Good morning and welcome to PepsiCo's year-end 2013 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

Thanks, 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 2013 performance and 2014 outlook, and then we'll move on to Q&A.

In an effort to get to as many analyst questions as possible within the hour, we're going to have a one-question limit, so we should be able to get through the full queue of analysts when we get to the Q&A.

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 may use when discussing PepsiCo's financial results, please 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.

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

Indra Nooyi

Thank you, Jamie and good morning everyone, and thank you very much for joining us this morning. As we close our 2013 and look ahead to 2014 and beyond, we have a few key themes we'd like to share with you.

Through a multiyear process, we've largely transformed PepsiCo for sustained performance. We are executing on our plan to deliver on our stated goals. This execution has enabled us to deliver and in many cases exceed all of our financial goals in 2013.

Our portfolio is complementary and our geographic and product portfolio positions us well for sustainable growth. We believe that our portfolio, as currently constructed, positions us to maximize value creation. As a result, we are not making significant structural changes, including to North American Beverages.

We are extending our $1 billion annual productivity savings target through 2019. Our 2014 guidance is in line with our long term financial targets, and the actions that we're taking to execute our strategy provide us further confidence in the long term durability of these targets.

Consistent with our commitment to disciplined capital allocation, we're increasing our cash returns to shareholders by 35% in 2014, significantly stepping up both our dividends and share repurchases to a total of $8.7 billion while maintaining appropriate capital investment in the business.

Finally, and most importantly, our recently completed [all health] survey tells us that our associates are motivated, engaged, and positive about being part of, and the future of, PepsiCo.

So let me walk you through each of these themes. As you know, over the past few years, we've had to address a number of macro trends that have reshaped and will continue to shape our industry. We made the required investments and changes to preemptively transform ourselves to capitalize on the opportunities these shifts presented and to position the company for long term growth and value creation.

First, we expanded our presence and plans to grow in developing and emerging markets in response to a shift in the [unintelligible] of global growth.

Second, we continue to balance our portfolio of offerings to include more nutrition and healthy offerings while increasing the [permissibility] of our social snacks and beverages by reducing calories and sodium in key products to address consumers' growing concern with health and wellness.

Third, we've stepped up investment in R&D, digital capabilities, and food quality and safety in acknowledgement that social media is an ever-increasing powerful force with greater availability of more sophisticated tools and product formulations and food safety and security are now greatly enhanced by more tools providing ingredient traceability.

Fourth, we invested to enhance the equity of our $22 billion brand, which together accounts for more than 70% of our total revenue. We also upgraded our revenue management skills to give us the ability to take pricing.

Fifth, we built a cultural productivity into the company to deal with the reality of a volatile and inflationary commodity environment.

Sixth, we designed sustainability into our operations in response to growing environmental consciousness.

And lastly, on the talent front, we upgraded our skills through selective hiring in several new and emerging areas, and we completely revamped our talent management processes and training curriculum with a view to equipping our people with the skills needed to perform better in a volatile environment.

Through these transformative actions, we have fundamentally changed the profile of the company. Our product profile has grown from fun for you to a more balanced offering of good for you, better for you, and fun for you products.

Geographically, we've shifted PepsiCo to a company with a more balanced global footprint, and our culture has shifted to a decentralized one with businesses operating completely independently through what we refer to as "connected autonomy," a model that combines the best of an entrepreneurial ownership culture with the benefits of global scale and coordination.

As a result, PepsiCo today is positioned to deliver, over the long term, top-tier financial performance and value creation for our shareholders. Our 2013 results demonstrate our portfolio strength and execution capabilities. Despite a challenging macro-environment, we delivered strong and well-balanced operating performance in 2013. Organic revenue grew mid-single digits, both gross and operating margins expanded, cash flow is very strong, and we managed our portfolio of businesses effectively.

Let me comment briefly on each of our businesses, beginning with North American beverages. We are encouraged with the progress we've made in North American beverages but the category remains challenged. We have managed the business responsibly, achieving 2.5 points of price realization at retail while stabilizing our share performance in measured channels and generating profit growth.

We were especially pleased with the successful innovation in North American beverages with four products, Mountain Dew Kickstart, Gatorade Frost

Glacier Cherry, Starbucks Iced Coffee, and Lipton Pure Leaf, on track to achieve $100 million in annual retail sales. This success was realized with strict execution against initiatives and the stepped up investment levels we made in 2012. We feel good about North American beverages.

Frito Lay in North America delivered consistent, solid performance throughout 2013. Organic revenue growth of 4% in the quarter and for the full year was well-balanced between volume and price. Our innovation was also very strong at Frito Lay, including Tostitos Cantina, Lays Do Us A Flavor, Cheetos Mix Ups, and the new flavors of Doritos Jack and Tostitos Artisan.

