Good morning and welcome to PepsiCo's Second Quarter 2014 Earnings Conference Call. (Operator Instructions) Today's call is being recorded and will be archived at www.pepsico.com. It is now my pleasure to introduce Mr. Jamie Caulfield, Senior Vice President of Investor Relations. Mr. Caulfield, you may begin.

Jamie Caulfield

Thank you, operator. With me today are Indra Nooyi, PepsiCo's Chairman and CEO; and Hugh Johnston, PepsiCo's CFO. We'll lead off today's call with a review of our second quarter 2014 performance and outlook, and then we'll move on to Q&A.

We have kept our comments brief this morning and intend to conclude the call by 08:45, to be respectful of your time during a busy earnings week, and we'll do our best to get to as many of your questions as we can. Before we begin, please take note of our cautionary statement.

This conference call includes forward-looking statements, including statements regarding 2014 guidance and our long-term targets based on currently available information. Forward-looking statements inherently involve risks and uncertainties that could cause our actual results to differ materially from those predicted in such forward-looking statements. Statements made on this conference call should be considered together with cautionary statements and other information contained in today's earnings release and in our most recent periodic reports filed with the SEC.

Unless otherwise indicated all references to EPS and operating profit growth are on a core basis. In addition, references to organic revenue results in this call exclude the impact of acquisitions and divestitures, structural changes and foreign exchange translation. To find disclosures and reconciliations of non-GAAP measures that we use when discussing PepsiCo's financial results, you should refer to the glossary and other attachments to this morning's earnings release and to the Investors section of PepsiCo's website under the Events & Presentations tab.

As we discuss today's results, please keep in mind that our second quarter comprises the 12 weeks ended June 14, for our North American operations in the months of March, April and May for most of our operations outside of North America. As we have mentioned in our earnings release this morning, core operating profit growth rates are impacted by lapping a $137 million gain from the re-franchising of our Vietnam beverage operations in the second quarter of 2013, partially offset by incremental investments of $46 million made in the prior year quarter

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

Indra Nooyi

Thank you, Jamie, and good morning, everyone. Thank you for joining us this morning. We are pleased with our second quarter and our first half results. Despite operating and what continues to be a challenging and volatile macro environment, we have been consistently meeting or exceeding our financial goals over the last two and half years. I believe our results reflect the hard work we have done over the last several years to position our business for sustainable success; specifically our investments to strengthen our brands, innovate more effectively, expand our geographic footprint with strategic acquisitions, drive better execution, and operate more efficiently by leveraging our global scale and complementary product portfolio.

Today, these actions and investments are producing consistent tangible results. Based on the strength of our first half results, in our outlook for the remainder of the year, we are increasing our full year core constant currency 2014 EPS growth outlook to 8%.

So let me share with you some of the performance highlights of the second quarter. Organic revenue grew approximately 4%, with global snacks up 5% and global beverages up 2%. We managed the business responsibly achieving three points of effective net pricing to effective price packed revenue management. Each of our four business units delivered organic revenue growth led by high single-digit growth in EMEA and mid-single digit growth in Europe and PepsiCo Americas Foods.

Developing and emerging markets posted solid 8% organic revenue growth led by low double-digit growth in China, high single-digit growth in Brazil and mid single-digit growth in Russia. Innovation continue to play an important role in our topline growth and accounted for 9% of our net revenue.

Core gross margins improved by 60 basis points. Excluding the Vietnam gain, that is incremental investment from the second quarter of 2013, our core constant currency operating profit rose 6%, core operating margin improved by 65 basis points and core constant currency EPS grew 9%. On a rolling four-quarter basis, our core net ROIC improved by 30 basis points and now stands at 16.5%. In the first half of 2014, we returned $4 billion to shareholders in the form of dividends and share repurchases, a 46% increase versus last year. As we previously announced, we expect to return $8.7 billion to shareholders in 2014 in the form of dividends and share repurchases, a 35% increase over our 2013 cash return to shareholders.

Importantly, we achieved our targeted productivity savings in the quarter and remain on track to achieve our full-year target of $1 billion, which represents approximately 3.5% of our operating cost base excluding commodities and A&M expense.

This year we successfully complete the three-year $3 billion productivity program we launched in 2012 and we are now focused on our next generation's five-year 5 billion productivity programs for 2019 announced earlier this year which is really centered on four key areas.

