

Good morning and welcome to PepsiCo's Fourth Quarter 2015 Earnings Conference Call. Your lines have been placed on listen-only until the question-and-answer session. 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 - Senior Vice President-Investor Relations

Thank you. Joining me on the call today are Indra Nooyi, PepsiCo's Chairman and CEO; and Hugh Johnston, PepsiCo's Vice Chairman and CFO. We'll lead off with prepared comments and then we'll turn to Q&A. And recognizing it's a busy earnings day, we'll end the call at about 8:45.

As we begin the call, it's important to note the following. We will make forward-looking statements on this call. Any forward-looking statement inherently involves risks and uncertainties that could cause actual results to differ materially from the current predictions and expectations. Information on such risks can be found in today's earnings release and our most recent Form 10-K and subsequent SEC filings. In addition, we will discuss results using non-GAAP measures. You can find GAAP to non-GAAP reconciliations on our website in the Investors section under the Events and Presentations tab.

As we discuss today's results, keep in mind that our fourth quarter comprises the 16 weeks ended December 26 for our North American operations and the months of September through December for most of our operations outside North America.

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

Indra K. Nooyi - Chairman & Chief Executive Officer

Thank you, Jamie, and good morning, everyone. And if I sound funny this morning, it's because I'm nursing a very bad cold. I'm pleased to announce that PepsiCo has delivered to shareholders a terrific year in 2015, with strong organic revenue growth and 10% core constant currency EPS growth. We simultaneously enhanced our competitiveness and prospects for future growth, while meeting or exceeding each of the 2015 financial goals that we shared with you this time last year.

From a strategic perspective, we held or gained market share across most of our key markets. We built the strength of our brands, evidenced by both our strong organic top-line growth and 40 basis point increase in A&M as a percentage of sales. We continued to extend our innovation advantage,

growing new platforms such as MTN DEW Kickstart, Stacy's Pita snacks and Inner Smile dairy drinks in China, and simultaneously invested for the future by increasing our R&D spending.

We continued to win in foodservice by adding Disney in China, SUBWAY across several countries and renewing Yum! in China, due primarily to our broad product portfolio and superior customer service. And we enhanced our offerings to our foodservice partners in 2015 through the establishment of exciting new platforms like Stubborn Soda, MTN DEW BLACK LABEL and Hello Goodness vending. We added major new marketing properties with the NBA and the UEFA Champions League. And we expect to derive value from them through our rapidly-expanding global marketing and design capabilities. And we delivered a record-setting year for productivity as our outstanding operating teams leveraged our global supply chain Center of Excellence to execute best practices and new ideas with great precision across all of our businesses.

While delivering strong strategic results, we delivered financially. We targeted mid-single-digit organic revenue growth and delivered 5% growth. We targeted core operating margin expansion and delivered a 30 basis point improvement. We delivered 10% core constant currency EPS growth against our initial target of 7% and converted 120% of core net income to free cash flow, excluding certain items, through strong capital management. This strong cash generation enabled us to provide attractive cash returns to our shareholders, a total of \$9 billion in 2015. And our core net return on invested capital stands at 19.6% at the end of 2015, up 430 basis points over the past three years.

I am particularly pleased to note that we achieved these results in the face of a challenging macro and external environment. Over my several decades in business, I have never seen this combination of sustained headwinds across most economies, combined with high volatility across global financial markets. From my meetings and observations traveling around the world, I have noted slow economic growth or recession across all but the U.S. – across the U.S. and a few other countries, as a combination of geopolitics and oil have created many challenging economic outcomes.

The slower economic growth has resulted in lower demand for commodities, which has put extreme pressure on previously-booming economies like Russia, Canada and Brazil, just to name a few. In order to address slowing demand, central banks have few tools to kick-start their economies, as these tools have largely been fully exploited over the past several years. In addition, increased government regulation, including increased taxation, labeling requirements and limitations on social programs, are placing further pressure on consumer demand.