And the business delivered solid operating leverage and margin expansion, with core constant currency operating profit growth of 7% for the quarter and 6% for the full year. We have good momentum and we're seeing returns from all of the investments we've made to strengthen our inside capabilities, brand, and go-to-market systems. So again, we feel very good about the outlook for this business.

Our other developed markets also showed solid performance during 2013, with organic revenue growth in our overall Western Europe business. While macroeconomic data shows signs of improvement, developed world economies outside the United States remain sluggish. We have relatively limited exposure to slow growth areas such as Southern Europe and Japan, so the shape of our portfolio shields us from these challenges to a degree.

Turning now to our developing and emerging markets, these continue to perform well, despite some volatility in key regions. As a group, our D&E markets posted 10% organic revenue growth for the year, with double-digit growth in China in both snacks and beverages, double-digit growth in Pakistan, high single-digit growth in Saudi Arabia, Brazil, Mexico, and Turkey, just to name a few.

These markets have a long run rate for growth, driven by increasing demand for our convenient, on-trend, affordable products supported by rapidly growing middle class. The investments that we've made in these markets place us in an advantaged position.

The shape and resilience of our portfolio, combined with strong execution across the value chain, enables us to meet, and in many instances exceed, our 2013 financial goals. Organic revenue grew 4%, in line with our mid-single digit target. Core operating margin expanded 40 basis points, in line with our goal of 30 to 50 basis point expansion.

We delivered over $900 million of productivity savings, slightly ahead of our target. Core constant currency EPS grew 9%, ahead of our 2013 guidance, and at the high end of our long term, high single-digit goal.

Free cash flow, excluding certain items, was $8.2 billion, well ahead of our 2013 goal, driven by exceptional working capital management and disciplined capital spending. Core net return on invested capital improved 110 basis points, 60 points ahead of our target, and cash returns to shareholders were $6.4 billion, right in line with our target.

So, we feel very good about the financial performance of the business. Just as importantly, we've continued to invest in the business to ensure the sustainability of our performance well into the future. [A&M] as a percentage of sales was up 70 basis points compared to 2011, and we continue to invest in innovation. Our R&D spending has increased over 25% since 2011.

We improved our capabilities in food quality and safety, invested in multiple process technologies, both to reduce cost and deliver new capabilities, and we invested in product innovation. In 2013, we had one of our most successful years ever in new product launches, with six new products in the United States, on track to achieve $100 million in annual retail sales. And this is a first for PepsiCo.

So we feel good about our 2013. Turning now to our portfolio, it's evenly distributed across snacks and beverages, both of which are attractive global categories. And within these categories, there's a highly attractive portfolio of nutritious products, including brands like Quaker in grain, Tropicana in naked fruits and vegetables, and Gatorade in sports nutrition.

Our geographic footprint is very well balanced, with 35% of our net revenue in high-growth developing and emerging markets and about two-thirds in stable, highly profitable developed markets.

Our portfolio is also truly better together, or what we refer to as "the power of one." Our entire portfolio is focused on taste and convenience. Our products are purchased together and consumed together. Our presence in beverages supports our snacks growth, and the heft of our portfolio positions us as the largest food and beverage business in many of our key markets, and this makes us a key partner to retailers and food service customers.

We realize $800 million to $1 billion in annual savings by operating our business as one. Our priorities for managing the portfolio are very clear. In developed markets snacks, where we have an incredibly strong business that combines high market share and high margins, we intend to defend and grow our share of salty snacks.

We want to grow organically into the broader macro snacks space, and this will leverage our core salty snacks foundation capabilities to capture a broader range of day parts and locations. And we want to leverage our beverage business to increase our snack trends in the large, profitable food service business.

In developed market beverages, a huge category where we have good competitive positions in many markets, here we intend to sensibly defend our LRB share and improve margins and returns with an intense focus on unlocking productivity, especially in North America. And we are focused on achieving product disruption and differentiation through science-based R&D , especially in the area of sweetener innovation.

In our developing and emerging markets, where we have strong salty snack shares in most markets, and leadership of [parity] system beverage positions in many key markets, we intend to continue to build our share positions, capture our fair share of growing beverage locations, and selectively pursue tuck-in acquisitions to build out our scale and our geographic footprint.

And in the nutrition arena, where we are one of the leading [unintelligible] globally in everyday nutrition, we intend to benefit from the high growth of this category, leveraging the presence and scale of our existing businesses.

Now, these category country combinations, with their demographic tailwinds and related product diversity, give us line of sight to our mid-single digit organic revenue growth goal. From a category perspective, we expect our global beverage business to grow revenue in the low to mid-single digits and global snacks and nutrition to grow revenue in the mid-single digits.

From a market perspective, we expect developed markets to grow revenue low to mid-single digits and our developing and emerging markets to grow revenue high single to low double-digits.

