Good morning and welcome to PepsiCo's Second Quarter 2019 Earnings Conference Call. Your lines have been placed on listen-only until the question-and-answer session. [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

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 today's call with some brief prepared comments from Ramon and Hugh and then open the call up 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 plans and 2019 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-Q available on pepsico.com for definitions and reconciliations of non-GAAP measures and additional information regarding our results and for a discussion of factors that could cause actual results to differ materially from forward-looking statements.

And now it's my pleasure to introduce Ramon Laguarta.

Ramon Laguarta

Thank you, Jamie. Good morning, everyone. Four things we'd like to highlight before I move on to a brief recap of the operating sectors results. First, we're very pleased with our results for the second quarter. Organic revenue grew 4.5% overall with each of our six operating sectors contributing to the growth.

I believe the solid growth we had in the second quarter is a good indication of the strength of both our product and geographic portfolios and it also gives us the confidence that the plans we shared with you at the beginning of the year are being very well executed.

Second, we continue to make progress on our productivity agenda and remain on track to achieve a full-year productivity target savings. Third, we’re on track with our investment priorities amongst which we’ve stepped up our brand investments which is evident in the increase in A&M in the first half of 56 basis points as a percent of net revenue.

We’ve invested in advanced data and analytics to enhance our consumer and shopper insights and sharpen the precision of our execution. We’ve invested in increased go-to-market capacity and capability, including routes, other front-line selling resources and ecommerce.

We’ve invested in increased manufacturing capacity with additional lines and plans to support our fastest growing brands. We’ve invested to drive greater global systems harmonization and standardization and we took steps to transform our culture to become more effective by being more consumer-centric, nimble and collaborative. And fourth, we’re reaffirming our full year guidance.

So let me move onto the sectors results, starting with Frito-Lay North America. FLNA continued to post strong growth in the second quarter with organic revenue up 5% and solid market performance. We delivered good net revenue growth in our key trademarks including Lay’s, Doritos, Cheetos and Ruffles.

In addition, we posted good growth across all channels in the U.S. led by high-single digit growth in convenience and dollar stores. We continued to invest across the business with the aim to drive sustainable, better-than-industry growth and this includes investing in plant and warehouse capacity, routes, sales technology, enhanced consumer and shopper data and insights and brand media.

To this point, in the second quarter FLNA’s A&M was up high-single digits with investments across our portfolio of brands. And we’re pleased to know that FLNA was once again the largest contributor to total food and beverage U.S. retail sales growth in the quarter.

PepsiCo Beverages North America delivered 2% organic net revenue growth with solid benefit from net price realization. Trademark Pepsi and trademark Mountain Dew showed sequential volume improvement and our ready-to-drink coffee and water volumes grew in the high and mid-single digits, respectively. A&M spending was up strong double digits for the quarter.

Beyond brand investment were also directed investment on innovation to address new category entrants and to drive success in higher growth category segments and this is evident with innovations like Mountain Dew Game Fuel, Gatorade Zero and Gatorade Bolt24, LIFEWTR, Bubly, new variants of Propel and extensions within our successful Starbucks and Pure Leaf Tea lineups.

We're encouraged by this steady improvement we've seen in the business and we believe that as we execute our planned investment agenda, we'll see a return to sustained competitive performance.

Rounding out North America, the second quarter was Quaker's strongest quarter of organic revenue growth in three years with organic revenue up 3% driven by net price realization and modest volume gains.

We've restored brand support across the Quaker portfolio and we've returned to volume growth in Aunt Jemima and ready-to-eat cereals, each of which delivered mid-single digit volume growth.

Now moving on to international, despite ongoing macroeconomic volatility in a number of key markets and poor weather in parts of Western Europe, each of our international divisions delivered solid organic revenue growth in the second quarter.

Notably, developing and emerging market organic revenue increased 8%, driven by particularly good growth in a number of our key markets. Mexico and Russia were up high-single digits, Brazil was up more than 20% in part reflecting the benefit of lapping last year's transport strike, China grew strong double digits and India increased mid-single digits.

These results are a reflection of the benefits of the increased investments we're making in the business and reinvigorated emphasis on marketplace execution, driving a lot of relevance and lot of affordability, expanding our global brand portfolio, leveraging our global capabilities to drive higher per capita consumption and market share gains.

And with this, let me hand it off to Hugh.

Hugh Johnston

Thank you, Ramon. Good morning, everyone. I have just a few comments on the balance of year outlook. As Ramon just mentioned, we're reiterating each of the components of our 2019 guidance, namely we continue to expect organic revenue growth of 4%, a core effective tax rate of approximately 21%, core constant currency EPS to decline approximately 1%, free cash flow of approximately $5 billion and total cash returns to shareholders of approximately $8 billion comprised of dividends of approximately $5 billion and share repurchases of approximately $3 billion.