These macro issues have created three broad risks for the consumer and for CPG companies. First, the widespread economic malaise has created a strong U.S. dollar, which has the effect of creating local inflation in international markets and threatens to derail the U.S. economic recovery. Second, volatile financial markets may cause a pullback in corporate investment and consumer spending. And finally, the continued weak economic performance is causing widespread political and social turmoil across the globe, which may create even greater economic harm.

In the face of these challenges, our geographic sectors managed very well during 2015, exploiting the more positive environments for superior results, while carefully navigating weak environments to balance tight cost management with judicious investment to surgically capture growth.

In a relatively positive macro environment, our performance in North America was particularly strong, with both Frito-Lay North America and North American Beverages turning in very good operating and financial performances. Each posted 3% organic revenue growth and 7% core constant currency operating profit growth for the year.

Frito-Lay North America once again delivered consistent results, while continuing to transform its package architecture in potato chips and its go-to-market system through further expansion of the GES program.

North American Beverages had its best financial performance in recent memory, benefiting from the continuation of improved industry pricing dynamics, a broad product portfolio and continued positive innovation performance.

And Quaker Foods North America began a turnaround in 2015, delivering positive organic revenue results for the first time in several years and gaining value share across its breakfast categories of hot and ready-to-eat cereal and Aunt Jemima syrup and mix. And I'm pleased to report that PepsiCo once again was the single largest contributor to U.S. retail food and beverage growth for our customers. For the full year, we provided more growth in U.S. retail sales than the next 15 largest food and beverage manufacturers combined. And it's this success that uniquely positions us as our customers' go-to partner to drive growth.

When we look beyond North America, our international divisions clearly dealt with the lion's share of the macro challenges that I mentioned earlier. And yet despite these challenges, we were able to grow organic revenue 8% and core constant currency operating profit 6% for the year by executing effective pricing strategies, launching exciting innovative products, localizing

sourcing to address FX transaction headwinds and driving productivity that provided investment funding that will propel future growth.

So overall, a very good performance for the year and we believe we are well-positioned as we enter 2016.

Now, you may recall that we focused on one of our big performance-driving initiatives on each of the last three earnings calls. On our prior calls, we covered innovation supported by sensible brand management, then we talked about flawless execution. And last time, we talked about self-sustaining productivity. Today I want to focus on the fourth of these initiatives, cash generation and food and capital allocation.

Now, a substantial portion of our earnings converts to free cash flow and we generate a lot of cash. In fact, over the past three years, we've converted more than 100% of our core earnings to free cash flow and we generated more than \$24 billion in free cash flow, excluding certain items, including \$8 billion generated in 2015 alone. More broadly, we are highly disciplined in how we allocate this cash, with a particular focus on returning cash to shareholders.

Our first capital allocation priority is to invest in the business, not only in the form of CapEx and working capital, but also within the P&L, in A&M, R&D and marketplace investment in routes and racks. In fact, since 2011, we've increased A&M as a percentage of sales by 110 basis points and R&D spending is up 40%.

We have rigorous capital planning and review processes. Our CapEx investments have very attractive returns on investment. And we continually find ways to drive returns even higher by driving greater fixed asset utilization and by reducing the cost of adding capacity. Over the past four years, we have reduced CapEx as a percentage of sales to 4.4% on a rolling four quarter basis, which is an improvement of 60 basis points. On a revenue base of \$63 billion, this equates to an annual cash savings of approximately \$380 million.

Similarly, our efforts to improve our working capital have yielded positive results. Over the past three years, we have improved our working capital cash conversion cycle by more than 30 days, which contributed \$2.5 billion to cash flow improvement. So both our CapEx and working capital productivity have been significant contributors to our very favorable free cash flow performance.

Our second priority is to pay dividends to our shareholders. We have raised our dividend for 44 consecutive years, effective with the June 2016 payment. And this is through both consistent earnings growth and by raising

our payout ratio over time. With this morning's announced dividend increase, we expect to pay out approximately 60% of our core 2015 earnings. And our dividend yield at yesterday's closing stock price is an attractive 3%. And our ten-year compound annual growth in dividend per share is 10%. Continuity of dividends and growth in annual dividend per share are a point of great pride for PepsiCo and we view them as a vitally important element to the total shareholder return equation.