Based on this growth profile, and because we have full operating businesses in snacks, we expect about two-thirds of our revenue growth to come from snacks, and from a geographic perspective, about two-thirds of our revenue growth to come from developing and emerging markets.

As a result, over time, our business mix will gradually shift to be more heavily weighted toward snacks and more heavily weighted towards developing and emerging markets than we are today. This revenue growth profile is the foundation of PepsiCo’s reliable long term growth model.

So how does this all translate to future results? From a geographic perspective, each market type plays an important role in our portfolio.

Emerging markets have primarily top line growth drivers, with some potential for margin improvement in the short term. Developing markets drive balanced top line growth and margin and ROIC improvement, and developed markets contribute relatively less to top line growth but at very attractive margins and returns, and are prodigious cash flow generators, and this is true of both snacks and beverages.

So, holistically, this portfolio provides a platform for balanced growth, margin, and return improvement for sustainable future growth opportunities, cementing the durability of our long term core constant currency EPS algorithm and superior cash returns to shareholders, all of which leads to top tier total shareholder return.

But as many of you know, we did commit to reexamine our North American beverage business's role in our portfolio, especially given some of the recent challenges in the category. So let me start off by saying that our highly integrated food and beverage portfolio positions us as a vital supplier to our retail trade customers, where we are the single largest supplier in many instances.

Decoupling our beverage and snack business in North America would significantly reduce our relevance to our customers. Within most of our largest grocery channel customers, we would fall from being the top supplier to a top four or below supplier, and in the mass merchant drug channels, we would drop below the top 10.

In addition, we would forfeit a number of synergies within North America, including shared procurement, consumer and customer insights organizations, joint advertising, and use of major properties like the NFL and Major League Baseball, and joint promotional and display activity and coordinated national account activity.

So, with all of this as a background, we undertook our evaluation of the overall category and our competitive position within it. Let me provide you with some facts. First, liquid refreshment beverages in North America continue to be the largest food and beverage category by a wide margin. It drives tremendous traffic and cash flow for retailers. It also plays a very important role in food away from home, where food service customers are increasingly using beverage offerings to drive excitement and profitability.

And PepsiCo is relatively well-positioned within the LRB category. We are the LRB leader in measured channels. We are the clear share leader in non-carbs, with leading positions in many segments. Our CSD portfolio has a 0.8x relative market share, with Mountain Dew the fastest-growing CSD trademark. We are making slow and steady progress growing our share in food away from home. We believe the opportunities are many.

There’s no question that the growth of the LRB category in North America has slowed, and within this overall industry, the cola segment is particularly challenged, as consumers look for alternative beverage offerings.

PepsiCo’s exposure to colas is less than 25% of our total North American beverage portfolio, and less than 15% of our total North American business. We believe that the cola category is still relevant to consumers, but is going through a secular change as consumers look to address the twin issues of calories and artificial sweeteners.

We have several great tasting cola product variations using zero calorie natural sweeteners blended with sugar that we’re testing in various markets in the world. And so far, these test results are promising. However, our U.S. launches of these sweeteners will begin this year, primarily with non-cola products, to build and test consumer acceptance before we launch low-calorie naturally sweetened cola products.

Additionally, we are encouraged by the progress we made in 2013 in our North American beverage performance. Our objective was to hold or grow LRB value share relative to our primary competitor. And as you can see, our LRB value share performance for the full year 2013 was even with primary competition, based on IRI all measured channel data.

What’s notable there is that we also achieved very strong net price realization at retail across virtually every major subcategory, while holding our value share position. Net-net, we feel cautiously optimistic about our prospects in the North American LRB market.

So when we reevaluated structural alternatives for the North American beverage business, we established very clear principles to guide our decision. First, we would not return to the contracted franchisee/franchiser model of the past. We needed a structure that ensures rapid decision making with low coordination costs and friction. We needed to limit value chain decoupling and operating redundancies.

We did not want to competitively disadvantage our North American beverage business, and we wanted to maintain control over core strategic activities of our global beverage business, such as marketing, innovation, and R&D. We knew we had to maintain or advance our alignment with national accounts, and it didn’t make sense to sacrifice meaningful scale advantages of the PepsiCo system.

So our assessment was driven by a highly objective consideration of what structure would create the greatest, most sustainable shareholder value. And we studied numerous structures, from a full separation of North American beverages from PepsiCo to a separate of some elements of the traditional bottling operations, and everything else in between. We used the best bankers and consultants to think about structural alternatives, all with an eye to creating long term shareholder value.

And after an exhaustive analysis and review with our board of directors, we've concluded that North American beverages creates value and is optimized within PepsiCo's structure today. Any structural separation would, among other things, result in loss of significant synergies, both between snacks and beverages in North America and between North American beverages and the balance of our international beverage operations.

