use in the marketplace, a $0.99 line and a $1.29 line, and the combination of those 2 with the flavors helped us to offset traffic declines. And our single-serve business grew mid-single digit for Frito-Lay overall. So I'm very pleased with the performance of the single-serve business and the up-and-down-the-street business.

Indra Nooyi

Regarding Russia, Christine. The overall beverage category in Russia was soft in the second quarter, and I think we had 2 kinds of behavior. One, the noncarbonated beverage business and juices in particular is a gigantic market in Russia, bigger than the carbonated soft drink business. And within that, the lower-priced juices -- our juices in Russia run the whole gamut of pricing from value brands to premium brands. The value brands are better than the premium brands although, growth across the portfolio was okay. It wasn't at levels that we would like to see, but the growth wasn't bad on an organic basis. On the CSD side, there was some interesting behavior in the marketplace because some people decided to buy some volume in the marketplace so you saw some very heavy price discounting in the marketplace, and we chose not to play that game because we decided that we're going to focus on juices and maintain our pricing in the marketplace. So overall I'd say our organic growth in Russia was in the very low-single digit but that's a number that we deliberately decided to focus on because we did not want to use significant pricing drops to buy volumes.

Christine Farkas - BofA Merrill Lynch

Okay, slower but positive, it sounds like. And if I just could follow-up with Hugh on the guidance. You didn't -- correct me if I'm wrong, you didn't change your outlook for the commodity hit in 2011 on just the ongoing inflation. Or was there an uptick in your view for that pressure this year?

Hugh Johnston

No, Christine, we had previously communicated, as I'm sure you remember, $1.4 billion to $1.6 billion. And we're still in that range. Now within that range, we've moved to the higher end but no change in the $1.4 billion or the $1.6 billion range.

Operator

Your next question comes from John Faucher of JPMorgan.

John Faucher - JP Morgan Chase & Co

Taking a look at your decision -- and I want to focus on sort of your decision in terms of the FX piece, understanding the context that it's coming through. I guess the question becomes do you believe that this is a move to dollar-based earnings guidance for the foreseeable future? Is this a move to dollar-based earnings guidance for this year? And I guess the question becomes, if the dollar turns the other way, how should we look at how this plays out on the other side? So again, understanding the context of what you're doing it for, but think that I guess I'm trying to figure out how you plan to manage this going forward?

Hugh Johnston

Yes, so John, this is Hugh. Let me talk about that in 3 pieces. Number one, certainly in terms of the short-term dynamic, you're aware that our primary competitor has substantial ForEx, which seems to be playing its way back into the business, particularly in North America. And we think that to not be competitive with that is not a good long-term solution for the PepsiCo shareholders. Number two, as we think about the long-term earnings of PepsiCo, I expect that we will be looking at that on a USD basis. And then number three, for 2012 -- too early to talk about anything as it relates to 2012 at this point.

Operator

Your next question comes from Bill Pecoriello of Consumer Edge Research.

William Pecoriello - Consumer Edge Research, LLC

Recognize your comment that it's hard to know exactly what the price realization is going to be. Recently you had announced the 3% to 5% incremental pricing in CSDs. How much is that are you planning in the guidance to realize in the P&L given the competitive environment that you cited? And on the snack side, what is the magnitude that you're expecting to realize and given the weak consumer environment, how are you modeling that volume impact in the back half?

Indra Nooyi

You're asking for a level of details that we're not comfortable sharing, but let me give you some broad observations based on everything we've seen in the marketplace. As it gets closer to essentials, things like what we sell in our global nutrition portfolio, Tropicana, Quaker, foods products, even Gatorade in this scorching hot weather, people are willing to pay up for those. Snacks, there isn't much of an alternative for snacks. It's just a great crisp, and people are willing to pay for that. In the case of beverages, we have to be a lot more careful because there are alternatives. Where you can stop trading down pricing you can go from packaged beverages to first of all, bottled water then to tap water. So when you look at the repertoire of beverages, when you take 7 or 8 packaged beverages drinking occasions, people might cut that back to 4 or 5 depending on how they want to allocate their dollars through the day. So I'd say that it's the beverage category we have to watch very carefully, along with the fact that sometimes in these environment, some people might choose to buy volume, and we saw that in the month of

June or July. So I think what we have to be very, very careful about is not to give you any specific indication of exactly what price utilization we're going to get by category. But all that we can tell you is generally, this is what we are seeing. And we're going to watch these over the next few weeks and months to see what kind of price utilization we get. Early indications in Frito-Lay are positive. I mean, John, do you want to talk about that?