First, embedding more automation in our operations replace labor with capital. Second, expanding shared services, including global financial shared services for the handling of routine back office transaction processing. Third, restructuring, manufacturing to optimize our global manufacturing footprint. And fourth, restructuring our go-to-market systems to optimize our distribution network.

As a result of these initiatives, we expect to see continued improvement in net revenue and core earnings before interest and tax as per employee, as well as margin expansion and returns on invested capital.

So with all this as a backdrop, let's take a look at how the business has performed, starting in North American. The North American consumer picture continues to be weak with retail sales among the top, the food and beverage manufactures roughly flat in the quarter, a slight deceleration from the first quarter.

In this challenging environment, PepsiCo grew sales at retail across each of its North American snacks and beverage businesses and was a largest contributed to retail sales growth among the top 30 manufactures.

Frito-Lay North America performed well with organic growth of 2% and core constant currency operating profit growth of 5%. Net price utilization was somewhat mutual in the quarter, as we benefitted from commodity cost deflation.

Core operating margins expanded 80 basis points despite an increase in advertising and marketing and affected savings from our productivity efforts. Our top-line growth is driven by strength across most of our largest trademarks, with Lays, Doritos and Cheetos each posting revenue growth in the low to high single digits.

Our broader macro-snack offering were also doing well with strong performance in shelf stable dips, crackers, our line of Smartfood snack and the Sabra line of refrigerated hummus, dips and spread. As we look to the second half, we are encouraged by the strength of our innovation and consumer engagement program leveraging some of our biggest brands.

In April, we launched Doritos Jack mystery flavors with nationwide distribution. Consumers voted for their favorite mystery flavor online. Earlier this month, we revealed the three flavors, Spicy Street Taco, Chocolate Chipotle Bacon and Caribbean Citrus Jerk. Spicy Street Taco was a consumer voted favorite and we launched it this fall as a permanent Jack flavor.

We also brought back the U.S. the highly successfully Lay's Doritos flavor campaign. We've received more than 14 million consumer submissions, nearly four times a submissions we received for last year's campaign.

On July 17, we announced the four finalist among consumer submitted flavors, Cappuccino, Cheddar Bacon Mac & Cheese, Mango Salsa and Wasabi Ginger. And these products are now hitting store shelves. Our consumers will now have the opportunity to vote for their favorite new Lay's flavor. And we are especially excited about the progress we're making in food service innovation.

On July 2, we launched Doritos Loaded exclusively at more than 5500, 7-Eleven stores nationwide. Doritos Loaded is a delicious hot snack served with melted Nacho Cheese and encrusted with Doritos. Our launch of loaded created a great deal of tradition and social media buzz generating more than 750 million impressions to-date. And it has also featured on Jimmy Kimmel live.

Each of these programs has a strong demonstration of how we are leveraging our Culinary center to create unique great tasting new products and driving excitement in the vendors to create a consumer engagement.

Turning now to Quaker Foods North America, despite continued challenges across most central store food categories, we gained value share at retail in each of Quaker's key categories, hot cereals, ready-to-eat cereals and snack bars both in the quarter and year-to-date. Core constant currency operating profit growth rose 5% of the quarter with operating profit margins expanding 155 basis points.

We are pleased with the performance of our recent innovation in 2014. We launched Quaker Express Cups which provides Quaker Instant Oatmeal in the convenient on-the-go cup. We also introduced the first of its kind hot cereal; Quaker Warm & Crunchy Granola which delivers both the wholesale goodness of Quaker Oatmeal and the satisfying crunch of market grain granola.

And finally, we are continuing to build in the success of our Real Medleys platform this time in a ready to eat cereal form. In North American beverages, we're encouraged for the continued progress we're making. In the second quarter and in the first half, we gained U.S. LRB value share and achieved positive net price realization at retail.

Notably, PepsiCo has held or gained relative U.S. LRB value share in major channel versus our closest competitor in each of the last five quarter. In the quarter, we also achieved greater net price realization retail and our primary competitor and the category overall.

Within the LRB category, we held or gained value share across a number of important sub-categories including CSDs, sports drinks, ready to drink tea and chilled juice and we grew retail sales in major channels in the U.S. for regular CSDs led by trademark Mountain Dew just up mid-single digits and with our non-carb portfolio for Gatorade, Lipton Tea, Starbucks Coffee and Naked Juice.