It would significantly decrease our relevance to U.S. retailers and jeopardize our ability to grow in food service. It would make our remaining international beverage business less competitive, and finally, it would forfeit the potential value creation of investments we've made in sweetener technologies, the full benefits realization of our A&M investment and year-end productivity savings.

So, we've concluded that ownership by PepsiCo of the North American beverage business in its current form maximizes shareholder value, because our current ownership structure allows for optimally aligned objectives and execution, allows us to capture potential upside from innovation and productivity, enables us to continue to benefit from scale advantages, and finally, it continues to provide access to the U.S. cash flow that is so important to our shareholder cash return model.

That's North American beverages. Let me now turn to productivity. You know, back in 2012, we announced a major three-year, $3 billion program enabled in part by our SAP investments, which began in 2002 and our new operating model, which we put in place in 2011, that allows us to lift and shift best practices across the company to improve both the efficiency and effectiveness of our enterprise.

Last year, we also told you that we had begun work on the next tranche of productivity, mostly enabled by our operating model, which is gaining traction in the company, and the availability of new technology and tools. So today we are pleased to announce this next productivity program, $5 billion over five years, beginning in 2015, and also to tell you that we are on track to achieve the $3 billion, three-year program we announced in 2012.

So as we enter our next phase of productivity, let me provide some color to the areas we're focused on. The first is embedding more automation in our operations to replace labor with capital. An example here would be further automating packaging in our snack plant, where secondary packaging hot of products remains a highly manual process.

The second area is expanding shared services, including global financial shared services for the handling of routine back office transaction processing. The third area is restructuring manufacturing to optimize our global manufacturing footprint. Examples here would be evolving from local to regional manufacturing networks and adopting more third-party manufacturing.

And the fourth area is restructuring our go-to-market systems to optimize our distribution network. Let me give you a couple of examples under the go-to-market systems. The first is our global enterprise system, or GES, at Frito Lay North America. GES is significantly reducing the amount of manual handling of our products up and down the supply chain.

Because we have such a high transaction rate, every touch of a case or a bag drives a lot of labor cost. GES minimizes product touches between the plant and customer location through streamlined distribution center networks, in some cases delivering direct from the plant to the store. The benefits extend to capital, labor, inventory, and fleet fuel reductions.

This model continues to roll out across Frito Lay North America and is now being applied to the North American beverage business, where we are maximizing asset utilization by reducing distribution centers, leveraging automation, deploying fleet and route trucks more efficiently, and reducing inventory while improving service and product freshness. We're encouraged with the progress being made, and have a long runway of savings opportunities ahead of us.

Another initiative is implementation across PepsiCo of the global transportation management system, a leading example of global IT systems driving productivity at PepsiCo. GTMS enables the data, analytics, and processes to effectively manage our consolidated transportation network. We can model different asset choices, consider inbound freight to optimize traffic lanes and maximize every load, and we can do this regardless of whether it's a common carrier or company owned fleet.

And leveraging this North America systems foundation, we've now developed a global template and our GTMS is live in Mexico, Brazil, and Russia. It's now being expanded to Egypt, Saudi, Australia, and other parts of South

America. So these are some of the examples of initiatives that enable the five-year, $5 billion productivity program.

A portion of these savings will be generated from labor cost efficiency. As you can understand, such initiatives have people implications globally at all levels. In addition to providing transition support, PepsiCo is establishing a fund for eligible front line employees to provide job training to assist them in their pursuit of employment opportunities outside the company. Over the next 60 days, we will finalize the details of how this fund will be administered. The cost of this fund is captured within the economics of our productivity program.

So let me sum up before I hand off to Hugh for the 2014 guidance. First, execution of our strategy enabled us to meet and exceed our 2013 financial goals. Second, we are confident that our continued execution will enable us to do so again in 2014. Our geographic and product portfolio positions us well for future growth and at the same time provides an attractive shareholder cash return model.

We're announcing a new five-year, $5 billion productivity program through 2019, strengthening the durability and duration of our expected financial performance. And finally, we are substantially increasing our cash returns, up 35% versus 2013, consistent with our commitment to disciplined capital allocation.

So let me now turn it to Hugh Johnston. Hugh?

Hugh Johnston

Thank you, Indra, and good morning, everyone. Let me spend a few minutes discussing our outlook for 2014, which is in line with our long term objectives. We expect another year of mid-single digit organic revenue growth.

We expect operating margin expansion as top line growth and productivity should offset negative geographic mix and cost inflation. Below the division operating profit line, we expect corporate cost efficiency and approximately 25% core tax rate and a reduced share count.

All-in, we expect core constant currency EPS growth of 7%. Foreign exchange is expected to impact revenue and core earnings per share by approximately 3% and 4% respectively, based on current market consensus rates.