John Compton

Yes. Bill, as you know we've said all along that we're going to price to cover commodity, and I think if you look in the second quarter, our gross margin in Frito-Lay was up 10 basis points. So we essentially did that and going forward, that's our intent. As you know we have multiple levers that we pull, different pack sizes, laid out price, et cetera. But we're not pricing to grow profits, we're pricing to cover our commodity costs. And so far, as understood, we put pricing into the market -- incremental pricing into the market on July 10, and 2 weeks does not a year make, and but I'm encouraged at what I'm seeing.

Operator

Your next question is comes from Ali Dibadj of Bernstein.

Ali Dibadj - Sanford C. Bernstein & Co., Inc.

Just a couple of questions. One is -- so I think it's fair and you made a point that when you compare your results to your peers between North America, it's basically in line if you try to strip things out. And of course, you're facing a lot of these externalities. You mentioned obviously macro, consumer, commodities, competition, et cetera but these are just externalities. I'm just trying to get a better sense of -- do you see things specifically internally that you're not doing well whether it be Power of One not happening enough whether the integration -- maybe you can push that further? You mentioned some productivity improvements. Obviously, there are a lot of changes in the marketing function in beverages. Are there things internally that you -- all of you look at and say, "Gosh, we could do things better here." Of course, there are many, but really that has been driving or that could drive some improvement here.

Indra Nooyi

I think that's a great question. So let me address some of these and Hugh if you want to chip in, go ahead. You're absolutely right in saying a lot of the externalities. I wish we could control but we can't. I wish we could manage the economies but we can't. So we have to live with them. We have to live with the uncertainty. I think what bothers us most is the uncertainty, not the economy itself. But we have to live with it. Let's talk about the internal structure. I'd say by and large, we're doing a very good job managing our internal P&L and our execution. Although I'd say, we are never happy with what we do. I mean, we are one company that's constantly in a state of discontent because we think we can do better. So let me give you some areas where we are working hard. Clearly, in our North American beverage marketing organization there's been changes. And as we've said before, we had to make those changes, and the changes we made not because we had bad people or people who are not qualified, it's just the business changed around us, and we wanted to make sure we had people who are ready to sign up to the new agenda and had the skills required to perform in this new world. And I think all the people we're getting in the company -- first of all, we have no trouble recruiting people, and the people who come in are top quality. I hope you guys get a chance to meet the Brad Jakeman who is running the global CSD franchise now, and Lorraine Hansen, who's running Global Hydration. I think you'll be extremely impressed by the caliber of these people. So we have absolutely no issues attracting the best and the brightest. So we have to go to those changes in the North American marketing organization, and we make them gradually to upgrade the talent and make sure we have the right people for the new environment. And you would start seeing the results of their work as we going to the balance of the year and next year. In terms of productivity, as Hugh said, we are working hard to look at our compressible cost to see if we can get even more efficient. And this is not squeezing the cost because that's the worst thing you can do, to squeeze the cost, get rid of people and make whoever's left work harder because that's a burnout strategy. We're actually looking across the company to say: Can we do things differently? Can we approach the market differently? Can we distribute differently? Can we even change the form function of our products? Could we invest in productivity tools that in fact saves us a lot of money and allows us to do more with the people we have? So that as we grow, we can just deploy the existing labor force to do a better job. Pricing, across the company, we have teams looking at this right now, and some of the early indications are there is some additional opportunities to improve the productivity of the company. So here is a company that's always restless, is always beating itself up rather than patting itself on the back, and we are turning over every stone in the company to see if we can be even more efficient than we are. Hugh, did you want to add anything?