As you model out the balance of the year, I call your attention to the fact that the organic revenue growth comparisons get meaningfully more challenging in the second half. And from an EPS perspective, you should consider the following. First, over the balance of the year we will be lapping gains from various strategic asset sales and refranchising gains and insurance recoveries. And second, our pace of planned reinvestments in the business will accelerate over the balance of the year and you will see this reflected both in core EPS as well as in our operating margin performance.

Now, we'll open it up for your questions. Operator, we'll take the first question.

Question-and-Answer Session

Operator

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

Bryan Spillane

Hi. Good morning, everyone.

Ramon Laguarta

Good morning.

Bryan Spillane

Ramon, I guess kind of stepping back you've had now half of year of this stepped up investment and I think if we look at the organic sales, the composition of organic sales particularly North America, it's a little bit more price heavy and less volume. So I guess two questions around that. One, do you think that the – is the investment allowing for maybe more pricing and mix than maybe what existed previously? And second, would you expect that we'd start to see maybe more of a pickup in volume or demand as more of these marketing initiatives get into the market for the balance of the year?

Ramon Laguarta

Good morning, Bryan. Listen, we're seeing balanced growth in the U.S. and very rational pricing in our categories, both in snacks and beverages. Last year, remember we had higher commodity inflation, so I think that's been reflected a little bit in the pricing this year. But nevertheless what we're trying to do is trying to understand much better the consumer, trying to understand the different occasions the consumer is going into our categories and maximize obviously the opportunities for revenue in each one of those occasions. We're investing a lot in net revenue management across the company and that's translating into I would say a better mix management, talent management, transaction per unit management and that's what you should be seeing in the future as well. The most important thing from the investor point of view is we're seeing very rational pricing across the industry and everybody's trying to generate value by investing in brands, improving distribution, connecting better with consumers versus just using prices as the only lever of attracting consumers to the brands. So I think it's pretty powerful, good situation for our categories I would say.

Operator

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

Dara Mohsenian

Hi. Good morning, guys.

Ramon Laguarta

Good morning.

Dara Mohsenian

So just to get a bit more granularity on the pricing, we've obviously seen Frito-Lay North America, the balance has tilted much more towards pricing recently with the strong organic sales growth over the last few quarters. So can you give us a little more granularity on what specifically has been driving that and should we expect more of a balance going forward between pricing and volume? And then also on the beverage side, obviously very strong pricing in the last few quarters, post the fall increase. You just commented that the competitive environment is pretty rational, but just any thoughts on pricing potential in NAB when you cycle those increases in the fall would be helpful?

Ramon Laguarta

Yes. I would say and Hugh will add to my comments that what we're seeing in the industry is a trend towards smaller packs. So consumers are somehow – either the size of the household or the particular occasions where they're consuming our products, consumers are moving to smaller packs. And if you recall when we talk about some of our investments in the past call, we said we're going to put additional capacity because we're seeing that the consumer is moving to smaller packs and some of our capacities under – there's some bottlenecking in our capacity because of that, right. So as the consumer moves into smaller packs, you'll realize more pricing. Price per kilo is better, price per liter is better. The second trend is consumers are looking for higher value products, so more functional, they're looking for more benefits in the consumption of our categories, be it snacks or beverages and that tends to be also higher price per liter, price per kilo. So I think you will continue to see those trends going forward in our categories, especially in more developed markets. In developing markets, a bit of a different game where you have to be very mindful of the price points and the affordability lenses. So if you cross certain price points, clearly your product will become out of reach for a lot of consumers. But in developed markets we see smaller packs and more functional benefits driving what I would say positive pricing environment. Then also we see more consumption in convenience channels, channels where consumers are willing to be a bit less price sensitive and they pay more for every transaction. So those are trends that you could see as positive trends for the category. I don't know, Hugh, if you --

Hugh Johnston

Yes, I totally agree with I'm going to say a lot of the same things. The only small pieces I would add to it. Number one, Dara, in particular with Frito-Lay Sabra where we record the volume but we don't capture the revenue, we only pick it up in equity income, that was about a 1 point drag on Frito-Lay's volume. So if you take that out, then Frito-Lay's volume to revenue looks a little bit closer obviously. And then number two is, as Ramon said, I think in developed markets we probably can expect a couple points of visual and then a couple points of consumer-driven mix that will enable us to get pricing in the future. So that I think is a reasonable expectation going forward.

Operator

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

Ali Dibadj

Hi, guys. So I just want to go back to the investments that you've been making now over the past six months and where you expect that to appear in the top line? Is it rate? Is it mix? Is it volume? Ramon, I appreciate your commentary in the first question about price rationality in the marketplace certainly, but the incrementality of the investment I would have imagined would like to show up in one of the top line drivers and we're not quite seeing it yet. So just trying to understand how you think about the investment and where it's supposed to appear, the ROI of that and whether you're adjusting anything? Does it look like it's actually showing up in your particular results in terms of incremental investment, and in particular I'm talking about PBNA?