In the quarter, PAB grew both organic revenue in core constant currency operating profit with core operating profit margin expanding by 25 basis points. We're also excited about the progress we're making on the innovation front. In the second quarter, we introduced PEPSI SPIRE, our state-of-the-art beverage dispensers which allows consumers to create more than 1,000 customized beverages with a touch of screen while providing our food service partners flexible, cost effective, reliable equipment that best fits their needs.

PEPSI SPIRE is currently available in select U.S. locations and will continue to roll out for the rest of the year. On May 5, we also brought Mountain Dew Baja Blast to the shelves for a limited time, leveraging on the success of the fountain brand ahead of Taco Bell. Mountain Dew Baja Blast is a second largest and fastest growing fountain beverage sold at Taco Bell and may now expand the reach of the fan favorite brand.

And concurrent with the launch of the Doritos Loaded, we introduced Solar Flare, our tropical punch take on Mountain Dew exclusively at 7-Eleven. We are leveraging of the high purchase coincidence of Dew and Doritos with joint advertising, point-of-sale communication and promotion. And we are pleased with the performance of our expanded package offerings with strong double-digit growth in mini cans as well as 12 ounce glass bottle from the second quarter.

These new packages have enabled us to realize new price packed revenue benefits while maintaining flexibility for price competitiveness. So that's another American story. Western Europe performed well with organic revenue 3% in the second quarter in a difficult retail and competitive environment.

Turning now to developing and emerging markets. In Mexico, we continue to navigate for the new the new taxes on certain foods and beverages. And as a reminder, we've taken pricing in snacks and our bottler has taken pricing in beverages to pass the taxes through to the consumer.

In the quarter, in Mexico, our volume decline in snacks moderated sequentially while beverage volume returned to growth as consumers began to adjust to the higher prices and our systems drove beverage share gains through improved market sales execution. We'd dealing with the tax driven price increase throughout the year and expect some quarterly volatility to continue, our results so far are in line with our expectations.

In Venezuela, we are managing through high inflation, political unrest, supply chain disruptions and continued uncertainty regarding the applicable exchange rate. Despite all the challenges, our businesses in Venezuela performed very well in the quarter with revenue up strong double-digits across both snacks and beverages.

Brazil delivered high single-digit organic revenue growth, led by double-digit organic revenue growth in beverages and high-single-digit organic revenue growth in snacks. We did a particularly effective job leveraging our global soccer properties in this market during the time when soccer was very much top of mind. Our integrated campaign featured an impressive roster of the world's premium soccer players and included television advertising as well as digital, out-of-home, in-store and point-of-sale marketing.

In Russia, organic revenue rose mid-single digits with double-digit growth in snacks and low-single digit growth in beverages. And we saw strong organic revenue growth in a number of other East European markets, including high single-digit growth in Turkey and low double-digit growth in Poland.

Moving across EMEA. Organic revenue growth was led by Thailand, which pronged double-digit organic revenue growth, followed by Egypt and the Philippines, which also grew double-digits.

China organic revenue grew low double-digits driven by strong growth in our snacks business. The productivity restructuring program initiated by our bottling partner in the first quarter has achieved solid progress. Our partner has taken a well-planned deliberate approach to execute the program to ensure that our entire system is positioned to capture its full long-term efficiency and effectiveness benefits.

We remain committed to the developing and emerging markets as we believe they have a long runway for growth driven by increasing demand for our convenient on trend affordable products supported by rapidly growing middle class.

We believe we are well positioned to capitalize on these opportunities. So to conclude, we are off to a terrific start in 2014 with the pieces of our complementary portfolio working together to generate healthy top line and bottom line performance as we also step up the terms on investments and cash returns to shareholders.

Clearly, there are number of challenges around the globe but the shape and resilience of our portfolio combined with strong execution and aggressive productivity should enable us to navigate successfully to the current environment. Let me now turn the call over to Hugh. Hugh?

Hugh Johnston

Thank you, Indra and good morning everyone. Let me spend a few minutes discussing the quarter and our upwardly revised core constant currency earnings per share outlook for 2014. First for Q2, organic revenue grew 3.6%. On a reported basis, net revenue was up 0.5 point versus a year ago, reflecting 3 points of unfavorable foreign exchange translation and a slight negative structural impact primarily from the refranchising of our Vietnam bottling operation. Commodity cost had low single-digit inflation. Our core gross margins improved about 60 basis points and core operating margins rose 10 basis points.