Hugh Johnston

Yes. I think in many ways, I'd echo Indra's point that I think we have a healthy level of dissatisfaction in PepsiCo for the way we currently do things. And the good news is I think we see opportunities consistently to do them better. I'll talk about the productivity side in particular. We're always looking at benchmarks in terms of how we do things across our processes, whether it be manufacturing or procurement or distribution. And as we benchmark, we're always looking at the top quartile and saying, "Why can't everything be like that?" And sometimes there are structural reasons but sometimes we just need to learn from ourselves internally and to get better at it. To Indra's point, I do think sometimes we're very hard on ourselves and maybe, at times, we talk about that a little bit too much externally, when in fact I do feel like competitively we use our resources pretty efficiently compared to most companies that you would contrast us to. But I think that healthy level of dissatisfaction is also one of the things that's enabled PepsiCo to be as successful as it's been and I'd expect we'll continue to have that healthy level of dissatisfaction.

Indra Nooyi

And Ali, one other point. You talked about Power of One. We have lot of Power of One ideas at the shelf, the consumer shelf. What we are trying to be very careful about is to execute the Power of One program, which is profit dilutive, it's not a very good idea. We want to make sure it's top line accretive, and it leads neutral on the profit side at a minimum. There's lot of ideas or profit-dilutive ideas. So we want to make sure that we execute Power of One in the back office to the extent that it makes sense. But when it comes to consumer-facing activities, it doesn't dilute our profit margins, and that is what we're looking to very carefully.

Ali Dibadj - Sanford C. Bernstein & Co., Inc.

Okay, that's helpful. And maybe to segue way to perhaps a scenario of discontent or expected improvements but it's great to have John and Eric both on the call. And if you focus in on North America, it still remains kind of almost a tale of two cities, right, with FLNA doing a lot of the heavy lifting in North America and in fact the, I think, for the whole company. Right? At least the majority of the operating profit growth for the company. And as we look at that, how do you think about the balance between those 2? At what point do you think PAB starts to, I guess, pick up the slack, so to speak? And/or should we continue to expect FLNA to really continue to deliver higher and higher margins from the place that we are now? How should we think about that balance going forward in North America, of course, as it relates to the whole company?

Indra Nooyi

I'll make some opening comments, and I'm going to have Eric talk to them and John talk about Frito-Lay. I think Frito-Lay is our star in the portfolio.

Just a fantastic business, great market position, tremendous numbers of layers of advantage and a very well-managed business. I'd say it if it were a stand-alone company, Frito-Lay North America might well be the best consumer products company. So I think FLNA is just a wonderful organization with a great franchise and great attention to detail. I'd say our North American beverage business -- and I'd say it's not just PepsiCo I'd say the overall North American beverage environment has been an interesting one, and I've made all kinds of comments in what I see as behavior in the North American beverage business. But this is not a business that, as a category, has been sensible for years. There has been trading of a sensible point of share at the margin at huge cost for many, many years, and we've all been through an environment where for almost 20 years, there was no commodity inflation of any significant proportion. And in the last couple of years, we are beginning to see huge commodity inflation and a depressed economy. So the North American beverage business in total, not just PepsiCo, requires a very different mindset and approach to it, which I've not yet seen in the industry as a whole. Having said that, let me turn to Eric Foss to give you his comments on what we are trying to do to approach this category and then we have to watch and see how the overall marketplace evolves. So Eric, take it away.

Eric Foss

Ali, just a couple of comments. First, let just me talk a little bit about our progress post the merger. I mean, if you think about our North America beverage business, really post the merger in 2010 and then through the first quarter of this year, we had really 4 straight quarters of volume top line and profit improvement. So if you look at second quarter, I think we were dealing with and the business was impacted by 3 extraordinary issues. One, unprecedented commodity inflation that Indra mentioned. Second, I think it's important to recognize that there was a prior-year value investment at the retail level that we were lapping that largely impacted second quarter and is now behind us. And then third, the competitive environment. So let me tell you what we feel good about, let me tell you what kind of core issues we need to address and kind of how we're trying to play the game going forward. I think first of all we feel good about the kind of our balanced approach to top line growth, which, on a year-to-date basis is up a couple of points, certainly in line with the category and our competitors. We continue to improve our share position. We continue to improve the health of our brands, which we stated was a must-do coming out of the merger. We continue to feel great about the synergy capture and our cost and productivity efforts, and we continue to sell service and execute very well at the point of sale. The issues we need to address are actually isolated, pretty simple to say but tougher to do and that is we have to price to cover COGS to make sure we have the right margin structure going forward, and we have to do that right now and balance that with a pretty difficult consumer and economic environment that you've heard Indra and Hugh refer to. So the game we're playing is as we go forward the second half, price to cover COGS. It's the prudent and right thing to do for the long-term health of the category in this business. Second, we're going to continue to make the incremental investments, particularly around strengthening our brand and building our core brands. And third, continue to maximize the potential of the merger and the synergy unlocks, including not just capturing cost synergies but revenue synergies like G2, DSD, Power of One, food service, et cetera. That's kind of what we feel good about, what we have to address and kind of the game we're playing going forward.