Ramon Laguarta

Okay. Ali, hi. Good morning. Listen, I won't go into very specifics for each one of the business. What I'll tell you is the philosophy behind this investment, we're trying to have a very high growth to sustain a high growth company going forward. I think we have accelerated clearly from the 2%, 3% to sustain 4% to 5% growth. Our ambition is to stay within those parameters, as we said, in the 4% to 6% top line growth and that will require multiple layers of investment across multiple parts of the business. So if you've seen what we've been doing, we've been investing in what you could call more short-term levers of acceleration, whether they'd be new routes in the market, some more selling capacity or improving some of our warehouse and bottlenecks that we had in some of our businesses because of high growth or some of the investments we're putting now in capacity because really the demand is quite high for some of our technology. So that you will see reflected – is it being reflected. If you've seen Frito-Lay, 4.5% growth or acceleration in all of the water brands in PBNA or some of the coffees or whatever, it is being reflected. But the big idea I think for us and that is the philosophy of how we're investing, how we're trying to run the company is how do we keep investing in capabilities that will give us that 4.5% or 5% or 4%, like between the 4% and 6% going forward on a sustained basis and not only the U.S. but really across the company. And those have to do with new capabilities in insights and how do we digitalize the company and how do we what we call precision at scale and how do we execute our portfolios in every store with the right level of insights and precision. And we have closed loops on execution so that our people can execute consistently at those high levels. How do we continue to innovate in new platforms and have the right amount of resources to invest in new platforms versus taking money from the core and giving to those new platforms. So that is the philosophy and that's what we're doing. And to tell you the truth, we're pretty happy with the way the business is responding, the way we're seeing our market share evolving in our key markets and markets to be in the future. So I think we feel pretty good. And then the investment will come in all the different areas that I told you. But with this idea of sustained high performance at top line, that will be the big driver of value for you guys as shareholders of the company.

Operator

Your next question comes from the line of Judy Hong of Goldman Sachs.

Judy Hong

Thank you. Good morning. So, Ramon, I think you cited improvement in NAB particularly around the Pepsi trademark and Mountain Dew, but I guess one area that's still somewhat soft is Gatorade. So may be from your perspective if you can talk a little bit about what you're seeing from a

Gatorade standpoint? Obviously, you have innovation around the trademark with the Bolt24, so how does that kind of fit into the strategy and when you think that we should see some more tangible improvement on that brand? Thank you.

Ramon Laguarta

Good morning. Listen, Gatorade is clearly a big brand for us and one that is very solid with the consumer. All the metrics on the brand are fantastic in terms of consumer engagement and consumer brand equity in all dimensions very strong. Now what we're doing is innovating against that umbrella. The big innovation we – you mentioned Bolt but the big innovation is Gatorade Zero. So with Gatorade Zero we've been able to expand the consumer base of the brand to some consumers that actually were athletes but they put a lot of I guess emphasis on sugar and therefore the less of some of the occasions that they were consuming the brand to move into other opportunities. So now with Gatorade Zero we've seen that we're expanding again the consumer base of the brand and that's going to be very incremental for us going forward. We're seeing incrementality for the category, we're seeing incrementality for the brand. Gatorade Zero is already the number one Zero sports drink in the country by quite a distance I would say and we see every week the velocity of the brand improving. So I think that this is a brand that will be very big for us. Now Propel is another big opportunity for us in sports drink and sports hydration and we see Propel growing also double digit consistently for the last few years. It's a brand intended for what we call more casual exercisers and we're trying to give them a good combination of hydration with lower calories. That's working very well. We're now adding vitamins and some other positive functionality. And then we have Bolt. Bolt24 is a new platform for us. It's going to be a functional platform trying to cater into the athlete off the field. I think the consumption is going to be off the field. We're trying to give hydration to the athlete during the day with functional benefits that are all natural. Now Bolt24 is watermelon water plus sea salt. That's how the consumer will get its electrolytes. And then we're adding some vitamins for antioxidants and whatever. And you will see more innovation coming under that platform that will be off the field functionality for the core athlete. We're very positive about the image, the functionality, the brand that we can create around Bolt that it's going to be one more example of how Gatorade understands consumers and continues to innovate again all the needs of consumers in the sports arena. So we're very positive about the continued share of market development that we have in this segment and how we will be able to grow the category which is at the end our biggest responsibility as leader of the category.

Operator

Your next question comes from Lauren Lieberman of Barclays.

Lauren Lieberman

Great. Thanks. Good morning. I was hoping we could talk a little bit about the international strategy. So, Ramon, you've talked about sort of this like challenger stronghold battleground framework for thinking about markets. I would just hoping you could maybe shed a little bit more light on kind of the investment priorities, whether you want to talk about by geography, by category? And do you think kind of the game changer for you in accelerating performance or market share performance is about – is it more about innovation or is it more about capabilities and execution? Thanks.