Our third priority is to strengthen our market positions and create value through responsible tuck-in acquisitions, generally less than \$500 million a year in total, which equates to a relatively small percentage of annual free cash flow. We've built a lot of capability in evaluating and integrating tuck-in acquisitions. And we have very disciplined strategic and financial guidelines to ensure that they are value creating. Our acquisition evaluation is comprehensive and includes assessment of geographic considerations, category growth and attractiveness, scalability, competitive dynamics, people and business systems, integration, cultural fit and transaction complexity.

And our fourth capital allocation priority is to return residual cash to our shareholders through share repurchases, and we plan to do so within the confines of maintaining a capital structure that provides us ready access to the debt capital markets at attractive rates. Over the past three and 10 years, we returned more than \$13 billion and \$35 billion, respectively, to shareholders in the form of share repurchases. Net, our focus on capital allocation discipline has yielded impressive results. We've returned more than \$65 billion to shareholders over the past 10 years in combined dividends and share repurchases.

Before Hugh covers guidance in detail, I'll just make a few broader points about the landscape going forward. We expect a continuation of the many macro challenges we face this year: a strong U.S. dollar; sluggish growth or recession in most developing and emerging markets; political and social unrest in a number of regions; and increased government regulation.

And, as I mentioned, while the U.S. economy is experiencing a recovery, it's delicate. And there is a risk that it will not sustain itself if the rest of the globe continues to experience such massive pressures. But even in the face of this rather challenging global landscape, I'm optimistic about PepsiCo's future. We have made a prudent appraisal of those factors outside of our control and we are controlling those factors we can control.

Our teams around the globe are executing well. Our innovation pipeline is full and promising. And the sustained investments we've made in

strengthening marketing and developing cutting-edge capabilities will serve us well as we move through the year.

We believe we have the plans in place for 2016 to continue to deliver strong financial results. And there is something that's equally important as the right plans. We have the right people. The fact that we've achieved so much in what has been a protracted and extremely challenging and volatile environment, is a testament to the strength and experience of our management team. We benefit greatly from a senior management team distinguished by continuity, experience and skill. Our sector heads and CFO, Al, Tom, Laxman, Ramon, Sanjeev and Hugh, have 140 years of combined PepsiCo experience across multiple categories, markets and functions. And at the same time, we are developing and advancing PepsiCo's next generation of leadership.

The appointments over just the past 24 months of Laxman and Ramon to their respective sector leadership roles and the appointments of Brian Newman to run Global Operations and Eugene Willemssen to run our global category groups are a few key examples of such next-generation leaders who have gained tremendous experience already and have much runway ahead of them at PepsiCo.

So with these comments, let me turn the call over to Hugh. Hugh?

Hugh F. Johnston - Vice Chairman & Chief Financial Officer

Great, and good morning, everyone. Moving on to our outlook for 2016, as we set out in the release, we expect organic revenue growth of approximately 4%, with the top-line continuing to benefit from the investments we've made in our brands and innovation, as well as our revenue management capabilities, driving organic revenue growth and positive net price realization. And taking our core 2015 EPS of \$4.57 and applying our guidance and current foreign exchange market consensus rates, implies a 2016 core EPS of approximately \$4.66.

Let me touch on the key considerations and assumptions embedded in our outlook. First, we will have a 53rd week in 2016, as we do every five or six years, which principally impacts our North American businesses, given that our international businesses report on a monthly calendar. Our organic revenue growth outlook excludes the impact of this extra week. And our intention is to reinvest the benefit from the extra week in growth and productivity initiatives.

Second, we will be lapping the deconsolidation of our Venezuela business, which occurred at the end of Q3 in 2015. Venezuela contributed approximately \$0.10 per share to core earnings in the first three quarters of

2015. And third, foreign exchange translation will continue to be a headwind, with most of our key international markets' currencies expected to decline versus the U.S. dollar in 2016. Based on current foreign exchange market consensus rates, this is expected to be a four point drag on both net revenue and core EPS.