Taking our 2013 core EPS of $4.37 and applying our guidance implies a 2014 core EPS of approximately $4.50. Our outlook appropriately factors in both tailwinds and headwinds. To the positive, we expect to generate over $1 billion of productivity savings in 2014, which will offset operating cost inflation.

We feel very good about our innovation agenda, which should enable us to sustain our organic revenue growth rate. Our share count will benefit from stepped up share repurchases, although we won't recognize the full benefit of the 2014 purchases within 2014 as they'll be made throughout the year with some of the share count reduction falling into 2015.

Our tax rate will be lower, and is estimated to come in for the full year at approximately 25%, which we expect to be able to sustain for the foreseeable future. And we will realize a modest benefit from pension expense, due to a higher discount rate.

In terms of headwinds, the food and beverage taxes enacted in Mexico will impact both top line growth and profitability. The rate of our commodity cost inflation will be higher in 2014 than in 2015. Foreign exchange translation, and to a lesser extent transaction, will be a significant drag on our U.S. dollar results and we expect continued challenges in demand for colas.

Finally, as you model out the quarters for 2014, please note the following. For the first quarter of 2014, we expect foreign exchange translation to have an approximately 4% impact on net revenue and 6% impact on core earnings per share based on current market consensus rates. In addition, we expect structural changes, primarily the refranchising of beverage operations in Vietnam, to impact first quarter revenue by approximately half a percentage point.

The second quarter of 2013 included a $137 million gain from the refranchising of our Vietnam operations, the majority of which was invested back into the business during Q2 through Q4. The phasing of this gain versus reinvestment will impact core EPS growth during Q2 through Q4. Finally, our stepped up share repurchase activity will occur throughout the year but should have a more pronounced impact in the back half of 2014 and into 2015.

Our long term goals remain intact: mid-single digit organic revenue growth, core operating margins expanding 30 to 50 basis points per year, high single-digit core constant currency EPS growth, free cash flow, excluding certain items, growing roughly in line with earnings, and core net ROIC improving 50 basis points per year.

We intend to responsibly manage the business for top line growth, drive productivity, and reinvest appropriately to position PepsiCo for sustainable growth for the long term. And, we plan to remain highly disciplined 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.

So, based on our assessment of the strong and sustainable cash flow generation capacity of the portfolio, driven by our expectation of mid-single digit organic revenue growth, robust productivity programs, and efficient capital investment, we're pleased to announce today that we'll substantially increase our cash returns to shareholders in 2014. This decision is consistent with our commitment to disciplined capital allocation and our strong bias to returning cash to our investors.

First, we're increasing our dividend per share by 15%, beginning with our 2014 June payment, to $2.62 on an annualized basis. This represents the 42nd consecutive year of annual dividend increase, and approximately 60% payout ratio based on 2013 core EPS. At today's stock price, it represents a 3.2% yield and will bring our 10-year annualized dividend per share compound annual growth to 11%.

And we're further increasing expected shareholder cash returns with a targeted $5 billion share repurchase target. This represents a 67% increase over our 2013 repurchase, and is approximately 4% of our market capitalization. While doing so, we expect to maintain tier one commercial paper access, enabling us to retain low cost, highly accessible, financing.

Taken together, these actions reflect a 35% increase in total shareholder cash returns compared to 2013, and will bring our cumulative 10-year cash returns to shareholders to over $60 billion. As many of you know, we have stated disciplined capital allocation as a top priority for our management and our board, and we trust these actions will be seen by our shareholders as tangible evidence of this commitment.

With that, we'll take the first question.

Question-and-Answer Session

Operator

[Operator instructions.] Our first question is coming from Dara Mohsenian from Morgan Stanley.

Dara Mohsenian - Morgan Stanley

On the NA beverage side, it sounds like the decision to not pursue structural options is more of a permanent one, as opposed to a decision just for now, given the current environment. That could change down the road. Is that the right way to think about the decision? And then also can you give us more insight on how you expect to turn around trends in NA beverages going forward in its current state, given you're not making structural changes and we're still seeing weakness here in the market share trends and profitability?

Indra Nooyi

Let's start off with the performance in 2013. It's very important to put NAB in context. If you look at measured channel performance, because that's where we are not disadvantaged, because in the past, clearly in food service we were disadvantaged. In [unintelligible], which is measured channels, we actually held value share versus our primary competitor in 2013.

So we feel very good about that. This is focus on value share. We've got price realization. We've played the game very responsibly, which is what you do when categories are going through the volatility that LRB was going through. And importantly, in many subsegments of the LRB business, we gained share. And even within CSDs, products like Mountain Dew did exceedingly well.

So I'd say that the core metrics on LRB performance are trending upwards. On food service, which is, as you know, a good size of the market, these are long term contracts, and you've got to enter those markets very, very carefully. And where we did bid on food service accounts, we did win them. And so we feel good about the fact that our integrated portfolio of snacks and beverages is now giving us some wins, and I think this has term run rate for growth, and we feel good about that too.