John Compton

On Frito-Lay, there's nothing in the first half of this year that would cause us to change our optimism about this business going forward. We continue to believe that there's volume growth in the core business. I believe the demographic changes that are taking place are actually in our favor. We've learned on how to build adjacent businesses through Stacy's and Sabra particularly. We're successful in that venture now. Historically, we've had a terrific productivity mindset at Frito-Lay. We ramped that up incrementally with the GES initiative that we're beginning to implement and roll now. And so no, I don't want anyone -- I appreciate your comments about Frito-Lay, but I don't want anyone to take away that we're milking that business because of the temporary softness in one business right now. That's not the case at all. It's a great business for running the business for the long term. We're making the necessary investments. We took our media investment up this year because we knew that we were going to take pricing, and that we thought we needed that to sort of cover any sort of consumer softness that we potentially would see. And Latin America, across the board, as you now, the snacks businesses have performed well. We had 5% volume growth and double-digit profit growth.

Indra Nooyi

And we are nicely focused on top line growth at Frito-Lay and across the company.

Operator

Your next question comes from Dara Mohsenian of Morgan Stanley.

Dara Mohsenian - Morgan Stanley

John, can you discuss your top line expectations around Frito-Lay North America in the back half of the year with the higher pricing? Are you expecting to see a significant volume slowdown in the business? And also in terms of looking at your pricing, how much of it will be rate versus weight out and how that compares versus history and how that would play into your volume expectations?

John Compton

Yes, certainly. As incremental pricing comes in, our net revenue performance should improve and most likely our volume performance might slow somewhat. Versus the pricing actions when we saw this high-commodity inflation environment from 2008, less of our pricing actions are going to be laid out and more of our pricing actions this year are a combination of trade promotion practices and some visual pricing. So back half of the year, I think the net revenue line will grow faster than it has in the first half of the year, and volume will slow somewhat. But I'll know more about that in the next 6 to 8 weeks.

Dara Mohsenian - Morgan Stanley

Okay. And can you just talk a little bit about your views around the potential demand elasticity given there's more visual pricing this time around and compare it versus demand elasticity you've seen in the past?

John Compton

As I said, I'll know more as the pricing gets fully into the marketplace. But the biggest brands, I'll take Lay's and Doritos as an example, are also quite frequently sold on deals. So we have a way of managing our net pricing through the marketplace. If we see the visual pricing starting to slow a little bit, we can adjust our promotion practices.

Indra Nooyi

The other thing, Dara, is the amazing thing is around the world -- in pretty much every country of the world, the snacks businesses is very resilient and is doing well. And so we take great comfort in the fact that it's a faulty category and the strength of our franchises across the world that seems to be holding up very well in an economy where pricing is going up for all consumer products and economies have mixed performance across the world.

John Compton

And to add Indra's point, the other thing that gives me confidence so we can get this pricing through is the innovation on the core business that we have coming. And so all the flavor work that we've done in Doritos and Ruffles particularly is and will continue to work well. And it flows through our big bag business straight to our single-serve business into our variety pack business, and that gives me confidence that we can get the pricing through.

Operator

Your next question comes from Carlos LaBoy of Credit Suisse.

Carlos LaBoy - Crédit Suisse AG

I was hoping that Hugh could give us some insight on the financial value of the PBG and Gatorade assets you sold in Mexico and the expected size of the checks that are likely to come your way as the deal closes. I think this asset sales should be worth several hundred million dollars. Are you going to deploy that money when it comes in toward funding higher rate of investments? Or do the asset sales offer you unexpected money to accelerate investments even more?