Additionally, to the positive, we expect to generate approximately \$1 billion of productivity savings in 2016, which is in line with our overall objective of achieving \$5 billion of productivity over the five years through 2019. We anticipate continued reduction in corporate expenses, and we expect our share count to benefit from a targeted \$3 billion in share repurchases.

In terms of headwinds, we anticipate continued volatile macros, especially in the developing and emerging markets. And commodity inflation is deflationary in the low single digits, excluding foreign exchange, and low single digit inflationary, including the impact of transaction-related foreign exchange in many of the markets whose currencies have and are expected to continue to weaken against the U.S. dollar. Also, keep in mind that because of our forward buying approach, our commodity costs tend to lag what you see in the spot markets.

As you model out the quarters, we ask you to consider the following. We deconsolidated our Venezuela operations at the end of Q3 in 2015, so our EPS comparisons will be impacted by lapping the elimination of earnings from Venezuela during the first three quarters of 2016.

The AMENA division will face a difficult operating profit comparison during Q1 2016, as the business laps a gain related to re-franchising a portion of India bottling operations, and the benefit of the 53rd week will fall in the fourth quarter of the year, while our reinvestment of the benefit of the 53rd week will be made throughout the year.

We will maintain a high level of discipline toward capital allocation, with the vast majority of free cash flow after capital spending being returned to shareholders in the form of dividends and buybacks. We expect to return \$4 billion in cash to shareholders through dividends, and we expect to return an additional \$3 billion in cash to shareholders through share repurchases.

So combined, we expect these actions will result in cash returns to shareholders of \$7 billion in 2016. Capital allocation is a top priority for our management and our board, and we trust these actions will again be seen by shareholders as tangible evidence of this commitment.

With that, we are ready to take the first question.

Indra K. Nooyi - Chairman & Chief Executive Officer

Thanks, Hugh.

Question-and-Answer Session

Operator

Thank you. Our first question comes from the line of Dara Mohsenian of Morgan Stanley.

Dara W. Mohsenian - Morgan Stanley & Co. LLC

Hey. Good morning.

Indra K. Nooyi - Chairman & Chief Executive Officer

Morning, Dara.

Dara W. Mohsenian - Morgan Stanley & Co. LLC

So first, can you give us your organic sales growth in emerging markets in Q4? And as we look out to 2016, Indra, it sounded like you were very cautious on the macro environment, so any impact in terms of macros on your business in emerging markets in Q4, if you could provide some more detail there and also, so far, what you're seeing in Q1, given we're well into the quarter, and any thoughts just in general on the level of risk and your visibility on the 4% organic sales growth guidance. And then also, on the macro side, can you just review trends in gas and convenience in the U.S. in both snacks and beverages and your thoughts on consumer spending in that channel for 2016? Thanks.

Indra K. Nooyi - Chairman & Chief Executive Officer

So let me start with the macro numbers. Go ahead.

Hugh F. Johnston - Vice Chairman & Chief Financial Officer

Yeah, Dara, this is Hugh. To answer your question on developing and emerging markets, the growth rate would've been about 6% for the quarter.

Indra K. Nooyi - Chairman & Chief Executive Officer

So, Dara, let me talk about the world and what we're seeing around the world. And it's not just emerging markets. We travel around the world, and let me just take a quick walk around the world. As you look at Latin America, Brazil, Argentina, if you look at Colombia, between a combination of the economic issues in the country and the currency devaluation, it's causing tremendous strain on anybody who is operating in that country, leave alone

American companies have to report in U.S. dollars because you have both a transaction and a translation problem to deal with. Transaction because a lot of the commodities we buy are denominated in dollars, so we have to figure out how to price that through.

If you go over to Europe, the Western European market, I would say, did show some signs of recovery, but not to the level that we would like to see it. Interestingly, our businesses in East Europe are doing well with respect to the local market, but again the currency is really taking a bite out of the profit streams that come out of that market.

