Good morning, and welcome to PepsiCo's Fourth Quarter 2010 Earnings Conference Call. [Operator Instructions] 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. 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 Hugh will cover the financial and operating results and the financial guidance in more detail. We'll then move on to Q&A, where we'll be joined by the CEOs of each of our businesses: John Compton from PepsiCo Americas Foods; Massimo d'Amore from PepsiCo Beverages Americas; Eric Foss from Pepsi Beverages Company; Zein Abdalla from PepsiCo Europe; and Saad Abdul-Latif from PepsiCo Asia, Middle East and Africa.

During today's call, unless otherwise noted, all references to net revenue growth are on a constant currency basis, and all reference to division operating profit growth and EPS growth are on a core constant currency basis. I'll refer you to today's earnings release for more details.

Before we begin, please take note of our cautionary statements. This conference call includes forward-looking statements based on currently available information, operating plans and projections about future events and trends. Our actual results could differ materially from those predicted in such forward-looking statements, but we undertake no obligation to update any such statements whether as a result of new information, future events or otherwise.

Please see our filings with the Securities and Exchange Commission, including our annual report on Form 10-K and subsequent reports on Form 10-Q and 8-K. And finally, you should refer to the Investors section of PepsiCo's website under Investor Presentations to find disclosures and reconciliations of non-GAAP financial measures that may be used by management when discussing PepsiCo's financial results.

With that, it's now my pleasure to introduce Indra Nooyi.

Indra Nooyi

Thank you, Jamie, and good morning, everyone. We are very pleased with the results we reported earlier this morning for the fourth quarter and for the full year and with the substantial progress we've made this year in further strengthening PepsiCo. We delivered great performance for the year by achieving core constant currency EPS growth of 12% and $6.9 billion in management operating cash flow, excluding certain items. Our financial performance is underpinned by very strong performance across all our businesses, and I would like to recognize the superb performance of our many associates around the world.

Now details on our performance. We grew worldwide volumes in both snacks and beverages and the volume gains were broad-based, a reflection of the attractiveness of the categories we compete in and of our strong competitive positions around the world. We maintained our clear global leadership in snacks, and in beverages we had very good global growth. We exited 2010 with growth in the important North American beverage market. We maintained our leadership position in liquid refreshment beverages with volume and value share in measured channels. Outside North America, we had very strong volume growth in the key emerging markets of China, India, Russia and Turkey. We're heading into 2011 as an even better, more capable organization.

So let me point to four key examples. We've completed the acquisitions of and largely integrated our anchor bottlers. This has made us more nimble, efficient and aligned across the enterprise in North America and in Europe. I'm pleased to report that almost one year into the integration, both the strategic and financial benefits we anticipated when we initiated the acquisitions are being realized. We exceeded our synergy target for 2010, and we have increased our estimate of the total synergies we expect to realize for 2012. The integration of the operations, which has been a major undertaking to be sure has gone smoothly, and we are meeting or exceeding virtually all of our key integration targets.

Second, we set up our investments in 2010 in two key areas, brand building and emerging markets infrastructure. We've increased our A&M behind key brands like Gatorade, Pepsi MAX and the incremental A&M budget is embedded in our financials going forward. And we also increased our spending in emerging markets' selling and distribution systems by putting more coolers in the market and adding route and distribution capacity ahead of the growth.

Third, we just closed on the acquisition of Wimm-Bill-Dann, Russia's premier food and beverage company with leading dairy and juice brands. The acquisition strengthens our businesses in Russia and the broader Eastern Europe and CIS region where we already operate from a position of strength. Just as importantly, the addition of Wimm-Bill-Dann gives us a strong foothold in the attractive dairy category.

Fourth, we established our Global Nutrition Group to accelerate the growth of our functional and nutritious products portfolio. This effort will accelerate our innovation, research and development and strengthen our position in this attractive nutrition space. Our leadership team is now in place, and we'll continue to invest against this important initiative. Let me be clear. This is not a new focus area for us. This is an area where we already have great global and local brand and a $13 billion base now, including Wimm-Bill-Dann. We have five nutrition brands which are over $500 million, including three that are over $1 billion at retail. We're one of the top three global nutrition players today and we're building off of a great base and with a footprint and capability of a $60 billion enterprise which means we have real critical mass.

Next, in 2010, we performed very well and at the same time took advantage of our financial strength and flexibility to make important investments in the long-term health of the business. As we head into 2011, we are very mindful of the challenging competitive and economic landscape. In developed markets where there are some signs of economic recovery in terms of GDP growth, the consumer outlook remains challenging. Unemployment is still high and consumer confidence measures are still not where they need to be. Those will likely continue to impact demand and the consumer will continue to be highly value conscious. On the other hand, we are fairly bullish on emerging markets, where our growth has been strong.

Commodity costs represents a major headwind for us in 2011. Like every other CPG [Consumer Packaged Goods] company, we expect to see very high levels of inflation in 2011. We're driving productivity to offset as much of the inflation as possible and in normal circumstances, we'd have addressed the remainder of the inflation with pricing. But the consumer landscape, particularly in developed markets, is shaky. And for that reason, we will be very judicious in our pricing actions because we don't want to shock the consumer with high levels of pricing and dampen demand for our products and categories. And at the same time, we have to drive a reasonable level of profit growth. So our intention is to take a balanced approach to pricing given the circumstances.