Hugh Johnston

Yes, Carlos, this is Hugh. Carlos, as we mentioned in some of our earlier communications, the terms of the deal and the specifics around the financials of it are confidential, and we're not going to be sharing that at this time. When the deal closes, obviously, to the degree that cash comes in, that represents a substantial change to PepsiCo's overall cash picture. Obviously, we'll be talking to that piece of it at that point. But right now, the terms of the deal are confidential, and that's an agreement between the parties.

Carlos LaBoy - Crédit Suisse AG

And maybe Eric can expand on the 1.5 liter take-home pack that Indra mentioned. It's being priced at parity, it looks like, with Coke's 1.25. Can you speak to the fact that you're having to give an extra quarter liter for free on a very similar package. And I guess where I'm going with the question is, do you worry that this opens up a slippery slope of holding price parity with your competitor on similar packs as they start plowing forward on package innovation and on new packs?

Eric Foss

Sure, Carlos. It's Eric. Let me make a couple of points on pricing. First of all, I think you've heard us talk before that as we approach anything, certainly

1.5-liter, our pricing approach starts and ends with the consumer. And I think if you think about our success on 1.5-liter, what we're really trying to do is to make sure there's an entry point for the consumer to enter the category at a great value. And we punched this 1.5-liter in June. We've had very strong execution. It's tied to meal deals, and the reality is if you look at any success metric, distribution, volume, share on 1.5 liter or share on a combined multi-serve basis, 1.5-liter and 2-liter, we are extremely happy with our success relative to the competitive entry on this package. So we feel very good about it and it's something that again as we look at taking pricing, I think you'll see the whole industry look to reconceptualize and re-architect the whole price/pack architecture. So I think you'll see more to come on that front.

Operator

Your next question comes from Judy Hong of Goldman Sachs.

Judy Hong - Goldman Sachs Group Inc.

Just going back to North America beverages. If I just look at the profit decline on a year-over-year basis, can you just walk through the components of the profit decline. How much was the pricing lagging inflation? How much did spending go up? What was the cost synergy capture? And then as we think about going forward, just from an inflation perspective, does it get worse and then it gets better? Or have we kind of hit the peak in terms of inflation just on a quarterly basis?

Indra Nooyi

You're talking about North American beverages, Judy?

Judy Hong - Goldman Sachs Group Inc.

Yes.

Hugh Johnston

Yes. Let me start on it a little bit and then Eric to the degree you want to add, please feel free. Judy, relative to our expectations, the costs are largely in line with what we had expected. Inflation in beverages is a bit higher than what was in our plans but not significantly so for the first half. It really is -- pricing and volume is really where the gap is, and we've talked about some of the reasons why, from a competitive perspective. On a year-over-year basis, obviously, commodities are up substantially. And we expected to get more pricing in the marketplace, but it's proven to be a pretty competitive market and as a result of that, that's really what's driving the year-over-year. But everything else, the synergies are largely in line, and the commodities piece, while up year-over-year, are only a little bit higher than what our expectations were.

Judy Hong - Goldman Sachs Group Inc.

So in Q2, what was the cost synergy capture?

Hugh Johnston

Yes. We hadn't disclosed the synergies specifically on a quarterly basis.

Indra Nooyi

But just assume that the commodities are well above any synergies.

Hugh Johnston

Correct.

Judy Hong - Goldman Sachs Group Inc.

And then just in terms of pricing versus the commodities out -- within Americas Beverages, can you just talk about where's the pressure's coming from just in terms of CSD versus noncarbs versus juice? And where are you seeing sort of the most pronounced gap? And where do you have the most confidence that, that gap will close as the year progresses?

Hugh Johnston

Why don't I talk to that briefly, and then, Eric, if you want to add in, that's fine. I think Judy the biggest gap is in carbonated soft drinks and primarily in the big volume packages. That's where we haven't seen pricing at the levels that we expected it to.

Indra Nooyi

Single-serves, up-and-down-the-street seems to be okay.

Hugh Johnston

Seems to be fine.

Indra Nooyi

Take-home, large pack. Eric, you might want to talk to the extent you can provide some detail.