So park that core performance aside. Let me now talk about our decision. We studied North American beverages and beverages in total in our portfolio exhaustively. We spent a whole year looking at this, and there isn't a stone that we didn't turn over. And I'll tell you, at the end of the day, we concluded that long term value is maximized with NAB staying in PepsiCo's portfolio.

I think it's very, very important we return to focusing on running the business, minimizing the disruption, but more importantly, I think it would help hugely if we could just let our North American beverage business employees focus on running the business as opposed to worrying about what the future is going to be.

I think the study we've done was exhaustive. There isn't a bank or consultant that we didn't use that had an idea. And at the end of the day, we have to go off and run the business. It's a great business, big, profitable. It generates a lot of cash.

Yet there are segments of that business, large segments of the business, going through a secular change. We have to reinvent it with technology. We will start launching products this year with the Stevia/sugar combination non-cola products, while we test the cola products with these combinations in some markets of the world.

So I think we have to allow this transformation to play out, because it's too big a business, and too profitable a business, not to allow the transformation to play out. So the long answer to your question is, yes, the decision has been made. We're going to go back to operating it.

Operator

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

Bryan Spillane - Bank of America

Just a follow up to Dara's question, I guess I would be interested to know, as you went through the analysis on North American beverages, you know, the market's changed a lot, right? The channels are changing and blurring. Potential to sell product over the internet. Coke is going to experiment with more single serve product or potential for single serve product at home. So that, plus the potential to use technology to change the production in manufacturing, make it more efficient.

How do you fit your franchise bottlers into that changing market? Is the next step here, or an important step, to really improve NAB, to make some changes with the way you interact with the franchisees, to get the franchisees to sort of come along as you kind of bring them into a different world, a more modern world? Do the franchisees become an impediment, or in some way how are you going to change the way you interact with them?

Indra Nooyi

It's a great question, and in a way, you explained why it's critically important that you own the system, because with the amount of disruptive change coming, you've got to reduce the friction in the system so that you can actually go with the flow. Having said that, on the online, shipping things through various fulfillment companies, we are looking at all of that and in fact doing tests with all of them.

In terms of single serve products at home, we are participating with multiple single serve home delivery product tests, and I think it's very important that we ultimately commit and play with people where we know the technology is working. I think it's too premature to commit without having a technology that actually works.

And finally, you know, our franchise bottlers are also seeing all the changes. We have a good relationship with our franchise bottlers. I think [unintelligible] has done a terrific job building the relationships with the franchise bottlers. And they're seeing the changing environment too. And they want to work with us to make sure that together we grow the overall franchise.

So I think this is not about conflict. This is about how we work together to solve a market disruption, and that's what we're going through right now. The good news is that 75% of the system, we own. So we have far fewer bottlers to deal with, and they're all smaller bottlers. We don't have the overhang of a big independent bottler to deal with anymore.

Operator

Our next question comes from the line of John Faucher with JPMorgan.

John Faucher - JPMorgan

Hugh, could you talk a little bit about your earnings target? Instead of giving a range, you gave sort of a 7% number here. So can you talk about this? Is this sort of 7% plus or minus? And then to sort of keep on the North American beverage bandwagon here, but a little more micro, can you talk a little bit about how you guys are perceiving the pricing environment, less so in terms of what we're seeing in the market right now, but more so what you guys are building in heading into the summer selling season?

Indra Nooyi

On the North American beverage pricing, we've said very clearly that we intend to play a very responsible game. We've got a couple of points of price [unintelligible] last year, and our goal is to make sure that we take the price increases that we have to, because in categories that are going through the kind of change that the cola category and CSDs is going through, particularly, it's very important that we don't take down pricing. Because a lot of the research is showing that just taking down pricing is not going to drive consumption.

So it's very important that we execute responsible pricing, and that's what we're doing. A couple of points of pricing going forward is really what we're looking for in North American beverages. And with that, let me turn to Hugh to talk about the earnings target.

Hugh Johnston

Obviously we give long term guidance of high single-digits in order to be as transparent as we can in terms of what we think the portfolio is capable of generating. And then as we get to the beginning of the year, we really try to give you a four quarter target as best we can estimate in this volatile, uncertain world of what we think is a likely delivery. This year, as we looked at that, we pinned 7% as the likely number, and I know it sounds specific, but I think our investors appreciate the specificity in terms of what we do. As we go through the year, we'll update on that, as the year progresses and as the world evolves. But when we say 7%, we're saying 7%.

Operator

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

Ali Dibadj - Bernstein

The first is just if you could quantify the Mexico tax effects? Because if we look for 2014, better taxes, better buybacks, better cost cutting, you can kind of model commodity to currencies, but Mexico quantification we have trouble with.