But we're also prepared for what could be a highly competitive environment. We've taken all these factors into account in providing our outlook for 2011. To the positive, we have good momentum as we enter 2011. Our portfolio of snacks, beverages and nutrition product works. We have the financial flexibility to absorb some of the inflationary pressures and to effectively deal with the potentially challenging competitive situation, while still delivering what we expect will be top-tier financial results given the current environment, so I'm feeling good about 2010, feeling good about 2011.

And with that, let me turn it over to Hugh to go through the details and the operating results and our guidance.

Hugh Johnston

Okay. Great. Thanks, Indra. I'll start with a few comments on the macro environment, which I think will provide a helpful context for the discussion of the operating results. Across the globe in 2010, we saw a mixed macroeconomic picture with little meaningful improvement from where we began the year. The expected economic and consumer-led recovery that had been predicted earlier in the year never really materialized in developed markets and due to a variety of factors, inflation has dramatically increased across both developed and emerging markets.

In the U.S., despite some glimmers of positive economic news, unemployment levels remain stubbornly high and GDP growth continues to be anemic. And in Latin America, while the macroeconomic picture in Mexico is moderately improving, it's still below pre-crisis levels and Venezuela continues to be an inflationary and macro-stability concern. In Europe, the macro environment across the sector remains largely unchanged with only modest GDP growth, high unemployment and the severe austerity measures impacting a number of markets, all of which continue to depress consumer confidence. On the other hand in most of the key markets in AMEA, the macros are promising as countries like China and India continue to witness robust 8% to 10% GDP growth, although inflation is a concern.

So with that, turning to our division performance. Let's start with PAF, which is comprised of Frito-Lay North America, Quaker Foods North America and Latin America Foods. Frito-Lay demonstrated its ability to perform well in a challenging environment in 2010. For the full year, Frito-Lay generated positive unit growth, gained value share in salty snacks and measured channels, was one of the fastest growing CPG businesses at retail and adapted to evolving consumer needs through product innovation and finally, generated its strongest profit performance in a decade.

For the full year, FLNA grew units in the low single digits. Volume declined by one point, reflecting the impact of overlapping last year's 20% More Free promotion, which was worth nearly two points of volume growth. For the full year, profit performance was very strong as a continued focus on productivity and favorable commodity cost resulted in FLNA generating 8% profit growth, the highest since 2000.

At the same time, we continue to evolve the product portfolio to adapt the changing consumer needs through the introduction of products like Tostitos Artisan Recipe and regional and ethnic-themed flavors across a variety of our brands. We're also reducing the sodium in a number of our key potato chip flavors by as much as 25%, and we began our initiative to make a number of our products with all natural ingredients, no artificial flavors, no preservatives and no MSG to capitalize on one of the fastest-growing consumer trends.

In the quarter, FLNA had low single digit unit growth and volume was positive and as expected. Volume was partially impacted by lapping the tail end of the 20% More Free promotion through the early part of the quarter. Profits grew 7% with continued tailwinds from commodity costs, as well as FLNA's ongoing productivity focus.

We continued our solid performance in the FoodService Channel and we also saw solid growth in the C&G channel with the success of our urban strategy, which helped to drive a nearly one point gain in salty dollar share in that channel. Stacy's Pita Chips and Sabra dips also continue to deliver strong double-digit volume growth, reflecting our success in building a scale adjacency business behind these two great brands.

Performance at QFNA was quite frankly below our expectations as center of the store categories continue to be challenged. We did, however, invest in our hot oatmeal business to improve our product quality, introduce new products and increase our A&M support to restage Quaker as the preeminent health and wellness brand. We also recently announced that Jose Louis Prado will be assuming leadership for the Quaker business. Jose Louis is a 26-year PepsiCo veteran who knows how to grow businesses, he's passionate about the Quaker brand and we're confident he'll lead Quaker into its next growth chapter.

Our Latin American Foods business had an outstanding year, with an acceleration of both top line and profits through the back half of the year. Full year volume increased 4%, reflecting solid growth in Mexico and throughout most of South America. Our profits in Latin America Foods grew 11%, remarkable performance given the ongoing challenges of doing business in Venezuela. Both the top line and bottom line turned in double-digit growth in the back half of the year and importantly, Brazil performance accelerated in the second half of the year with double-digit salty volume growth in the fourth quarter. In the quarter, our focus on value and investments in infrastructure and innovation drove strong performance in Latin America. Volume growth of 5% was broad-based, led by Mexico, Brazil, Chile, Argentina and Colombia. Profit grew 28% primarily through volume gains, effective net price management and a focus on controlling operating costs.

Looking to 2011. We'll continue to drive growth on our core Snack business with all natural ingredients at FLNA, and our initiatives to reduce sodium and add more whole grains. Consumers have consistently told us they're looking for more snacks made with all natural ingredients and this segment is growing almost 3x faster than total food and beverage category in the U.S. So this is an attractive opportunity for FLNA. Supporting our efforts, we're increasing our advertising investments in North American snacks and Quaker Foods and have plans in place to double our North American Power of One activities between snacks and beverages.