Eric Foss

Sure. Let me give you some color commentary on the pricing topic. Again, Judy, the way we think about this is there is a balance here, so we are trying to get price appreciation. If you look at it, if you really look at our business, you can look at it in 2010, we had 2 points of pricing, Q1 another 2 points, Q2 another 2 points, first half 2 points. You've seen us really try to take a disciplined and balanced approach to the top line. You've seen our retails both on cans and 2 liter go up despite the fact that our competitors are down year-over-year. And again, right now, we feel good that we've descended and are growing our share position, and we have good mix management as well. So I think the core issue is largely on CSDs, cans and multi-serve pack.

Judy Hong - Goldman Sachs Group Inc.

Okay. And Hugh just a quick follow-up on your guidance. You continue to talk about guidance on a 52-week basis. At this point can you tell us what's the 53rd week will provide you just in terms of whether you'll invest that back into the marketplace or would we see higher earnings as a result of the 53rd week? And then just on the tax rate because the Q2 tax rate actually came in a little bit lower. So for the full year, does the back half tax rate go up?

Hugh Johnston

Yes. So the tax rate Judy will actually be pretty well in line with what we said previously, which was 27%. This was really a timing switch. So to the degree that our first half tax rate is under that, then obviously, the back half will be a little bit higher than that. In terms of the 53rd week, we had previously talked about that as non-core, in line with past practice. So in terms of plans on that, we hadn't said anything publicly at this point.

Judy Hong - Goldman Sachs Group Inc.

Would you care to say anything at this point or no?

Indra Nooyi

Not yet.

Hugh Johnston

No, no.

Operator

Your next question comes from Caroline Levy of CLSA.

Caroline Levy - Credit Agricole Securities (USA) Inc.

I have just a couple. Could you talk to Wimm-Bill-Dann's performance, just the business itself versus your expectation rather than all of Russia? What's better, what's worse, is there any you could add? The second is on media spend. I was hoping to hear some specifics on whether that's actually been ramped up year-over-year, and what the plans are for the back half, particularly on the beverage side in North America. And then just finally, has Tropicana turned at all?

Indra Nooyi

Great, 3 questions. So Wimm-Bill-Dann. Wimm-Bill-Dann is performing exceedingly well. In fact the more we get to know the Wimm-Bill-Dann business, the people, the strength of the franchise, the technologies they have, they are really, really, really impressing us. So the business is a top-notch business. I'd say it's performing exceedingly well. It's had its share of commodity cost inflation because grain prices go up, the cows have to eat grain in order to produce the milk, in order for us to produce the dairy product. So there is some of that. But you want to add something on Wimm-Bill-Dann before I ...

Hugh Johnston

Yes, I was actually just over there with Zein a couple of weeks ago. Clearly, you have things going on in terms of value versus premium products like you do with the rest of Russia. But as Indra said, the business is performing very well. We went through a full integration review. And the integration, the synergies are on track. The marketplace performance is good. And Zein and I actually went out to visit the cows, and they seem to be doing fine as well.