I was in the Middle East about three weeks ago. The teams there are very resilient, but they have to cope every day with the issues in the Middle East, whether it's countries going through attacks or the refugee crisis. It is pretty severe what's going on there. And many routes have to get off the market at times. And our teams are all local, so they figure out a way to operate, but it is tough. And I think we are one of the few companies that keeps an operation going because the routes can come on quickly when there's a lull in the activity there. So I would say it's difficult to watch that region going through the problems it's going through.

And as you move further east, India's holding up. The Pacific Rim is holding up nicely, don't see too many issues. And China, going into the Chinese New Year, last year, I think the market was very sluggish, but this year it started off moderately okay. And if you ask me about how the year has started off, look, one period or one month a year does not make, but the year has started off okay.

And again, I want to be very clear. What we can control, we are doing very well: execution; productivity; innovation now on the shelf. We are doing a very good job. And that's giving us some tailwinds. What we cannot control, which is the geopolitical issues, this incredible currency turmoil, we just have to accept it for the moment. And so I'd say the teams are executing very well in the marketplace. And that's why we feel cautiously optimistic, on the one hand, while feeling despondent about the macros on the other hand.

As far as the convenience store is concerned, in the past, we used to say when gas prices came down, there used to be a perceptible increase in convenience store traffic. Yes, we did see an increase in convenience store traffic and convenience stores were up, what, 6%, Hugh?

Hugh F. Johnston - Vice Chairman & Chief Financial Officer

About 6%, yeah.

Indra K. Nooyi - Chairman & Chief Executive Officer

About 6%. But you know, I think that game has played out. Now, it's going to be how much innovation you put on the shelves and how you execute. And this is where again our DSD systems, our Power of One, and the fact that we have the right products for the convenience stores is going to stand us in great stead.

Operator

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

Indra K. Nooyi - Chairman & Chief Executive Officer

Morning, Ali.

Ali Dibadj - Sanford C. Bernstein & Co. LLC

How are you? Hopefully, you'll feel better soon. So I wanted to get a better sense of your 2015 to 2016 EPS bridge, because if you're still actually getting this \$1 billion of cost savings, you're buying back kind of this \$3 billion similar level of stock purchase, that, together, would be kind of 11% or 12% EPS growth. And ex-Venezuela, ex-currencies, you're only saying you're going to get something like 8%. And I'm having trouble figuring out what that gap is. It makes me feel that all else equal, so if you're not cutting costs, you're not doing anything, the core business is actually shrinking, which clearly can't be with a 4% top-line growth number organically for next year. So I'm just trying to figure out the bridge, if you can, more quantitatively between 2015 and 2016 than what you've already offered, particularly on the core piece, please.

Indra K. Nooyi - Chairman & Chief Executive Officer

Absolutely, Ali. Let me toss this to Hugh, who'll give you a complete answer on this.

Hugh F. Johnston - Vice Chairman & Chief Financial Officer

Sure, happy to. Good morning, Ali. If you add up the numbers, you're right. Revenue growth, as we've said, is to be about 4%. Productivity will be about a \$1 billion benefit. Commodities, of course, are inflationary, low single digits. The other factors built into our numbers are number one, we will see operating expense inflation. Recall, our bucket of OpEx is about \$28 billion. A little over half of that is labor, and labor will inflate somewhere around 4% for the year. In addition to that, you'll see continued investments in advertising and marketing, as you have over the last couple of years. And the reason we continue to invest in that is we continue to get good returns

on it, hence the 4% to 5% revenue growth you've seen over the last couple of years.

You will see higher investment in research and development as well, same answer on that. We're continuing to see good returns on that. And then, of course, with the revenue growth that we've seen over the last couple of years, we do need to invest in manufacturing lines. We need to invest in routes. We need to invest in racks to place the products on. So when you add all of those factors up and then add into that geographic mix, which is a slight drag, you wind up with a total of 8% on earnings per share growth.

Operator

Your next question comes from the line of John Faucher of JPMorgan.

Indra K. Nooyi - Chairman & Chief Executive Officer

Morning, John.