Moving on to PAB. We're pleased with the progress we've made in a highly competitive environment. We have largely completed the integration of our anchor bottlers and are delivering synergy targets above our initial estimates. We've widened our liquid refreshment beverage volume share advantage versus our primary competitor in measured channels during 2010. We invested in key brand building and innovation initiatives and are still delivering positive results from those investments. Both our business and the category returned to positive volume growth in the back half of the year and in beverages as well, we're excited about the opportunities to leverage Power of One to an even greater extent.

The category delivered about a point of volume growth for the full year. Against that backdrop, our North American Beverage business delivered positive organic volume growth in the fourth quarter and for the second half of the year and had slightly better volume performance than our primary competitor in measured channels for the year and for the quarter, driven by our leadership in the faster-growing Non-Carbonated segment. Our focus continues to be on investing for profitable growth.

In 2010, we had good success with innovation and naturally sweetened zero-calorie SoBe Life Water, the Gatorade G Series and our naturally sweetened reduced-calorie Trop50 fruit juice, as well as the expansion of our super premium juice brand, Naked. At the same time, we targeted innovation on our CSD [carbonated soft drink] portfolio by relaunching zero-calorie Pepsi MAX and introducing the first mainstream all-natural CSD in Sierra Mist.

In Q4, we saw another sequential improvement in our North American organic volumes with a 1% increase. Gatorade was a large part of the growth with volume up 8% in measured channels. We continue to be encouraged by the increased consumption trends and positive brand equity scores for Gatorade as we strengthen the brand through advertising and innovation behind the G Series and the expansion of our retail footprint. We've been very happy with the results of our brand building behind our reduced-calorie and natural CSD offerings as well. Pepsi MAX has doubled the rate of weekly sales volume since the date of the relaunch and has gained share, and Sierra Mist has seen a strong swing to positive volume growth since we launched Sierra Mist Natural.

In juices, we launched successful new packaging and flavors of Trop50 and drove a double-digit increase in sales of our Naked Juice brand through significant improvement in brand scores and expanded distribution, and Naked remains the share leader in the super premium juice category in measured channels. And SoBe Life Water turned in another very strong year, building on our industry-leading innovation of natural zero-calorie SoBe Life Water Zero. For the year, we grew volume nearly 36% in measured channels, gained three points of volume share while our closest competitor lost share and we strengthened brand equity.

In 2011, we continue to strengthen and reposition our beverage portfolio through innovations such as our planned launch of G Series Fit, the first line of products from Gatorade designed specifically for the fitness athlete to provide fuel, fluid and nutrients before, during and after a workout. We will drive sustainable, balanced top line growth through superior execution, unlocking the growth potential of our local Foodservice business and judiciously balancing pricing needed to cover input cost inflation while providing value to our consumers. And we'll continue to transform our supply chain and drive additional productivity. The most important initiative in this area is the transition of small format Gatorade distribution to our direct store delivery system. We just executed the transition at the beginning of the year, and we're very, very encouraged by the early results.

Turning to Europe. The fourth quarter capped a strong year for the division. We successfully integrated the Bottling businesses, while at the same time delivering 5% organic beverage volume growth. We made great strides toward realizing the full potential of Power of One in many markets, and we acquired Wimm-Bill-Dann which closed earlier this month. For the year, organic beverage volumes grew 5% and snacks grew 2%. The sector accelerated top line momentum in the second half of the year behind a focus on providing consumers differentiated value, increasing our marketplace competitiveness with investments in coolers and delivering locally relevant programs and promotions with our gains driven primarily in the key markets of Russia and Turkey.

In Q4, Europe delivered solid performance across both snacks and beverages. Snack volume was up 3% and organic beverage volume grew 5%, with particularly strong results in key emerging markets in Eastern Europe, including Turkey. Q4 profit performance was dampened by a reduced potato crop, resulting from the extremely hot weather in Russia this past summer. This resulted in a significant shortfall in our potato harvest, but we were able to mitigate much of the impact and still deliver solid profit gains.

Our Snack businesses continue to perform well in the fourth quarter in Eastern Europe. In Russia, for example, we gained three value share points in an expanding category fueled by both innovation and gains in our core Lay's product lines. Throughout the region, we continue to offer consumers differentiated value underpinned by strong commercial programs leveraging promotions, such as Walkers Rain promotion in the U.K. and the Free Money in the Bag promotion in Turkey, and we expanded our snacks product range through innovation of core and continue to expand into adjacent snack categories like nuts and seeds.

Similar to snacks, beverage volume gains came primarily from Eastern Europe including Turkey and were driven by commercial programs, such as the travel promotion in Russia and the payoff from our investments in coolers in Russia and Turkey. Wrapping up Europe, we closed on the Wimm-Bill-Dann acquisition earlier this month and our team has begun to execute the integration plan there. We're excited about the benefits Wimm-Bill-Dann brings to our Eastern European business in terms of scale, operating capability and the expansion of our product portfolio, and we're equally excited about establishing a meaningful foothold in the fast-growing value-added dairy category.

Asia, Middle East and Africa had an outstanding quarter to cap off an outstanding year. Volume gains in the quarter for the year were very strong in both snacks and beverages, and we strengthened our long-term competitiveness in key emerging markets through meaningful, sustainable marketplace investments. For the year, AMEA delivered snacks volume growth of 15%, beverage volume growth of 7% and net revenue gains of 15%. Operating profit performance reflected higher sugar costs and a step up in our investment spending in China, as well as lapping the 2009 gain from our Calbee transaction.