Ramon Laguarta

Okay. Listen, we see international as a huge growth opportunity for this company, long term and I think we've been growing international 2x to 3x the U.S. growth for the last few years, I think that should continue in the future when you see the per caps of both our snacks and our beverage categories around the world and the U.S. We see a lot of opportunities in snacks by moving unpackaged to package. That's a huge trend. We're seeing that our snacks business benefits a lot by urbanization and as we see people moving into big cities in developing markets, that's a huge opportunity. We have a very good label on how we develop per caps of our snacks business. I think we keep qualifying that better and better and we have a very, I think quite an advantaged playbook and we're then studying that in many markets around the world. So you should see us continue to invest in our snacks business internationally and that should be a big engine of growth for us. When you go to the beverage category, the same principles in terms of how big is the growth opportunity as consumers are moving from I would say non-commercial liquids to more commercial liquids everywhere in the world. And there the new ones in our strategy is obviously we have another competitor that is trying to develop the category with us. And then we have to be smart where we have a [indiscernible] I would say a higher growth share – higher share position versus a medium share position versus a low share position and our studies need to change obviously. It doesn't mean that we're not going to aspire to gain share in every single market around the world, but the tools we use and the number of complexities we chose to add to the business will be different depending on the market position we play in every market. So that's the nuance between the beverage and the snacks business. You should see international as a huge growth opportunity for us globally for many, many years to come and I think we're realizing them. You see the numbers that we're positing every quarter and they show both the top line and the bottom line opportunity that that has for PepsiCo going forward.

Operator

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

Steve Powers

Great. Thanks. So maybe to build on some of what you said I think in response to Ali's question, I just wanted to step back and validate your confidence in being able to resume your long-term algorithm come 2020 that 4% to 6% top line, 20 to 30 basis points margin improvement formula, because despite the first half investments your guidance as Hugh highlighted in his remarks seems to allow for some deceleration in the back half on the tougher comps. So I guess I'm first trying to understand how confident you are in your ability to maintain first half top line momentum not only in the back half but out to 2020 and beyond? And then secondly to the extent you are able to sustain or accelerate the top line from here, do you see all businesses now being in a position to contribute to necessary margin improvement come 2020 or will certain businesses require another year of more investment beyond 2019? Thanks.

Ramon Laguarta

Listen, I think obviously we stayed true to the long-term guidance that we gave a few months ago, right, like five or six months ago. We thought very carefully about that framework for growth and we obviously are seeing that. We're capable of delivering that and we have the portfolio – categories of portfolio of geographies that allow us to deliver that on a sustained basis assuming that we make the right choices around productivity and investments and we make the right choices on where we put this money for investment, the capabilities we're building and where we're planning to innovate and we stay true to that long-term framework. Remember when we talked about the investment year for 2019, we said – first, we did a few things, right, in the process. First, we looked at existing budgets and we tried to reallocate those budgets into the areas that would give us a better return, so that will be internal. Second, we said we're going to really double down on our productivity and that productivity will be reinvested for growth and we're doing that in the sense that our productivity is quite strong and we're investing. And third, we said we probably need a year of additional reinvestments that would put a solid foundation for the years to come whether it is in A&M, whether it's in some of the other capabilities we talked about on capacities in terms of manufacturing or supply chain. So we're doing all that. With that we feel pretty good about the future. The company as you've seen in many of our industry, we need to keep investing to transforming ourselves. So this is I think a never ending story for the future in terms of systems, in terms of new technologies, in terms of adding new brands. So there will continue to be additional investment needs in the company going forward. I think we can fund most of them with our productivity efforts and reallocate an existing budget which a company of our size we can make a lot of discretionary decisions on what our priority is year-after-year. So I don't know, Hugh, do you have anything else to add? But that's how we see as a management team the following three, four years.

Hugh Johnston

Right. I agree with that. And Steve just to add a little bit to it, as Ramon mentioned, we said we expect to be back on algorithm come 2020. You know as a management team we've been pretty disciplined about talking about next year in February when we get to next year. So I think with the context Ramon's given you, we'll talk about it in more details next February.

Operator

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

Andrea Teixeira

Thanks. Good morning. I have a follow up and then a margin question. So can you comment on the state of the consumer in the U.S., as alluded before, the results this morning have been supportive but this kind of data has been softer as of late. Is this just the timing or weather related or are you guys seeing the consumer a bit more cautious? And on the gross margin, Hugh, you had called out the timing of commodity pressures in the first quarter earnings and into the second quarter, but the gross margins too expanded well. So have we cycled most of the pressures? Thank you.

Ramon Laguarta

Good morning, Andrea. Two comments on the consumer and then Hugh can talk on the gross margin. We're seeing in our snacks business, micro snacks pretty healthy growth. We're seeing good acceleration versus previous years. A number of locations are going up. The price per location is going nicely as you saw and we're capturing above fair share of that growth as a company. So snacks see a lot of good tailwinds. In terms of beverages, it's been a little bit erratic and quite linked to weather actually. So we've seen – if you take Q2, the second quarter, we had a fantastic April, but then somehow a lower May and June from the scans point of view because the weather has been quite wetter and cold and that obviously impacts some parts of the category, especially the hydration-related parts of the business. We're seeing it coming back. So it's good. We see a healthy consumer, a consumer where price statistics are good and so we cannot see any signals that tells us that consumer is slowing down, at least in our categories, right, which are low priced, quite routine categories that are very well penetrated, very high penetrated across all the U.S.