Core operating margin rose 65 basis points when excluding the gain from refranchising Vietnam net of incremental investments from last year. Core constant currency operating profit grew 3% and approximately 6% excluding the Vietnam gain and investments from last year. Our quarter effective tax rate was 26.3, 2 percentage points above Q2 2013.

Our fully diluted share count declined 2%, reflecting the benefits of our ongoing share repurchase program. And core constant currency EPS grew 3% and 9% when excluding the Vietnam gain and investments from last year. And we returned $4 billion to shareholders in the first half in the form of dividends and share repurchases which was 46% above year ago levels and reflective of our commitment to return cash for shareholders.

Now turning to guidance. As Indra mentioned, based on the strength of our first half results and our outlook for the balance of year, we’ve increased our full year core constant currency EPS growth target to 8%, up from 7% previously. Our other targets remain unchanged. We expect mid single-digit organic revenue growth, low single-digit commodity inflation and productivity savings of approximately $1 billion.

Below the division operating profit line, we expect corporate cost efficiency driven by our productivity initiatives, a core effective tax rate of approximately 25% and a reduced share count from our share repurchase program.

Foreign exchange is expected to negatively impact net revenue by 3 percentage points and core earnings per share by 4 percentage points for the full year 2014, based on current market consensus rates. Taking our 2013 core EPS of $4.37 and applying our guidance implies 2014 core EPS of approximately $4.54.

As many of you know, the foreign exchange picture in Venezuela is very dynamic at the moment with three different exchange rates and the possibility for a converged mechanism. Our second quarter results were translated to U.S. dollars at VEB6.3 to the U.S. dollar. Our current FX forecast, which is based on current market consensus rates, assumes a blended rate of approximately VEB9 to the U.S. dollar for the balance of the year.

As you model out for third quarter, I'd ask you to consider the following. We expect foreign exchange translation to have an approximate 2 point unfavorable impact on both third quarter revenue and third quarter EPS based on current market consensus rates. We do expect to ramp up advertising and marketing expense in the quarter and below the division operating profit line, net interest expense is expected to increase in the third quarter versus last year, primarily reflecting higher debt balances and higher rates.

From a cash flow perspective, we continue to expect full-year free cash flow excluding certain items of more than $7 billion. We will continue to drive cash flow through efficient working capital management and continued tight controls over capital spending. Net capital spending should approximate $3 billion, which is well within our long-term target of less than or equal to 5% of net revenue. We expect to return approximately $8.7 billion to shareholders in 2014, a 35% increase over 2013 through a combination of $3.7 billion in dividends and $5 billion in share repurchases.

So to summarize, we've increased our core constant currency EPS growth outlook for the full-year 2014 to 8% from 7%. We expect to drive improved full-year margins and net ROIC and discipline capital allocation and returning cash to our shareholders, remain top priorities for the company.

With that operator, we will take the first question.

Question-and-Answer Session

Operator

Thank you. (Operator Instructions). John Faucher with JPMorgan.

John Faucher - JPMorgan

Wanted to follow up on the Frito results. From an organic revenue standpoint it is the weakest quarter you guys have put up in a while. You had some promotional activity or give us the flavor in the year-ago period. So I guess can you talk a little bit about what you are seeing in the general environment out there? How much the weakness for the quarter was what you saw generally in FDM in Q2? And then as we look to the back half back half of the year, and you talked about maybe a little bit more new product activity, etc., what is the confidence level in terms of Frito volumes and/or organic revenue improving in the back half of the year? And as part of that, is the promotional environment getting any worse given some of the weakness in volumes we have seen across the food industry? Thanks.

Indra Nooyi

Thank you, John and thank you for your question. We are not particularly considered about the Frito-Lay performance. Clearly the North American retail environment saw an abrupt slowdown in period five and we were very careful to manage this business responsibly and not hit the promotional lever in order to just drive revenue or volume growth. We also delayed one marketing activity from Q2 to Q3. We're already beginning to see a ramp up in performance. So at this point, based on all the trends we are seeing, the strength of the marketing calendar in the second half, our A&M spending that we're expecting in the second half, the productivity programs, we feel pretty good about Frito-Lay.

Operator

Our next question comes from the line of Bryan Spillane with Bank of America.

Bryan Spillane - Bank of America

As we looked at the gross margins for the quarter, can you just parse out for us how much benefit you have gotten from gross margins from just pure pricing? And how much of it was maybe just from commodity cost inflation coming down? Just trying to get I guess an understanding as we are pacing forward if there is more momentum here on gross margins.