In Q4, AMEA snacks volume was up 13%, beverage volume rose 8%, net revenue grew 16% and operating profit gained 23%. We delivered solid top line growth in both snacks and beverages across the region supported by a strong innovation agenda. And we're seeing positive results from our recent marketplace investments with continued double-digit snack volume growth in key emerging markets, 9% beverage volume growth in China, far outpacing our primary international competitor and double-digit beverage growth in India.

Snacks delivered the fifth consecutive quarter of double-digit volume growth, driven by strong gains across most emerging markets with growth in China, India and the Middle East leading the way. In China, volume growth of 28% was driven by continued strength in Lay's potato chips and nearly 50% growth in the Quaker portfolio. In India, volume grew 18%, also driven by potato chips and continued expansion of the Quaker business. Innovation including the launch of SunBites bread snacks which is delivering volumes significantly ahead of our expectations.

On the beverage side, we gained volume momentum from the prior quarter, driven by double-digit growth in India, continued high-single digit growth in China and an acceleration in growth in the balance of the developing markets. In India, volume grew 11%, driven by strong double-digit growth in non-carbonated beverages. China continued its solid performance with growth driven by strong non-carb performance and high-single digit growth in CSDs. For 2011, we expect AMEA will continue to grow volume above the PepsiCo portfolio average, and we'll continue to invest in building our supply chain and distribution infrastructure in key emerging markets.

Now turning to cash flow. We're extremely pleased with the strong cash flow performance for the year. Cash from operating activities and management operating cash flow, each came in better than the amounts we projected on the Q3 call, with particularly strong performance in working capital. You'll find the details on these set out in the schedules in this morning's release. And I'm pleased to report that we returned $8 billion of cash to shareholders in 2010 through a combination of share repurchases and dividends.

Finally, I wanted to provide you with some additional details on our 2011 guidance. For 2011, we anticipate core constant currency earnings per share to increase 7% to 8%. Based on current spot rates, we estimate foreign exchange translation would represent approximately one to two points of benefit to our 2011 full year core EPS growth. This guidance takes into account the following factors: to the positive, synergies from the bottling acquisitions. As we announced this morning, we've increased our estimate for total synergies through 2012 to more than $550 million. We delivered more than $150 million in 2010 and the large majority of the remaining $400 million in synergies should be realized in 2011.

Second, the impact of the Wimm-Bill-Dann transaction. We anticipate Wimm-Bill-Dann will add approximately $0.08 per share, which includes the transaction financing impact. Offsetting these benefits will be commodity cost headwinds. Our commodity cost inflation is expected to be in the range of $1.4 billion to $1.6 billion. We'll offset a portion of the inflation with pricing and productivity, but we don't expect to fully cover the inflation. We're also factoring in the need for some flexibility to react to competitive pressures, especially in beverages. We'll also make incremental discretionary investments in brand building and in emerging markets growth. More specifically, these will largely be stepped up A&M, particularly in beverages and in S&D as we add capacity for growth in emerging markets.

Below the operating line, we anticipate having negative leverage in 2011, which is driven by several factors. First, we'll invest in our global nutrition initiative, which is being managed from the corporate center. Second, we'll have higher pension cost expense related to the amortization of past losses. Third, interest expense will increase faster than operating profit as a result of higher balances, most of which is related to the bottler and Wimm-Bill-Dann acquisitions and some impact from higher rates based on the forward curves. Fourth, we'll reflect a minority interest expense at corporate related to the Wimm-Bill-Dann below the line, offsetting consolidation of Wimm-Bill-Dann's full operating result above the line. And fifth and finally, we do not expect a meaningful decrease in our effective tax rate for 2011 and estimate our full year core tax rate will be approximately 27% as it was in 2010.

Moving to cash flow. We estimate CapEx will be in the mid-$3.5 billion range, which includes capital spending associated with Wimm-Bill-Dann, and we anticipate share repurchases of approximately $2.5 billion. We'll have a 53rd week in 2011 and we're treating the impact of the 53rd week as non-core, so it is not included in our core constant currency earnings growth rate guidance at all.

As you think about the phasing of 2011, our first quarter core EPS growth will likely be negative and this is driven by several factors. We're lapping a very low core tax rate from Q1 2010 when the rate was below 23%. Also, in the first quarter, we'll have higher interest expense as we lap two months of 2010 without debt associated with the bottler acquisitions and the related bottler profits for that period will not offset the higher interest because the first two months are seasonally very low from a profit performance perspective. In fact, the European operations of the former PBG and PAS operate at a loss in the first two months. So we'll likely have a mid-single digit decline in core EPS in Q1, but that's been completely factored into our full year 7% to 8% EPS guidance.

Beyond 2011, we expect core constant currency EPS growth to be in the high single digits, taking into account our longer-term assessment of the competitive, economic and inflationary outlooks for the foreseeable future. Overall, our guidance reflects a balanced approach to managing our business to both deliver the short term and to build the long term.

Net, we feel great about our businesses. We operate in attractive growing categories where we have strong competitive positions globally, both in snacks and in beverages, and we have clear unmatched structural advantages with our extensive go-to-market systems, we have extraordinary operating capability, a broad geographic footprint and advantage brands.