Hugh Johnston

Yes. And then on gross margins, Andrea, yes, you're right. I mentioned in the last call I think that the tougher comparisons were in the first half. As you know on commodities, we tend to lock about six to nine months out, so we've got high visibility into the back half and the commodities comparisons in the back half get a little bit easier.

Operator

Your next question comes from the line of Kaumil Gajrawala of Credit Suisse.

Kaumil Gajrawala

Hi. Good morning, everybody. Ramon, you mentioned several occasions the effective mix whether premium product, channel mix pack sizes, all of which sound like long-term trends. Can you give us a bit of a read on how much mix contributed in this quarter? And then also given that's where it seems like much of the CapEx is going and where your capabilities are expanding, how we should maybe think about mix as part of your algorithm longer term?

Hugh Johnston

Yes, Kaumil, it's Hugh. I'm happy to comment on that. Obviously, it moves around quite a bit depending on which portion of the year we're in, which businesses are doing well, but it's probably been on average contributing about 1 point.

Ramon Laguarta

Yes, if you think about some of the capabilities we're trying to build for the company and we're not the only ones in this consumer goods space, then building this capability is net revenue management. Net revenue management is a combination of insights, analytics and ability to manage channels and consumer innovation and branding and that is a capability we're going to keep evolving, right, because the likelihood of consumers willing to pay for the same thing it's going to reduce, right, going forward. So we need to be able to give the consumer much more value through different ways and that's the capability we are I think good at, we're going to get better at. And the fact that we tend to control our execution all the way to the consumer in many channels, I think that gives us a competitive advantage going forward.

Operator

Your next question comes from the line of Nik Modi of RBC.

Nik Modi

Thanks. Good morning, everyone. Ramon, maybe you can just give us the state of the union on the NAB reorganization, any early learnings, any hiccups, anything you can share on that would be helpful? Thank you.

Ramon Laguarta

Yes, that's good. Thank you for asking. This is going to be I think a factor to our continued sustained performance in the future in NAB. I think the fact that we're able to understand the U.S. market as one full market that enabled to segment it into pieces and execute with local relevance, it's going to be I think a driver of growth for us and sustained growth and for us to better serving our customers and much more nuance ways. So that was the intention. As any large restructuring to dealing with people issues, right, I've seen moving families location to location, all that, I think that's pretty much behind. Now during the summer time, most of the families will move and we'll have everybody in place and ready to execute full mind. So obviously I think we started in March, now it's July; so we had three, four months of a little bit of transition I would say in the business. I think the management has done a great job in terms of working diligently to get people in place and make sure that the employees feel well treated by the company and I think we're there. We should see the benefits of what this organization should deliver in the second half of the year, but most importantly this move we're making for the future. So in terms of distribution in the more popular parts of the business in terms of how do we serve regional customers, how do we segment our consumer strategies depending on our market positions in the different states, in all those capabilities that we didn't have so much in the past will be reflected in the organization. So we're feeling good. But as always it has been a process of people management and talent management and as you can imagine this is a lot of people, right. But it's behind us now.

Operator

Your next question comes from Bonnie Herzog of Wells Fargo.

Bonnie Herzog

All right. Thank you. Good morning. I was hoping you could update us on SodaStream and some of your initiatives around reducing or even eliminating packaging? And then are there any examples beyond SodaStream to which you can point where you're actively working again to eliminate packaging? Thanks.

Ramon Laguarta

Yes. So, Bonnie, good morning. SodaStream is doing very well. It's exceeding our expectations in terms of the growth potential and the growth execution. So we're feeling good. We're understanding more about this platform. We're starting to put more of the PepsiCo capabilities against the SodaStream business, especially around flavors and around some of the consumer experience with flavors which I think were under optimized, direct to consumer opportunities. So we're trying to insert some capabilities into SodaStream, but we're running it as a separate business that should be agile and nimble and going after actually disrupting the bottle business and that's the strategy and that is how we want to run this business going forward. In terms of how we're looking at the plastic waste reduction, a couple of things. Obviously, SodaStream is a big one for us. Then we made some commitments recently in the U.S. and we continue to make commitments across the world in terms of – so what we did in the U.S. and I don't know if you read it recently is LIFEWTR will be a 100% recycled PET brand. We'll have no plastics on Bubly and we're going to be testing Aquafina in cans in some parts of the U.S., mostly the West Coast. We made a commitment in the European Union that we'll be 50% recycled by 2030. We're also exploring some circular waste management opportunities with our snacks, bags in Europe, especially in the UK and also in India. So we're really exploring a lot of the physical circularity and making some commitments on which baggage and solutions we'll use. Long term, obviously we have efforts in chemical recycling and new materials and alliances with other players in the value chain of chemical industry and the collection industry and some of our partners in the brand business, the competitors and not competitors, where we're trying to make a difference in ingredient and material solutions, chemical recycling, collection systems, everything else to try to minimize this plastic gone into waste versus plastic coming back into our systems and us being able to provide the consumers with what I think very affordable and functional solutions that they don't go to waste. So that's the principal.