John A. Faucher - JPMorgan Securities LLC

Good morning, Indra. Wanted to talk a little bit about sort of the longer-term outlook for the pricing environment; and so it makes sense, given all the inflationary pressures that we're seeing in terms of pricing in emerging markets, I guess the question really becomes can you sustain pricing in developed markets, particularly given – I know your raw materials are up slightly, but there are some deflationary raw materials. And there seems to be some concern about downward pressure on pricing maybe in the U.S. So as we look at the 2015 results, low single-digit volume, a little bit more pricing, do you see that changing over time? And can you continue to get the pricing in developed markets that would allow you to sort of sustain that sort of, let's say, 3% to 4% pricing number going forward? Thanks.

Indra K. Nooyi - Chairman & Chief Executive Officer

John, that's a great question because we talk about that and worry about that all the time. I think there are two or three things to think about. One is in categories which are not growing robustly, like carbonated soft drinks, there you should manage pricing very carefully because there's no point trying to drop the pricing, because it's not going to drive additional demand. So in that particular category, through a combination of revenue management, through a combination of intelligent price pack architecture, you just figure out how to get some pricing from the marketplace. So let's hold that on the side.

Second, the area where we really look for pricing is through innovation. Because if there's one place where the consumer likes the news and is willing to pay up for, it's for innovation. And we've been really ramping up our innovation machine to be able to get price realization through innovation.

The third is through channel mix. And if you sell more single-serve, if you sell to the channels where the consumer is willing to pay a little bit more, that clearly is a help.

And lastly, even if you don't get the pricing in some places, we want to take our costs down. So we've been looking at how to reengineer our supply chain end-to-end, how to work with customers to re-think our supply chain. So there's a lot of work going on in our company in terms of rethinking our end-to-end costs to align our supply chains with customers, so we can mutually take out costs and then figure out a way to pass some of it to the consumer. So that's really our strategy on pricing.

Operator

Your next question comes from the line of Steve Powers of UBS Investment.

Stephen R. Powers - UBS Securities LLC

Hi. Thanks. Good morning. So, on the marketing step-up, which you obviously increased a lot this year and in the fourth quarter especially, can you talk a little bit more about where that investment is focused? Is it broad-based? Is it more food versus beverages, domestic versus international? Any skew would be helpful. And then more broadly, I'm just wondering if there's anything you're seeing out there that gives you more confidence on the margin in that spending, because I'm struck now by how many CPG companies that have emphasized a return to A&P investment in the last few weeks. But it's interesting against the backdrop – the macro backdrop, as you pointed out, is not getting easier. So is the increase that you're making, is it PepsiCo-specific against proactive opportunities? Is it against things that may be sort of deceptively encouraging for the broader industry? Or is any of your increase simply driven by a need to kind of keep pace and maintain share of voice versus peers that are also stepping up their investments? Any clarity there would be helpful. Thank you.

Indra K. Nooyi - Chairman & Chief Executive Officer

Hugh, why don't you talk to the where we're putting the money and then I'll talk about the rest here.

Hugh F. Johnston - Vice Chairman & Chief Financial Officer

Sure, happy to. A couple of comments on that, Steve, number one, it is broad-based. I wouldn't say it's targeted to any particular business or any particular geography. As we cut across snacks and beverages, numbers went up in both categories. As we cut across the geographies, all of our geographies saw an increase in advertising and marketing spend.

Number two, in terms of where is the money going, I would say that more of it is going to digital over time. The big constraint on moving more to digital is identifying high-quality properties to advertise on. So it's not just a matter of going for pop-up ads anymore. It's really more sophisticated digital advertising. And that is probably – more than anything, the rate-limiting factor is finding high-quality assets to invest in.

Third, as you've seen as recently as the Super Bowl this past weekend, we are investing in big properties, because these big properties do enable breakthrough types of messaging. And I think we, over the last several years, as well as for a longer period of time, have been quite successful in investing in those big properties.