We'll continue to leverage these advantages to drive what we believe will be top-tier results in the CPG space, and at the same time, we're making important moves to strengthen and build our core snack and beverage franchises and our large attractive Nutrition business to enhance the durability of PepsiCo's growth going forward.

With that, we'll now open the lines to your questions.

Question-and-Answer Session

Operator

[Operator Instructions] And our first question comes from Bill Pecoriello of Consumer Edge Research.

Bill Pecoriello - Morgan Stanley

I wanted to have some more details around the Frito-Lay North America situation with the volume and price mix flattish in the fourth quarter. Can you talk about what your outlook is for the top line for that division? In 2011, do you plan to take more pricing? I guess later in the year some of the hedges roll off. And what do you think are the main drivers of the sluggish top line that we've been seeing recently?

Indra Nooyi

John?

John Compton

Bill, it’s John. We had, as you know, sequential improvement in the fourth quarter from the second and third quarter where our volume had been down 2% to 3%. As Hugh said, as we entered the fourth quarter we had four to five to six weeks of negative lapping still on the impact of the bonus bags. That finally got put behind us. We do, like every other CPG company, there was a channel where we had been impacted due to assortment, pricing and merchandising, and I'm pleased to say today that we have resolved that, and we're moving forward in a positive direction in that specific channel. We had an issue, as you know too, with SunChips. SunChips had been a fast-growing brand. We converted that business to the compostable package. That package had an issue in the marketplace in terms of the noise, and we have phased that package out, but we remain committed to having environmentally friendly package in the marketplace and we hope to in the back half of this year to do that. And third, we had some impact from "value competitors" who benefited from deflation and chose to take pricing down. We chose not to follow them down. They are now inflationary and they are starting to take prices back up. In the quarter, as Hugh said, we also invested behind this launch to get ready for the all natural conversion, and we spent behind that, and that is now rolling into the marketplace, where half of our portfolio now will be all natural, the largest gluten-free portfolio in North America, and we reduced sodium levels by 25% on some of our key products. Having said all that, to get to your question, our anticipation is that Frito-Lay can return back to sort of the low-single digit volume growth, and so far in the first part of this quarter we're pleased to start to see that.

Bill Pecoriello - Morgan Stanley

On the tortilla chip category, do you see that the category itself is slowing down? Or is it about share losses to some of these other niche players?

John Compton

Bill, as you've seen in the IRI data, there are -- back to the value competitor message that I gave you, there are some very low-price value unflavored tortilla chip competitors out there. On the flavored tortilla chips side, Doritos, as you know is 95% share of the marketplace and continues to grow. So on tortillas, we're hopeful that this launch into all natural is a way to differentiate that brand even further. We had a big launch behind the Fiesta Bowl to sort of kick that off, and so we're just now starting to activate the marketing from that. We also have a value brand, our own called Santitas, that we are judiciously using more aggressively, notably in the West Coast markets to compete against these low-priced competition.

Operator

Your next question comes from John Faucher of JPMorgan.

John Faucher - JP Morgan Chase & Co

Guys, I guess what I'm struggling to figure out here is a little bit of the tone. So you guys have spent a lot of capital in terms of buying the bottlers, you've spent capital in terms of buying Wimm-Bill-Dann. We'll probably see greater nutrition M&A going forward. So you're investing this capital and yet the growth rates are coming down and yet you say you feel great about the business. So can you help me triangulate on that? And I understand it's a difficult operating environment, but walk me through why you're so positive when we continue to see numbers come down here. It just doesn't kind of square up.

Hugh Johnston

I think you really have to kind of consider the big factor that's out there that we're working our way through, which is what I consider to be a very high rate of inflation. When you're talking about $1.4 billion to $1.6 billion of inflation, you're really in the 8% to 9½% growth of commodity costs. So obviously, in a business that has something of an exposure to agricultural, as well as energy, that type of inflation has a pretty profound impact, and we're obviously addressing that. Now are our brands strong enough that we could price to completely cover it? Sure. But we actually don't think that's wise for our categories, we don't think that's wise for customers and consumers and for the long term. So as we add up the entirety of the portfolio and we look at the benefits that you point out and we also look at the challenges that we see both in developed market economies, as well as the high rate of inflation, we look at it and say 7% to 8% profit growth in this environment, we do expect it to be top tier. Have we invested capital in really getting into some new growth platforms? You bet. But at the same time, we're continuing to deliver strong cash flow return to shareholders. So as we really balance out our equation, there are some tough macros we're facing, but the portfolio is continuing to perform and we're continuing to compete successfully and invest behind the right things to build the durability of PepsiCo. And I think that's why we feel good about where we are and why we feel the long term. We're a terrific investment relative to what else is out there.

Indra Nooyi

John, if I can just add to this. PepsiCo today with the Wimm-Bill-Dann acquisition becomes a $63 billion company. For a $63 billion company to continue to grow EPS 7% to 8% with huge commodity headwinds and a macroeconomic situation that’s iffy, deliver terrific cash flow and an ROIC that is significantly higher than cost of capital, continue its march to geographically expand the portfolio and go in to the right categories where the consumers are going in the future, which is the nutrition category, I think is an absolutely terrific performance scorecard for our company. So we feel great about it. Had we not had the continued macroeconomic sluggishness and this extraordinary commodity inflation, we are a solid double-digit player. So you've got to take all of this into consideration and understand where we're coming from, and on balance, we look at our company and say, boy, if you could find other companies like ours, you should go ahead and invest in them.