Operator

Your next question comes from Kevin Grundy of Jefferies.

Kevin Grundy

Thanks. Good morning.

Ramon Laguarta

Good morning.

Kevin Grundy

Ramon, I had a question on a couple of brands in North America beverages. So Mountain Dew which has clearly been an area of focus but the brand continues to lose some share based on what we see in the syndicated data. Can you give us an update there on your strategy to stabilize the share trends? And then maybe you can just briefly touch on Bubly which has done quite well but the distribution has ramped up here and you've spent some money behind advertising? Maybe talk about how you see the opportunity for that brand now with distribution looking rather full? Thanks.

Ramon Laguarta

Yes. Thank you. Yes, you're right on the two diagnostics. I think we have an opportunity in Mountain Dew to recover share and we have a huge opportunity ahead of us in Bubly in creating a whole new category of beverages. So on Dew, we tried to approach – we had to work on Pepsi, we had to work on Mountain Dew, we had to work on Gatorade. I think we're feeling good about Pepsi, we're feeling good about Gatorade. Now we're going fully into Mountain Dew investments. We've ramped up A&M. Started in April, May we're quite heavy across the summer and then Q4. We have a lot of innovation as well that should help the core new consumer to have more options in what is a high loyalty brand. Next to Mountain Dew there is the energy category, right. So we're trying to move view into the energy category in small steps. Kickstart was one that we did. Kickstart was a great platform. It decreased a little bit. It's starting to go up again. That should solidify Mountain Dew. And then we just launched Mountain Dew Game Fuel to put one foot into the energy category with a differentiated position more towards the gaming and that kind of demand opportunity. It is doing very well. We plan to continue to innovate in that segment. The numbers you see for Mountain Dew do not include Game Fuel. It is part of the brand but it's not in all the information systems. It doesn't show up as part of the new brand. But that's how we see the brand growing. We're investing in the core Dew consumer, very loyal giving them their preferred product in non-sugar and sugar options, innovating in favors in Dew and then moving Dew slowly into other spaces where we think the brand has a role to play and I think we're able to formulate products that will be very competitive in that space as well. On Bubly, we're super happy really with this opportunity and sparkling water is always – it's been underdeveloped in the U.S. if you compare with some of the European markets and we thought it was a big opportunity there. I think the R&D team did an amazing job. We have a very good product and we see that by the levels of repeat and loyalty we're creating with some of those flavors. I think the personality of the brand is fun, is modern, is young. So the consumers are coming back to Bubly. Bubly has doubled velocity, really has doubled velocity per point of distribution in the last three, four months after the Super Bowl with this new advertising. I agree with you that there's a lot of distribution opportunities yet and it takes a while for our retailer partners to give these brands that are growing so fast the right space in the store. Obviously, there's a lot of dialogues with our retail partners to expand the Bubly space. So we see this brand as the brand of the future. We're going to be innovating in this brand not only flavors but other occasions that I think we can attack. You're going to see mini cans, you're going to see larger cans. It's going to be a no plastic brand and I think that is a very good positioning that we can have for this brand going forward for the modern consumer, the millennial and the younger mother that I think is adopting this brand for her kids. So we're feeling very good about this brand. This could be one of our next $1 billion brands. That's our goal with the NAB team and they're executing every step of the way with a lot of precision, so we're very happy with this new brand in our portfolio.

Operator

Your next question comes from the line of Robert Ottenstein of ISI.

Robert Ottenstein

Great. Thank you very much. Ramon, in you opening comments you talked about evolving the culture of the company. I'm wondering if you could give us a little bit more granularity on what that means, perhaps talk about what you saw in the culture as you were there and took the helm, what you liked about it, what you thought needed changing, and then more specifically how you're implementing those changes, how they may be reinforced with your incentive programs? Thank you.