Hugh Johnston

Yes, good morning Bryan. Obviously it was a combination of a couple of things, Bryan. Number one, the commodity inflation environment right now is relatively muted. It was in line with our expectations because of the previously discussed forward buying program that we have for commodities, and at this point in the year we're about 85% bought for 2014. So we are comfortable with what our outlook is on the front.

Number two, without that particularly in more inflationary countries we are getting some pricing and we expect to continue to do that. In businesses where we don't see a lot of inflation, we're not taking a whole lot of pricing, we're taking a bit, but where we have commodity deflation we don't feel forced to do that.

And number three, I'd point out is, the fact that innovation continues to ramp up. It's about 9% of sales. Innovation does allow us to realize net effective pricing. So with that parsing all of the individual pieces, they're all contributors, and I think we expect them all to continue. So I think we're going to continue to see could gross margin improvement.

Operator

Our next question comes from the line of Ali Dibadj with Bernstein.

Ali Dibadj - Bernstein

I wanted to ask a little bit about the sustainability of these clearly good results that we have seen so far. And in particular, when you look at each of the segments, Europe is the only segment out of the six where you call out advertising and marketing being up. In fact a couple times you see lapping of incremental investments. So this is now the second quarter in a row where we see kind of a similar narrative. So I'm trying to get a sense from you guys of what is overall happening to advertising and marketing in the first half of the year. Because it seems like it is going down as a percent of sales. And do you view that as sustainable going forward or do you expect there to be a ramp up on advertising? And as you talk about that, which is the core question on sustainability, if you could throw in a comment about Russia. I think there are some concerns about that, we have heard that from some other companies for sure in your sector and the sustainability there, as well as your Latin America growth being driven by Venezuela and Argentina where there is a question mark. But advertising was the main question and the other two add-ons if you could please.

Indra Nooyi

So Ali, it is a big question. One of the things you said, and we have been very-very clear in this, even within our company is that whatever we've set out as an A&M goal for the year, we will not cut it. We will spend it based on the marketing calendar and to make sure that it's spent properly during the year. But we're not going to cut A&M budgets for any year. When we took the big A&M step up in 2012, we made a commitment to us, also then to you that A&M is something that we will hold as a percentage of sales. And we are going to keep that number through the year. So you should feel very-very comfortable that across the company, the number is going to remain at 5.9%. I thought that I had to say that number. It will rise with sales and it will stay that way. And that's true for every segment.

Let's talk about Russia and Latin America, all of the questions. You know in Russia, clearly there are some geopolitical issues. Our businesses is doing just fine at this moment, but you know we are basic food and beverage and the Russian consumers still need to eat and drink. And so, except for the FX issues, the business; yes, we're doing okay. And Hugh, I don't know if you want to comment about Venezuela.

Hugh Johnston

Yes. I mean it's certainly the Latin American environment, it's an inflationary environment. The good news from our perspective is that we do have strong market positions in the snack-food business and our beverage business is doing actually quite well down there right now. As a result we are but able to get the pricing to cover the inflation that we're facing down in that market and as a result we feel compatible with the trajectory at the Latin American business. So to tie all of that together, Ali, your question around the sustainability of the results, obviously we contemplate the volatile realm that we live in. We contemplate what's happening inside of the company. We've made commitments around R&D and A&M and I'm not cutting those things. And as a result we feel comfortable raising the guidance in spite of all those volatile factors, and that's why we did raise the guidance for the year.

Operator

Our next question comes from the line of Bill Schmitz with Deutsche bank.

Bill Schmitz - Deutsche bank

Can you guys just take a stab at why you think the categories, especially in the US, have been so weak recently, and then maybe what you think it is going to take to kind of get them accelerating again? Because obviously, they are trending way below trend.