Indra Nooyi

And you know, there's still opportunity because in Almarai, which is our joint venture with the Saudi dairy company, they have the highest yield per cow, and we haven't yet transferred those yield technologies from Almarai to Wimm-Bill-Dann. So we see a lot of upside going forward, and the management team at Wimm-Bill-Dann is top-notch. We retained pretty much all of them, I think, say, except one. But we retained everyone of them, and they're doing a great job. They've integrated wonderfully with PepsiCo. The last time they were all here for an all-day dairy review. I must tell you, you couldn't tell the difference who is Wimm-Bill-Dann and who is PepsiCo. Our European team has done a terrific job, Zein and Ramon, working with the Wimm-Bill-Dann people, integrating them into PepsiCo. So those are all the good news. And again, Power of One-wise exploiting the coolers, exploiting our existing infrastructure in snacks and beverages along with Wimm-Bill-Dann, that work is just beginning. And at this point, Caroline, we are only seeing upside from the Wimm-Bill-Dann transaction. Let me get to the media question. Across PepsiCo, in 2011, in spite of the economic issues we are increasing our overall A&M spend, and we are increasing our media spend. In fact, second half is a pretty significant step-up even in North America, and we've decided not to back off that increase because as I said in my opening comments it's even more important that when you take up pricing, you keep getting the message out on your brand so people stay engaged to the brand. So North American beverages, for example, the summertime advertising will continue. The expected advertising will be pretty big step up, and in Frito-Lay North America, second half of the year we'll continue to invest. Europe, we'll still continue to invest. EMEA is investing. Quaker Foods is investing. So across the board we're going to continue to keep investing in A&M and media. And on Tropicana, 2 things, let me separate Trop50 and cold Tropicana. Tropicana50, as I said is growing 40%. It's doing very well across the country so we feel very, very excited about the prospects for Trop50, as the product is today and all of the spinoffs of Trop50 that could come in as innovation next year. On cold Tropicana itself, we resisted going to the plastic carafe because we thought environmentally, staying with the gable-top was a better idea. And the consumer wants the plastic carafe, so we launched a beautiful plastic carafe in the West, and where we've launched the plastic carafe, we are gaining share handsomely. We feel very, very good, and this is now beginning to roll to the whole country. And in some parts of the country, as expected, we believe the gable-top also for those consumers who are very environmentally-conscious as they should be. But I think that early signs, 2 or 3 months of the Tropicana carafe in the West Coast, we feel very good. And overall, because of the G&G and all the innovation platforms we've come up with on fruits and vegetables, the pipeline for Tropicana going into next year and beyond is looking very good. So this is a great franchise, a very strong, still has great revenues for the consumer. And we feel good about the prospects.

Hugh Johnston

If I can add one comment around the media question, Caroline, as well. I would not assume that the level of A&M increase is the same as the media percentage spending increase. In fact, media spending increase has been much higher. One of the things that we've done, I think very effectively, inside the company is add a significant productivity program, to shift dollars from what we refer to as nonworking to working. And as a result of that, as we found that productivity, we have put it right back into media. So while you'll see A&M up, the media spending levels will be up meaningfully more than the A&M spending level overall.

Operator

Our final question is comes from Kaumil Gajrawala of UBS.

Kaumil Gajrawala - UBS Investment Bank

First question on, Hugh, on your -- are there forecasts on your commodity cost outlook such that if there's -- if commodity cost would have come down there could be some benefit or based on the hedges that you have or the numbers that you provide essentially how the year will play out?

Hugh Johnston

Very little at this point. We're largely hedged at this point through the end of the year.

Indra Nooyi

At this point to the end of the year.

Kaumil Gajrawala - UBS Investment Bank

Okay, got it. And then, John, I think you mentioned single-serve was up low-single digits. Could you talk a little bit about what's driving that given the current environment? And then Eric, if you wouldn't mind commenting on the single-serve business in beverages?

John Compton

Kaumil, the single-serve business for us is being driven by the fact of the new flavors that we put into the marketplace. Largely behind Ruffles because, as I said, also the Tapatio line of products that we launched behind Doritos, Lay's, Cheetos and Ruffles in about half the country. So just core flavors are driving our single-serve business. We haven't taken pricing yet on that business. So it's really unit growth is driving the growth.

Indra Nooyi

Eric?

Eric Foss

Beverages, Kaumil. our cold drink business was really driven and was slightly positive in the quarter really driven by 16 ounce CSDs, as well as Gatorade. So I think we've had 5 straight quarters of growth. We grew our cold drink share, and although we did see and are starting to see fuel prices impact the consumer from a traffic standpoint and indications in C&G.

Lauren Torres - HSBC

Okay, got it. And then just final question. As it relates to the incremental productivity, is any of it structural, meaning joint ventures, changes in distribution structure or is it simply more G&A types of things?

Indra Nooyi

Right now, we are working on compressible costs within the company, beyond G&A, it's all of the compressible costs in the company. And despite the single-structure changes, as they happen we'd be out there to talking to you guys. At this point, we are not looking at that.

Let me just close by saying that as a company, we're all operating in a highly uncertain environment, especially in the developed markets. In this difficult macro and consumer environment, I believe our portfolio is being managed sensibly to deliver good short-term results, while continuing to invest in our future. And all 300,000 associates in PepsiCo remain extremely committed to the company and are excited about the prospects of the company in the short term and the long term. Thank you.