Ramon Laguarta

Yes. Thanks. Very great question. I think we're convinced that the culture will be a competitive advantage for us going forward and that's why the whole management team is spending a lot of time in first defining a set of leadership behavior that we think are core to PepsiCo and we call this the PepsiCo Way. And now rolling out those behaviors across the company in every geography and it's been quite exciting to go around the company and see how fast the organization is embracing this behaviors and it makes us very optimistic about the future. The behaviors, there's a few that are critical for you as investors and it should impact our performance. One of them is being very consumer centric. It's how we want to have an organization that creates a lot of value for the company and for the investors by understanding the consumer with a lot of details, making decisions around innovation, but not only innovation but the whole management of the company around the consumer. That's long term. That's going to give us a lot of differentiation and market share. Then there's a few values around how – about speed and ownership which I think it's – if you think about large companies of our scale and the competitors we have in the marketplace, we need to act with speed and we need to act as owners, right, and that's something that you can lose over time because sometimes we become more internal than we should and we become more process driven than we should. So what we're trying to do is make sure that each one of our employees feels that he's an owner of the company and that he's expected to act with empowerment and speed and simplicity. And we're trying to simplify our processes and allow people to really behave as owners in the company. Of course, integrity is core to our values and when we operate in so many countries around the world that has to be core to the way we operate. And then there is values around raising talent and diversity and I think would think that long term for companies like ours, bringing in new capabilities and making sure that new generations feel very good in our company would create an environment for them to thrive is critical. So we're trying to also put talent and diversity at the center of those leadership behaviors and how we recruit the best and how we make sure that they feel that this is a place where they can make a difference and they can voice their opinions and challenge the status quo and make sure that that is part of how we run the business, right, with diversity and making sure that everyone has a point of view and everyone feels that they have the right to have that point of view heard by everybody around the company. Of course, we can only do a few things and we will have to make the choices and everything else, but that culture is critical. So speed and ownership, the talent and diversity and opinion, consumer centricity, integrity, those are some of the values that we want to reinforce. It's not that we didn't have it, but we think it's worth reemphasizing with the final output being a great company that is focused on growth and creates value within the marketplace. And of course we don't want to lose the purpose. I think purpose is critical in any company, in any organization, in any individual today. And especially if you talk to any generations, they feel very strong about making a difference in the planet. So we want to make sure that purpose is part of our commercial strategy that our brands talk purpose, that our commercial teams talk about purpose and our organizations are very well rooted in every community making a difference in how people live around us. So those are the different components of the culture change that we're making. As I said, I feel extremely excited because everybody's embracing these and obviously we're traveling a lot around the world and when I see how people are talking about those behaviors and that language very consistently across the company.

Operator

Your next question comes from Laurent Grandet of Guggenheim.

Laurent Grandet

Yes. Good morning, Ramon and Hugh, and thanks for the opportunity. Building on Lauren's question, I'd like to understand how you see an international brands or platform expansion in beverages specifically? So we were surprised by the launch of the Lavazza lineup in the UK. Is that the departure from a potential Starbucks partnership outside of the Americas or do you think those brands could potentially coexist in the future, so basically how your coffee strategy is evolving here? And then on Gatorade, we keep talking about the U.S. but I'd like to understand your plan to make the brand more available outside of the U.S. please? Thank you.

Ramon Laguarta

Okay. Hi, Laurent. So two things on – obviously Starbucks is our very strong partner from years and we value that relationship. It's a super – I would say that we're very aligned, we're building I think a very powerful business together in the U.S. and some other parts of the world. Unfortunately in Europe, Starbucks had some previous relationships and that's why if we wanted to compete in the coffee space, we needed to find another partner and that's Lavazza, we've chosen Lavazza. So there's nothing in terms of I would say the relationship on the contrary is extremely powerful relationship where we're creating a lot of value for both companies. Yes, the European piece is a bit of a separate relationship because of existing contracts, et cetera. In terms of the Gatorade brand, this is really a global brand in terms of consumer understanding and consumer awareness. We made some priorities in the past of Latin America, U.S. and China being the core markets where we want to build this brand. In markets like Western Europe or Eastern Europe, we're choosing much more of an ecommerce type of way to develop the brand, so a lighter investment if you wish. But it's a big priority for us and it's a brand that we think we have a competitive advantage in terms of the product solutions and clearly the brand is very well recognized and it's very well perceived by many consumers around the world because of the assets that we have in the sports world and obviously people watch TV everywhere, right, so they can see soccer, football, basketball, any of our assets and the brand continues to develop. So you should see us both working on coffee and sports around the world.

Operator

Your next question comes from Caroline Levy of Macquarie.

Caroline Levy

Good morning and thank you very much. Just very briefly if you could touch on what you're seeing in terms of the macros in – you mentioned Brazil being very strong than some other countries, is Brazil really just a one-time comp issue?

But more importantly was a more strategic question around price mix realization because historically in the world of bottling where you own distribution, price mix is more valuable than volume because there's less incremental cost associated with that than delivering new volume, and so I'm just wondering if over time that holds true, that your margins will improve as a function of price mix improving, given that you own your distribution?

Hugh Johnston

Got you. Caroline, it's Hugh. In general, I think that the macros down in Brazil are slowly improving. We talked about the fact that we were lapping some extraordinary things which made for our very high growth rate in the quarter in Brazil. But I do think we see the macros there slowly improving. In addition to that we are using the playbook that Ramon referred to in terms of building out our salty snack business and being very methodical about it. It's a business that I've been around for a long time and it's gone through multiple cycles, but I really do feel that with the leadership we have both at the sector level as well as at the business unit level, we've got the right people to execute and build that business in a very solid foundational brick-by-brick way to build another good profit platform for PepsiCo. As regards the specifics of the beverage business, I think our interest with the bottler in that market very well aligned. So we benefit both from volume and from price mix and I expect we'll continue to work closely with them to improve what's obviously a relatively small beverage business for us.