Indra Nooyi

Well, I think overall food and beverage has decelerated from years ago. People are consuming differently, I think there's been a trend towards fresh produce, fresh grocery products, more making your food as home as suppose to buying package food and beverages. And I think people have also been eating out, so food away from home is doing just a little bit. And I think from PepsiCo's perspective the strength of our brand, the strength of our innovation, strength of the complementarity of the portfolio and that fact that we have very popular distribution systems into the retail stores, this launch is enabling us to be the largest contributor to growth among the 30 largest manufactures in the U.S. retail environment. So I think as long as we keep innovating and leveraging our distribution system and really helping the retailers offset some of their labor cost through our DLT systems in high velocity category, we should be able to drive growth. And then on the food service side, they are now with the Culinary centers both in beverages and snacks and all the work we are doing on complementary offerings between snacks and beverages has been to drive a lot of excitement in food services, whether it be Buffalo Wild Wings or 7-Eleven, food service or Taco Bell. I think more and more food services customers are coming to us and saying, what can you do for us to drive traffic and to drive tickets. So it doesn't matter if somebody comes into buy a product from the sea store and they also be attracted to stop by the food service side and pick up something for immediate consumption. So that's really what they are working on, taking a relatively low growth North American retail environment and positioning ourselves to be the highest growth food and beverage company and that's really our strategy. And I think our portfolio as a fact that we have high velocity categories is making us a very valuable partner to retailers all across the country.

Operator

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

Dara Mohsenian - Morgan Stanley

Clearly at the corporate level you realized significant pricing in Q2, it drove mostly organic sales growth. So I just wondering how comfortable you are going forward that that strong pricing can continue given the moderate commodity environment as well as the challenged consumer. And then secondly, Hugh, we have really started to see a turn in the operating margin performance for the Company the last couple of quarters here, if one strips out the Vietnam gain. So I was hoping you could also give us an update on the key drivers behind that year-to-date performance and sustainability going forward as we look to the back half.

Indra Nooyi

Yes. In terms of pricing, remember pricing as Hugh mentioned earlier, it's not an across the board pricing we just implement, it's done very surgically, innovation helps us drive pricing, in countries where we believe that inflation is high we take pricing to cover the inflation to the extent we can. We do a lot of revenue management in order to get pricing. So pricing is something we realized through surgical management of innovation, in market pricing, revenue management and very careful execution, based on the different channels. And the balance of the year, we feel comfortable that we can sustain pricing and our goal is to focus on value share always, because I think in categories that are slowing down in particular, focused just on volume is an unhealthy trend. So we are very, very careful to make sure that we carefully balance pricing with volume growth and not try to go for volume at all costs. And that's what really allowed us to get good revenue growth and get good pricing realization.

Let me turn to Hugh to talk about the operating margin.

Hugh Johnston

Sure Dara, obviously we saw very good operating margin accretion in Q1 and then Q2 the number was 65 basis point, I think you will continue to see good operating and more improvement year-over-year as we progress through the coming quarters, I don't know that it's going to stay quite at the levels that we've seen in the first two quarters of year. But I do think we're going to continue to see good operating margin improvement. And the big driver behind that of course is the $1 billion productivity program that we've put out there, that productivity program directly attacks the $28 billion operating cost structure that we have and as we work through the productivity program, you are seeing and in fact flow through the bottom line which is why you're seeing good leverage from revenue down to EPS.

Operator

Our next question comes from the line of Steve Powers with UBS.

Steve Powers - UBS

I guess maybe on the margins a little bit more. Overseas and really outside of the Americas you have made good progress on the profit growth and margin expansion this year in Europe especially. A bit less so though in EMEA, even adjusting for that Vietnam gain. Can you talk about the puts and takes there in each region perhaps, if you could, differentiating between progress in snacks versus beverages in each region? And maybe as you do, given that we have seen you re-franchise beverage businesses in China, Mexico and Vietnam recently, what is the likelihood that you might pursue similar efforts in other geographies whether Western Europe, Russia or India where you still hold the bottlers? Thanks.

Indra Nooyi

Thanks you for the question Steve. Again, we don't get into the puts and takes by region, but broadly speaking Europe has been relatively stable. Even those retail environment is difficult, geo-politically it's been stable year-over-year. And we put through productivity programs, we've become more efficient in terms of how we run the whole region and that's why you saw improving margin trends. We have been one of the strong performers from a top line basis in Europe and again the complementarity of our categories is really helping drive traffic and top line growth at many retailers. I just had a series of talks with many European retailers and I must say looking at the numbers, we've outperformed same store sales of many of those retailers by a significant factor. So I feel pretty good about the European trends.

In the case of EMEA, parts of EMEA that are going to significant geopolitical issues. The Middle-East has got significant issues, we've had the IQAMA issue in Saudi Arabia.

So the reason you're seeing a little bit muted margin trends in EMEA is because we've had to power through those geopolitical issues. Coupled with the facts that as we mentioned in our script, in China, we're going through the transition of our system into Tingyi and we want to make sure we don't rush it, we want to make sure we do it responsibly, we want to make sure we do it right because at the end of the day we are trying to build a very efficient and effective system. And we are making sure that we work constructively with our bottling partner Tingyi to end up with a system that really plays at its strength which is in almost 1.6 times the size of the next competitor. So that's really why you saw better margin expansion in Europe.