Operator

Your next question comes from Ali Dibadj of AllianceBernstein.

Ali Dibadj - Bernstein Research

One about kind of your long-term guidance and one about price. In terms of long-term guidance, it's just odd to me that it took something like 29 minutes until you mentioned lowering your long-term EPS growth guidance, although it seems that there might be something a little bit more important to that. And I wanted to give you -- can you talk a little bit more about it, and ideally, disaggregate it into its pieces. So if you think back to your Analyst Day and some of the slides that you put up there, it's not synergies it sounds like, it's not corporate, obviously in the LOBs. Can you talk about where you're feeling the pressure, where you're estimating more pressure going forward, again, long term and quantify some of that for us, please?

Indra Nooyi

Ali, first thing. It's right up in the headlines of our earnings release, okay? So it took almost two seconds before you got to that in the earnings release. In the script, we have to tell the whole story because this is a Q4 call, if you recall, so we have to tell you what we did in Q4. We have to walk you through the businesses for a very, very large $60 billion company until we get to what to expect in 2011 and 2012 because the long-term guidance is really about 2012. Let me be crystal clear on something, if you can tell me exactly where we're going on the global macroeconomics, especially in the developed markets, if you can tell me exactly where we're going on commodity inflation, we can tell you exactly what the performance is going to be. At this point, there's considerable uncertainty, we have no idea what the commodity markets are going to look like in 2012 and beyond. We have no idea what the developed market economic situation is going to be, whether it's going to improve robustly or whether the sluggishness is going to continue. On balance, considering all these factors, we believe it's prudent to guide to a high-single digit growth. Let me be crystal clear. For a $63 billion company, which is growing top line 5%, 6%, 7% to generate high-single digit EPS growth is simply fantastic. In the CPG space, it is top-tier growth. So we have to make sure we take into account all of these factors when we give you guidance.

Ali Dibadj - Bernstein Research

So what macroeconomic situation are you modeling going forward? Are you modeling current, are you modeling worse? I mean, no one obviously has a crystal ball, but how are you guys thinking about it?

Hugh Johnston

Ali, we look at a variety of scenarios rather than model a point estimate specifically, because if one thing has been proven over the last couple of years is, with volatile economics in developed markets and a specially volatile commodity environment, for anyone to go out and try to model a point estimate and say, that's going to be my number is, frankly, either incredibly prescient or not very insightful at all. So the way we approach it actually isn't to say, here is the scenario that we're counting on. What we say is, based on this reasonable range of scenarios, some of which have unemployment a little higher, some of a little bit lower. Some of which have consumer confidence a little higher, a little lower. Some of which have inflation higher and lower. We triangulate and say, what do we think that the portfolio can do under this various set of scenarios? And based on that, what comes out of it is, we think in order to continue to invest in the business, in order to get to the new growth platforms while continuing to grow our core business, we think high-single digits is the most prudent long-term guidance. Now might that change, depending on what the economic scenarios actually evolve to, you bet. But we think right now, rather than tell you, you know what, the markets are so volatile we don't know where it's going. What we do is, we try to model a variety of them and we say, you know what, we think under almost all the scenarios we can get to high-single digits and still do the right things for the long term of the business and the long term of the equity. So that's how we get to that number.

Ali Dibadj - Bernstein Research

You mentioned a couple of times, difficult pricing environment between beverages. Can you help to segregate that a little bit, it sounds like it's more developed, but if you think about juices which we'd expect to be up, sports, CSDs, other, what are you seeing and where can we think about the highest potential of a difficult environment?

Eric Foss

Ali, it's Eric. Well, let me first of all say that, as we've said before, as we think about pricing, particularly in this kind of economic environment, our pricing strategy and approach really starts and ends with the consumer. And so if you look at what we attempted to do the latter part of 2010, if you look at how we're approaching 2011, I'd say the best word to describe how we're approaching pricing is balanced, and the reality is, is that we are trying to optimize the consumer value equation and impression, while also balancing the volume and margin trade-offs on the P&L. And so again, we talked about in fourth quarter, the fact that we initiated some post-Labor Day pricing. We did end up having to deal some of that back given the competitive conditions, but at the end of the day, we believe the right long-term approach for this business is to take a very balanced approach. We did show price appreciation in fourth quarter. We intend to show price appreciation and balance the volume price trade-off in 2011. And again, if you look at the history of the beverage category in North America, the reality is, is that there is no history that a volume at all cost mentality or taking a price-based marketing approach has any strategic or sustainable ability with it. So I think at the end of the day, if you look at what we delivered in fourth quarter, we delivered volume growth and pricing growth. We had good mix performance, we also got some rate appreciation and again, we'll take that same balanced approach into 2011.

Operator

Your next question comes from Kaumil Gajrawala of UBS.

Kaumil Gajrawala - UBS Investment Bank

You obviously have a set of assumptions incorporated in your guidance. If the business performs ahead of this, is the plan to drop that upside to the bottom line, or are there further investment opportunities on the table that you're considering?