Operator

Your next question comes from Bill Chappell of SunTrust.

Bill Chappell

Thanks. Good morning.

Ramon Laguarta

Good morning.

Bill Chappell

A question on the energy category. I get and I think most do that you're not interested in buying some of the smaller brands that are out there, but I'm surprised that we haven't heard or seen something about a Pepsi energy drink. And I understand that Mountain Dew and you have other kind of plays in the energy market, but is there something on the cola flavor, you don't think that plays as well in the energy market or you don't see as much opportunity be it outside the U.S. for the Pepsi brand and other flavors for the Pepsi brand. Just trying to understand especially with what Coke has said and kind of their optimism about the Coke energy product, why we haven't seen a Pepsi energy product?

Ramon Laguarta

Yes, good question. Energy is clearly a growing market across the world and we think the consumer will continue to ask for products that give them that functionality of higher energy or a boost. We're approaching this from many angles, right; from the coffee, from the sports, from obviously the energy category itself. And we're capturing some of those locations already now. In the case of the U.S. energy, we have a pretty good partner for many years which is Rockstar being our partner and we've been playing in this segment for a few years together and it's working also in some international markets. So we plan obviously to continue that relationship innovating and seeing how we can accelerate our participation in that growth category. With regards to Pepsi energy or Coke energy, those are – we're all trying I think as a strategy to make our global brands play in more spaces, right. So we're trying to do that with Lay's, we're trying to do that with Doritos or we're trying to do that with Pepsi. Pepsi actually if you see our growth, internationally it's a lot on flavors, Pepsi flavors, it's a lot on Pepsi non-sugar, Zero, and obviously Pepsi regular in multiple formats. I think we will keep expanding Pepsi into other spaces whether it's energy or some other spaces you will see when we get to the market. If you think about the core energy consumer, it's looking for something different than what brand Coke or brand Pepsi can offer. I'm not saying that there will not be occasions where some of those consumers will go into our brands, but I think they're looking for different propositions. And if you think about Red Bull or Monster or Rockstar or some of the other brands that are capturing majority of that space, they have a very different proposition. So I'm not saying it's not a big business opportunity, I'm saying that it's not going to be the center of the category. But more to see in the coming quarters and of course we'll keep thinking about how do we make our global brands play in more spaces, because that is a very high return on investment normally for us, as you can see with Gatorade Zero, with Pepsi Zero, when you put your big brands into new spaces that is a huge, huge business opportunity.

Operator

Your next question comes from Amit Sharma of BMO Capital.

Amit Sharma

Hi. Good morning, everyone.

Ramon Laguarta

Good morning.

Amit Sharma

Ramon, a question for you. You talked about stronger growth in the convenience store channel as one of the reasons for maybe a little bit more price/mix that we saw, especially for the snacks business. Can you talk about that dynamic in terms of online? As you grow your online business, should that also be a price/mix positive from a relative contribution perspective and then the relative size of your business in online at this time?

Hugh Johnston

Yes, Amit, it's Hugh. Yes, what we said in the past is our online business is over $1 billion and generally speaking it is going to tend towards smaller packages, so it's not going to be that the multi – it will tend towards multi packs and singles and things like that. So generally speaking that is going to be a positive from a mix perspective. Obviously, we're in very early days on online but my expectation is as that market continues to evolve, it will be both premium and in all likelihood more singles and multi packs.

Operator

Your next question comes from the line of Sean King of UBS.

Sean King

Hi. Thanks. I believe you mentioned a few specific reinvestment areas over the last couple of quarters including a small can capacity and Frito Variety packs. Where do you stand against those specific initiatives and are you still I guess capacity constrained?

Ramon Laguarta

Yes, we’re putting capacity against that. As I mentioned before, I think this is going to be a long-term consumer trend. Consumers are looking for variety packs and consumers are looking for smaller portion bags. So we’ve put a lot of capacity in place. What we’re seeing that the more capacity we put, we still are behind demand in some of those bags in some of the geographies around the world. So we will have to keep investing in those formats. And it’s a great problem to have I would say that you have a lot of demand for your business and that you need to put capacity at very high margin parts of your business. So yes, I think we’re putting capacity but we’re seeing that the consumer is ready to buy more of our products in those formats. So you’ll see more of that – of those CapEx going in the future.

So thank you for the time and participation in the call. It’s been a very I think open and good dialogue. To conclude, we’re pleased with our results for the second quarter and for the first half of the year. We’re executing well against our key priorities. We remain on track to achieve our 2019 financial goals and we thank you for the confidence that you’ve placed in us with your investment. Thank you.