In terms of refranchising our business, where we think it makes sense, where we think our partner is stronger and where we think we have a partner, where we refranchise the business to ensure the continued health of the business, we will look at it. But if we believe that refranchising could jeopardize the business, we will not refranchise it. So we look at it on a case-by-case basis. In Vietnam, you saw that we did refranchise the business; in Mexico, where the business is performing very well. I mean countries where it makes sense, we do it. So stay tuned as we find interesting opportunities, we will be back to talk to you.

Operator

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

Judy Hong - Goldman Sachs

So I just wanted to go back to maybe North America beverages and talk about the pricing environment. Clearly I think some of the industry participants have become a little bit more rational in terms of the pricing strategy. We are going to be -- start to lap the pretty heavy promotional period you saw a year ago around Labor Day. So just your thoughts on the competitive environment and the pricing outlook in North America CSD. And then secondarily, just thinking about the diet trends, and we are lapping a big decline that you started to see in a year ago period. So what are you seeing just in terms of now more consumer perception around the diet portfolio and your efforts to perhaps address that issue?

Indra Nooyi

Pricing environment is just fine. I think that we have rational pricing and we've always said we were going to price responsibly and we've continued doing that and we're glad the industry is being responsible too. On the diet trends, I mean you've seen the numbers Judy. We continue to see declines in diet and this is something that seems to continue.

Operator

Our next question comes from the line of Amit Sharma with BMO Capital Markets.

Amit Sharma - BMO Capital Markets

Indra, just wanted to quickly talk about Mexico, especially the beverage performance, pretty encouraging. Is that in-line with expectations that you will see year-over-year growth so soon after the higher tax implementation there? And also, does this reduce the threat of similar taxation efforts in the US or what you will model if some similar tax is adopted here?

Indra Nooyi

On the Mexico beverage performance I think when we refranchised our business to the combination of Polar and GEUSA and created GEPP that company is performing very well. In market execution is excellent and they are doing a very good job. So I think the reason we are growing the business is because of superior execution. In the case of taxes in North America, the good news Amit is we have a total portfolio of carbonated, non-carbonated, full sugar, low sugar, all kinds of products. So from a consumer perspective if they shift from one category to another, there is always a

PepsiCo product they can have for any need state, for any sugar level, for any taste, for any flavor.

So I think that, that is the advantage of the PepsiCo portfolio. And incidentally, they can also pair it with a great snack. So we feel good about the complementarity of the portfolio, the breadth of the portfolio in North America and our goal is to make sure there are no discriminatory taxes but to work constructively with state governments and other organizations to make sure of whatever is done, is done responsibly.

Our final question comes from the line of Mark Swartzberg with Stifel Nicolaus.

Mark Swartzberg - Stifel Nicolaus

Obviously you are not going to change the Company's view on a breakup in this call, but there are two data items I wanted to ask you about. One is on the corporate unallocated and how it is built up. Do you intend to share that build up? And then the second one is on the subject of dis-synergies, it's been a couple years now since you put a number out there, you put the $800 million to $1 billion number out there talking about separation related dis-synergies. Is that still in number you abide by? And do you have any plans, if it is a number you abide by, to share that build up?

Indra Nooyi

Mark I was hoping you talked about the good quarter, but having said that, hoping unallocated we have given you the numbers, we have said that if you look at the total corporate cost, about half of it is compliance cost which is about the lowest of any company. The other half is either the vision cost we carry at corporate because we want to manage the volatility; for example like pension costs or commodity mark-to-market. The others, you know smaller bucket which is centrally driven capability cost because we want to make sure that we protect those costs and build the capability. So the numbers we put out remain unchanged. In terms of this synergy, there’s no reason for those numbers to change. I mean we spent an incredible amount of time checking the ties on this and this is the conservative estimate. And this company is engineered as one, and we feel very comfortable about the vigor with which we analyzed the proposals and we stand by our 800 million to a billion-dollar number. So thank you for the question.

So let me close by reiterating that we’re pleased with our results for the first half. We’re confident that our plans are working, and believe we are on track to deliver our financial targets for 2014. I want to thank you all for your time and questions this morning, and more importantly for the confidence you have placed in us with your investments. Have a wonderful day.