Indra Nooyi

Why don’t we talk about that when we get to that point, Kaumil. At this point, as Hugh said, we've looked at a range of scenarios and we've modeled our guidance based on that. If economies do much better than our range of scenarios, we'll come back and talk about it then.

Kaumil Gajrawala - UBS Investment Bank

And then just a quick one on productivity, you mentioned you're looking for some productivity to offset the inflation, is this incremental to the programs that we've been talking about for some time? Or is this a part of the regular plans?

Hugh Johnston

No, it's part of the regular productivity that we get. We've obviously worked hard to get productivity in the algorithm this year, but it's part of our regular productivity.

Operator

Your next question comes from Mark Swartzberg of Stifel, Nicolaus.

Mark Swartzberg - Stifel, Nicolaus & Co., Inc.

I guess for you, Indra or Eric, on the U.S. Beverage business. I was hoping you could give us kind of a state of the union. We heard a little bit from you, Eric, there on the pricing and what we've seen more recently, but the data’s pretty clear. It seems like certainly in carbs and in some cases in non-carbs, you are losing share. So I was wondering if you could speak a little bit more broadly about where you think you are and besides kind of '11, if we think longer term where do you think some of the measures you're undertaking today will improve the position you're in today.

Indra Nooyi

Mark, I'm just going to give you some headlines and then toss it to Eric. Let me start by saying, we focus on measured channels because our FoodService business is much smaller. In measured channels, which is the freedom of choice channels, we gained volume share versus our principal competitor in 2010. I want to underline that. We gained volume share and we extended our lead versus our principal competitor in measured channels. I want to underline that. That's in the IRI data, you can look at it.

Mark Swartzberg - Stifel, Nicolaus & Co., Inc.

That's a carbonated comment, Indra?

Indra Nooyi

Beg your pardon?

Mark Swartzberg - Stifel, Nicolaus & Co., Inc.

Is that a carbonated comment, is that an LRB [liquid refreshment beverage] comment? It's surprising to hear you say that.

Indra Nooyi

It's an LRB comment. Look the marketplace is now LRB, you can talk about segment selectively when you want to, but the LRB market, we remain the leader and we've widened our lead over our principal competitor. Look, the Foodservice business has always been a different issue for us because we were not a big player in that business. Now with the acquisition of the anchor bottlers, in 2011 and going forward, as we've told you at our Investor Meeting, we're going to focus back on the Foodservice business, but excluding Foodservice we outperformed our principal competitor on volume and gained volume share in 2010. We feel very, very good about that. Let me turn to Eric to give you more of a state of the union report card. Go ahead, Eric.

Eric Foss

Sure. I would describe the state of the union of our North America Beverage business as follows: first of all, 2010 was a year of major transformation and major progress. The reality is, is we completed the merger, not just of two companies but of three companies, which I think increases the degree of difficulty, and I think our leadership teams performed flawlessly literally across the three benchmarks I laid out early in that process, which were the milestones on progress in North America were going to be, do we complete the integration on time and do we achieve the synergies? We've done both of those. In fact, we beat the synergies last year, and we raised the long-term outlook. The second milestone is do we improve the top line of this business? In fact, we did that. We saw increased sequential volume improvements throughout the year with our best performers being in fourth quarter. We saw three quarters of top line growth, which I think is very encouraging, not just for us, but for the broad North America beverage market. Our third milestone was to improve the profitability, and again we did that each and every quarter. So again, a year of major, major progress in North America. We have very strong fourth quarter, volume was positive, top line was balanced, real strong improvement in profitability, and again as Indra mentioned, we saw positive share swing versus our primary competitor, both in fourth quarter and on a full year basis. And our performance in third quarter and fourth quarter was very, very strong across North America. So the integration is on schedule, and again, we feel very pleased with where we are. We still have opportunities and we'll address those, but at the end of the day, I think the key word to describe our North America business is a year of major transformation and a year of major progress.

Mark Swartzberg - Stifel, Nicolaus & Co., Inc.

I wonder if we could kind of flesh out a little bit more of this spending topic, A, for U.S. beverage and then, B, where appropriate, some of the emerging market spends. But staying on the U.S. beverage side, I guess I don't know how comfortable you're going into channel intentions, but can you give us a little bit on how much of the spend increase is A&M related, how much of that is below the GP line? Just talk a little bit about some of the initiatives given your view of what's happening in U.S. beverage that you think will advance the success you think you have in '10?

Hugh Johnston

Mark, this is Hugh. When we start getting down into these low levels of details around where spend is happening, candidly, I'm not sure it's really all that productive. I think the key message is that you should walk away with from last year's spend are, number one, we invested money in brand building, particularly in the U.S. and in the North America market. And number two, we invested pretty significantly in China, and we shared both of that with you at the higher level. What was the outcome last year? Well, as we mentioned, versus our primary competitor, we gained LRB share in the U.S. in measured channels, and that was just the one place where we know there's data. And then in the other, in China, we gained CSD share versus our primary competitor. So with that level, I think we can point to it, and say, as we make these investments, the investments are working. To try to disaggregate all of the pieces of the investments, I think, is largely unproductive, and I think what we'd really leave you with is, we said last year 11% to 13% EPS growth. We delivered 12%. We're telling you this year, we're going to deliver 7% to 8% EPS growth, and we've given you some cash numbers as well. And I think at that level I think it's the appropriate conversation for us to have. So I know there's always a strong desire to get into more of the details, but frankly I think the conversations often get relatively unproductive, and the amounts of money that we're talking about in the context of a $60 billion PepsiCo, I think, that really is best left to management to manage.