And then fourth, from a returns perspective, obviously, measuring advertising and a marketing return is a little bit trickier than measuring return on price reductions and things like that. That said, with the advent of big data, we actually are getting more sophisticated in terms of our ability to measure those returns. Without getting into all of the details of it, the things I'd point to on a macro level are, we've been able to sustain 4% to 5% revenue growth in what's been a challenging environment.

So when you add all of it up, we'll continue to invest more in advertising and marketing as we see good payback on it. As a management team, we are acutely focused on shareholder value creation as the meta-metric for all that we do around here. And advertising and marketing is giving us good payback for the shareholders.

Operator

Your next question comes from the line of Bill Schmitz with Deutsche Bank.

Indra K. Nooyi - Chairman & Chief Executive Officer

Morning, Bill.

William G. Schmitz - Deutsche Bank Securities, Inc.

Hi. Good morning. Hey, can we just go back to North America a second and just talk about the impact on Frito from the pack down (34:00) changes and

the go-to-market changes? So can you just quantify what you guys think that did to sales over the last year and when it gets lapped?

And then maybe the sustainability of growth at Gatorade, which has been phenomenal, and a lot of it's been driven by category growth. So is that broadly just sort of like the fitness health and wellness trend in the U.S. or do you think it's driven by something more dynamic?

Indra K. Nooyi - Chairman & Chief Executive Officer

I'll talk about Gatorade and then you can get your thoughts straight...

Hugh F. Johnston - Vice Chairman & Chief Financial Officer

Sure.

Indra K. Nooyi - Chairman & Chief Executive Officer

On what detail you can provide on Frito. I think Gatorade benefited in 2015 from three factors. One is, it was a hot year, and it was hotter for a longer period of time. And Gatorade does well when the temperature is above normal, especially for as long as it was during the year. So we shouldn't underestimate the impact of that.

Second is, the Gatorade innovation has been very good. Fierce and Frost alone, I think, contributed significantly to sales growth. And all the new stuff that Gatorade is doing with the smart bottle, with the pods that are tailored for the athlete, the Gatorade Prime and Recover, all of that is giving more legitimacy to the brand. And I think that it's driving more of the Gatorade sales.

And third, I think on a competitive basis, relatively speaking, the fact that so many athletes are choosing Gatorade now is allowing Gatorade to far outdistance any emerging competitors in the space who tried to attack Gatorade just on price. And Gatorade has managed to hold its own and, in fact, extend its advantage. And so a combination of these three have served us well.

Going into 2016, I think we'll keep the pedal to the metal on innovation, on execution and hope that the weather holds up. That's the best we can do. So Frito, Hugh?

Hugh F. Johnston - Vice Chairman & Chief Financial Officer

Yeah, so from a Frito perspective, Bill, I assume your question is around the potato chip promotional package, moving from the XXL to the XL bag. That probably cost us from a volume perspective about a point. Recall, that the

reason for the strategy, as we talked during last year, was to increase household penetration with smaller household sizes. The objective was to get a package that smaller households would find attractive as the primary promotional package. In that regard, the strategy has actually been quite successful and I think gotten our volume re-based in a good spot from the standpoint of how we're managing the Lay's business.

More broadly in terms of Frito-Lay performance, you saw 1%, 3%, 7% last year in terms of volume, revenue and profit. If you look at Frito's performance over the last four or five years, it's been remarkably consistent, volume's been around 2%. Revenue's been around 4% and profit's been around 6%, plus or minus a point, for quite a few years. I think you can continue, even as we invest and make changes in Frito, you can expect to see that type of performance going forward.

Operator

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

Indra K. Nooyi - Chairman & Chief Executive Officer

Morning, Judy.

Judy E. Hong - Goldman Sachs & Co.

Good morning, everyone. How are you?

Indra K. Nooyi - Chairman & Chief Executive Officer

Good.

Judy E. Hong - Goldman Sachs & Co.

So I guess I just wanted to go back to Frito-Lay and maybe just get your color on the broader kind of macro snacking environment in the U.S. The confectionery category has been a little bit soft. Salty snacks is more stable, but just in terms of the context of the U.S. consumers perhaps being a bit better off, seems like maybe the category could do a little bit better. So any color just in terms of where the consumers are going across the broader macro snacking category would be helpful.