But the second question is a broader one. You guys today, Dr. Pepper [unintelligible] yesterday, both with guidance that was really tough on top line but very significant cost cutting, to get to kind of mid-single digit type FX growth rates. Do you think that this kind of running very fast on cost cutting, more return to shareholders, is going to become, essentially, the new norm in this industry, especially to your earlier comment that where pricing is not up as much as it probably should be?

And if that's the case, and I kind of think it is, but if that's the case, can you give us a sense of what you think your ongoing, not just EPS growth target is, but kind of almost a TSR, so EPS plus dividend, that investors should think about in this new industry norm?

Indra Nooyi

I'm going to let Hugh give you some information on the details of the question that you asked about, and then I'm going to give you some overall observations.

Hugh Johnston

First, regarding your question on Mexico, obviously this is a difficult one for us even with all the information that we have to ascertain, because what it's created is a substantial price increase to consumers in the Mexican marketplace regarding our products. Further, obviously, Mexican consumers are facing significant price increases across a broad variety of their baskets. So our traditional elasticity models just don't extend out to the size of the price increases that people are seeing.

We've obviously put a number in as a part of the guidance. I think what we'll do instead of sharing specific numbers right now is, as the situation evolves, as consumers get through the sticker shock of what they're facing and we settle into what is a new demand level, I think we'll probably just update you quarter to quarter on what's happening inside of Mexico. So I think that's probably the most efficient way to communicate this, because it is a challenge right now for everyone to sort out what the likely impact is in Mexico.

Regarding your broader question, I don't think we've entered a new era of cost cutting alone. I think it's always going to be a balancing act in our space. Certainly our geographic and product portfolio provide us with the opportunity to grow the top line in a pretty reasonable way, hence the mid-single digit long term guidance. That said, we will certainly always look to be more efficient with the resources that we have, some of which we'll deliver to the bottom line, some of which we will invest in capability and invest in innovation and brand building in order to fuel that top line growth to continue the virtuous cycle.

Regarding TSR, we've talked about high single-digit as our long term earnings per share growth target. Obviously we've taken the dividend up and those tend to be pretty permanent, and that's north of 3% right now in terms of the yield. So I think that's reasonable math for you to be working with. That's certainly our best estimation as a management team.

Indra Nooyi

And I think, just in terms of overall observation, I would say now's the time that we have to keep growing in emerging and developing markets. You can't back off that growth, because all the competitive positions are being established. So as you grow rapidly in emerging and developing markets, the margin profile is different, and cost inflation is very different than it is in developed markets.

You have a slowdown in developed markets and you have continued [unintelligible] growth in emerging and developing markets. In terms of the overall portfolio, you've got to make sure that you look at the dilutive effect of the emerging and developing market growth and offset that with increased productivity so overall the portfolio works.

And that's the whole portfolio play that we're focused on, but it's very important that you don't talk about it as cost cutting. Because if you cut costs for the sake of cost cutting, it's very different than meaningful productivity programs to fundamentally change the cost basis of the company.

So when we talk about a productivity program, we think, okay, we put in the SAP system starting in 2002, we now have more visibility, we can harmonize processes, so we can do shared services, or we can ensure compliance when we lift and shift ideas. So it's got to be a very deliberate program to fundamentally take the cost structure to a new level, not just cut costs to deliver one year of earnings growth.

Operator

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

Bill Schmitz - Deutsche Bank

Obviously 2013 was a terrific year for Frito, both in terms of growth and market share. So could you just give us some indication as to what's coming in 2014? And then obviously a lot of that growth was driven by a terrific step up, especially North America, in marketing spending. So do you still intend to obviously increase that [unintelligible] in 2014?

And then one very quick one after that. Do you have any interest in home carbonation? Obviously the Green Mountain Coke partnership was announced, and I know Bryan asked about it briefly, but I didn't hear a response.

Indra Nooyi

We'll try to answer both your questions. The first, on Frito Lay North America, you're absolutely right. Frito Lay North America had a terrific year, but let's just talk about the Frito journey. From about 2011 to 2012, those years, we revamped Frito Lay.

We re-looked at the insights model. We tried to understand what was going on in the consumer landscape. How should we think about our product positioning, our brands, which composition to go after, this was a fundamental relook at everything we did at Frito Lay. We re-looked at the costs, [unintelligible] really took root during that time.

And in 2012, we stepped up investment behind this whole model on demand spaces and insight that we had worked on. So we're beginning to see the benefits of that in 2013. And you'll see more of that going into 2014, 2015, and 2016, because we have the entire macro snacks space that we can go after with our strong salty snack base. And that's our plan, to selectively go after certain demand moments with the salty snack base that we have.