Operator

Your next question comes from Carlos LaBoy of Credit Suisse.

Carlos LaBoy - Crédit Suisse AG

Indra, can you expand for us internationally on the incremental investment, what type of projects, where you're seeing new opportunities expand on the scope of the increase, and maybe you can tie it also into how your M&A thinking is evolving in this tough-to-forecast macro outlook and the criteria that's driving that M&A thinking?

Indra Nooyi

Carlos, investments in emerging markets continue. I mean, those markets are growing significantly top line, economies are growing. We continue to invest in India, continue to invest in China, Russia, selectively in South America. We are beginning to increase our investments in Africa, but very judiciously, and in some other countries in Southeast Asia, whether it's Indonesia or other countries in the Pacific Rim, we are beginning to look at all of these economies and seeing more opportunities for investment in our core categories. Second, from an M&A perspective, there are many tuck-in acquisition opportunities in snacks, in the Global Nutrition Group, many opportunities are coming up. Now as I mentioned to you last year, we've had more opportunities than ever before being presented to us, but again we are quite diligent in our financial analysis and unless we believe an acquisition can really create value and sort of plus up any platform that we have, we don't really make that acquisition. So we've looked at many, many deals, walked away from many, and only take on those like Wimm-Bill-Dann which give us scale, give us a window into a much larger marketplace and then can meaningfully contribute to accelerating top and bottom line for the region or for the company as a whole. So that's really what we've been focused on. And the good news is, we have a process where we track the results of all of our investments. To give you an example, China, we stepped up our investments in China in 2010, 2009 and 2010, and we're beginning to see significant volume growth because of the marketplace investments we made. So that's how we track investments and the return on the investments.

Operator

Your next question comes from Judy Hong of Goldman Sachs.

Judy Hong - Goldman Sachs Group Inc.

I wanted to go back to the Frito-Lay question, and just a couple of questions there. One, just from a category perspective, clearly the economy has had a negative impact on the trends, but just taking a step back and thinking about salty-snack as a segment within macro snacks. You've got other categories like confectionary that's growing at a faster pace, even throughout the downturn. So is salty-snack just more cyclical category that has seen more negative impact? Is it just hit the saturation level that the growth is harder to come by? And then on the pricing side, what should we be monitoring going forward to sort of gauge the ability for Frito to take more pricing to offset inflation? Is it more consumers, is it just looking at the value brands and looking at the price gap?

John Compton

Judy, this is John. Let me come back to the first part of your question around volume growth, unit growth, et cetera. As we’ve said, we had sort of low-single digit unit growth, so that implies that there still is the ability for Frito-Lay in the category to continue to grow. Obviously the volume was offset by the impact of the bonus bags. We were also in a deflationary environment, so no, we and others didn't price during that time frame. And to your point about confectionary, if I look at sort of who were the fastest-growing consumer packaged goods companies in North America, Frito-Lay once again was at the top tier of that. The only companies that grew faster than us were to your point confectionary, but confectionary did have inflation and there was pricing notably in the chocolate market. So there is nothing that we see. The category can at a minimum still grow with population growth, 1%, 1½%. People are continuing to use mini meals throughout the day, i.e. snacking, so we still have the ability to grow occasions in our business. And as long as we remain relevant to consumer trends, be it health and wellness on the one hand, or the changing demographics on the other, or the aging of the population on the third, then we ought to continue to be able to grow the business like we have in the past. So we're optimistic as we look forward about Frito-Lay in our Snacking business overall. There are puts and takes in any given point in time. Was 2010 our best year in terms of volume? No, and we've made some changes to correct that going forward.

Judy Hong - Goldman Sachs Group Inc.

And then on the pricing side, John? What should we be...

John Compton

Yes, sorry, I forgot that point. On the pricing side, I think I've said this on the last call, we sort of see the first six, seven months of this year, as our prices that we have in the market today we're pleased with, and there isn't a lot of price mix in Frito-Lay right now. In the back half of the year, sort of August going forward, we'll adjust as we close out our fourth quarter positions, and it's absolutely going to be inflationary. To what degree yet, we haven't finalized.

Judy Hong - Goldman Sachs Group Inc.

Hugh, you've cited some below the segment operating income expenses that will hit 2011 like pension expenses, the investment behind the Global Nutrition Group. Can you quantify how much those are?

Hugh Johnston

Yes, so Judy, again, what we're really trying to do is get everyone zeroed in on the EPS rather than get into all the individual elements of what's going on inside of the P&L. As I mentioned, if anything we'd expect to see from operating profit down to EPS flat to negative leverage. So I think from that you should have enough information to basically model what they'd look like in total.

Indra Nooyi

Thank you. Let me just wrap up. We feel good about the year we just delivered. We feel great about the progress we've made in strengthening our businesses. We feel good about the momentum we have going into 2011, and we feel good about delivering on our targets we've shared with you today. If we can leave you with one single message, we expect to make our portfolio work to deliver top-tier performance in 2011, just as we have in recent years. Thank you for joining us this morning. I look forward to speaking with you again soon and seeing those of you who'll be at CAGNY later this month. Thank you.