Indra K. Nooyi - Chairman & Chief Executive Officer

Let me step back. The overall macro snacking category probably growing somewhere in the 3% to 4%, and the reason Frito does as well as it does is because it takes occasions from all other macro snacking categories. And so Frito's able to go after crackers, able to go after sweet occasions, through

interesting products that comes from a salty heritage. So we have a frying platform. We have a baking platform, different sort of baking platforms. And we leverage those platforms to go after all of those occasions. And I think that's what creates an advantaged model within Frito-Lay.

We are not in a zero-sum game within macro snacks, where any growth that we get has to come at the expense of another category already participating. In the case of Frito, we are in one category and reach out of the core (38:56). Remember the old strategy of grow the core and add more? That's really what we're doing. We're looking at the demand of consumers and wondering how we can serve that demand with a Frito-Lay option.

And whether it's Cheetos, Fritos or it's the chocolate-covered Lay's that we offered or all the new products on slate for next year, I think we're just going after other macro snacking occasions. And that's why other companies are hurting and Frito-Lay is doing so well. And you combine that with our DSD system, our Power of One advantage, we can really get a tremendous advantage with customers.

Operator

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

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

Thanks. Good morning, Indra. Good morning, Hugh.

Indra K. Nooyi - Chairman & Chief Executive Officer

Morning, Mark.

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

Two questions on Latin America, if I could, one is, any detail you can give us on the "strategic investments" in the quarter, to what extent they're brand and forward-facing and to what extent they were otherwise. And then secondly, it's kind of early days since you've integrated snacks and beverage in Latin America, but could you give us an update on how that's going and whether 2016 is a year where we should expect benefits from that to be more significant? Just how that's going and what your outlook from that is.

Indra K. Nooyi - Chairman & Chief Executive Officer

Investments in Latin America.

Hugh F. Johnston - Vice Chairman & Chief Financial Officer

Yeah, sure, happy to start with that. Good morning, Mark. When you look at Latin America, you really have to take a step back, because it's such a broad and diverse geography, both in terms of cultures and in terms of economic outlook for the near-term. Obviously, Brazil has got a significant number of challenges facing into 2016, as it has over the last couple of years. At the other end of the spectrum, Mexico is, as an economy, performing quite well. So if you think about what we're trying to accomplish, as you move south into Latin America, a lot of our focus has been around making our supply chain more efficient and making our management structures more efficient. And a number of the investments that we made in the fourth quarter there were geared towards productivity-driving initiatives.

On the other hand, in Mexico, where the outlook is more positive, the investments we made during the course of 2015 were more growth-oriented. And as we think about our outlook going forward, we expect that mix of probably stronger performance out of Mexico, more margin improving performance out of the balance of Latin America. That said, we're long-term, very positive on the geography. We think we've got great market positions and great people down there. And we think it's one of the most important regions of the world for us going forward.

Indra K. Nooyi - Chairman & Chief Executive Officer

And then, in terms of integrating snacks and beverages under one leader, look, if we didn't have economies in Latin America that were performing so poorly at this point, we'd start to see results sooner. But right now, it's very hard to really point to when we will see results, based on the fact that any progress we make is eaten up by macroeconomic challenges. So we look at underlying in-process metrics, if you want to call it that, as opposed to tailpipe metrics. And everything we're seeing says that we are making great progress in figuring out how to leverage a franchise bottler system with our snacks business to create advantage. And it's going well so far.

Indra K. Nooyi - Chairman & Chief Executive Officer

So with that, let me just thank you all for your questions. And in closing, let me reiterate that we are pleased with our 2015 results. Looking ahead to 2016, we are confident that we have the right plans in place. We are executing well against those plans. And we've set appropriately aggressive targets for 2016. We look forward to updating you on our progress as the year advances. Thank you for your time and questions this morning and, more importantly, for the confidence you've placed in us with your investment. Have a great day.