The good news is that a lot of that insight work, the demand spaces work, that was done at Frito Lay we are now taking to beverages. And since 2013, we've been working at fine tuning the beverages insights engine so it can get to the Frito Lay North America level. So we have great optimism for how this whole North American business is going to think about consumers, brand, innovation, demand growth. I think the future looks good.

Let's now talk about in-home carbonation. The way you should think about this is another distribution channel for carbonated beverages, or sparkling beverages. GMCR is one option. Interestingly, there are multiple, multiple, multiple technologies out there.

What we've been sorting through, I'd say for at least 12 months, is making sure that we don't lock and load with any technology until the technology has proven out. There's going to be one technology today that's functioning, but it's based on a system that's very different than what GMCR is thinking about launching. But we have to make sure that we align with partners who we are sure will commercialize the product. So we are working with multiple people. Stay tuned.

Operator

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

Judy Hong - Goldman Sachs

When I look at your revenue target for 2014, it's mid-single digits, so that's in line with your long term target, which is different than your EPS target that's at the low end of your long term target. So I just want to get an understanding of, within your revenue growth target, you have confidence in high single to low double-digit growth that you expect to see in your emerging markets. And just maybe a little bit more color around your key markets. What are you expecting from markets like Russia, China, etc.?

And Hugh, just on the currency guidance, I just wanted to understand what you're baking in for Venezuela?

Indra Nooyi

I'll just talk to you about overall emerging and developing markets rather than individual countries. I'll tell you, taken together, and it's very important that we look at emerging and developing markets as a portfolio, because in any one year you're going to see some markets go through volatility and other markets perform well. If you look over the last 10 years, that's been the case.

And so I don't think we should pick out any individual country. When something goes up, something else goes down. So as a portfolio, in emerging and developing markets, we'll deliver the kind of numbers that we talked about. We feel fairly confident. Barring any major crisis, which we do not anticipate, we think our emerging and developing markets will deliver the numbers that we talked about.

On Venezuela?

Hugh Johnston

Judy, as you know, Venezuela is certainly an interesting and challenging environment right now. You know, there are two rates out there. There's the 6.3 rate and then the 11 rate. We haven't seen any "official" devaluation yet out of Venezuela. The planning assumption that we're using, based on the blend of the two rates, is 10. So that's our operating assumption right now. Obviously, until the valuation comes, if it comes, we haven't run it through the balance sheet yet, but that's our planning assumption right now.

Operator

And our final question comes from the line of Mark Schwartzberg with Stifel Nicolaus.

Mark Schwartzberg - Stifel Nicolaus

Question about how you're thinking about the balance sheet and the leverage. Nice to see the return of cash exceeding the free cash flow. What do you think of having some sort of EBITDA target, a 2.5 or even a 3x target? Or how are you thinking beyond '14, treating the leverage, given the more aggressive approach to returning cash?

Hugh Johnston

What we talked about, rather than getting into specific leverage targets and specific long term ratings targets, is maintaining access to tier one commercial paper. I think that's the best way for us to think about it, because for a company that generates a lot of cash, for a company that has an excellent business rating from the various rating agencies, tier one CP access is really the thing we'll probably manage to more than anything else. So that's the way we're thinking about it on a go-forward basis, rather than getting into specific leverage targets or long term ratings targets.

Operator

We have time for one additional question. Our final question comes from Caroline Levy from CLSA.

Caroline Levy - CLSA

Just a question, which I think I know the answer to, but I have to ask it again. Given that you've got this valuable distribution system and the fastest growing carbonated drink out there right now is still in the energy category, do you still rule out the idea of acquisitions?

Indra Nooyi

Yes.

Caroline Levy - CLSA

Can you explain why? Because you're not participating in this business that appears to have legs. Do you think you can go after it in another way?

Indra Nooyi

Mountain Dew Kickstart is our version of the energy drink that's right for the masses. And we distribute other energy drinks. Caroline, I'll tell you something, we've looked at this category long and hard, and we look at what we can do with those businesses, and whether it's value creating for shareholders, if we were to make any acquisition, and all our analysis says it will not. And so we've chosen not to do an acquisition here.

Hugh Johnston

And Caroline, if I can add to that as well. From the standpoint of the energy category, I think you're aware that we do have a distribution arrangement with Rock Star. That is a distribution arrangement that's worked very well for them and it's worked very well for us. And that is our play in the energy category in North America. Mountain Dew Kickstart plays around the energy space, but it's not in the energy space, in a similar way that Starbucks Frappuccino and iced coffee and other potential innovations go down that path as well. So I think we have a full complement of products to meet the energy need space for consumers, and I think we're positioned well.

Indra Nooyi

Thank you all for your questions. In closing, we delivered on our financial goals for 2013. We have confidence in our ability to meet our goals for 2014.

Our portfolio positions us well for future growth and at the same time provides attractive shareholder cash returns.