Good morning and welcome to PepsiCo's Third Quarter 2018 Earnings Conference Call. Your lines have been placed on listen-only until the question-and-answer session. [Operator Instructions] Today's call is being recorded and will be archived at www.pepsico.com.

It is now my pleasure to introduce Mr. Jamie Caulfield, Senior Vice President of Investor Relations. Mr. Caulfield, you may begin.

Jamie Caulfield

Thank you, operator. 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 third quarter performance and full year 2018 outlook and then we'll move on to Q&A.

Before we begin, please take note of our cautionary statement. This conference call includes forward-looking statements, including statements regarding 2018 guidance 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. 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.

When discussing our financial results on today's call, we will refer to certain non-GAAP measures, which exclude certain items, such as the impact of the U.S. Tax Cuts and Jobs Act and other tax related items, foreign exchange translation and acquisitions, divestitures, structural and other changes from our reported results. You should refer to the Glossary and other attachments to this morning's earnings release and to the Investors section of PepsiCo's website under the Events and Presentations tab to find full explanations and reconciliations of these non-GAAP measures.

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

Indra Nooyi

Thank you, Jamie and good morning everyone. Thank you all for joining us. As most of you know, we announced in August that I'm stepping down as CEO of PepsiCo after 12 years in the role effective tomorrow. And so today will be my final conference call with you. Actually my 75th and final, if you also include the calls I've participated in as CFO.

After we complete the primary business at hand, reviewing the results and outlook and taking your questions. I'd like to ask for your patience and allow me to make a few concluding remarks at the end of the call.

So, moving on to business; for the quarter we generated $16.5 billion of net revenue driven by 4.9% organic revenue growth and delivered core earnings per share of $1.59, a 9% increase on a core constant currency basis. Overall, we are pleased with our operating and financial performance in the quarter.

The organic revenue growth represents another quarter of sequential acceleration and the highest rate of organic revenue growth in 12 quarters. The majority of our businesses again perform well, but particularly strong performances by our international sectors and solid performance by Frito-Lay in North America.

And while North American beverages profit performance was impacted by inflation and a double-digit increase in advertising expense, the sector posted 2.5% organic revenue growth with a good balance between volume growth and net price realization.

Frito-Lay North America delivered balanced volume growth and net price realization driving by strong innovation and brand marketing. For example, in June we launched Stacy's Cheese Petites inspired by French Cheese Puff, these bite-sized cheese snacks have real cheese baked inside creating a sophisticated snacking experience.

In fact cheese is the primary ingredient. Petites are a good source of calcium and have six grams of protein per serving, and they come in a resealable pouch making them great for a convenient on-the-go experience.

Over the summer, Doritos and Mountain Dew partnered on our Worlds Collide program to appeal to our Gen Z consumers who thrive on accelerating experiences. The program highlighted the brands recent innovations, Doritos Blaze and Dew Ice and rewarded consumers to purchase both products with merchandise and experiences.

The eight-week media campaigns supporting the program span social media channels that are also featured on Pandora to reach our consumers' distinctive music. Tostitos' growth was fueled by new products such as Roasted Red Pepper and Black Bean and Garlic.

To support the product launches we created the program to drive trial during the summer get-togethers. Our Buy, Ride, Get Together already program allowed consumers to scan a code of specially marked bags to redeem a $5 lift credit making it even easier for our consumers to get safety to and from summer parties. And Cheetos benefited from the launch of Cheetos Flaming Hot Chipotle Ranch earlier this year, appealing to consumers growing desire for intense flavors.

Cheetos further benefited from our Cheetos Museum Win What You See campaign, with our first-ever Cheetos promotion supported by TV commercials directing consumers to winwhatyousee.com where we invited our fans to find and submit unique Cheetos shapes to have a chance to win what they see. We garnered more than 80,000 submissions and the program is now been localized and rolled across seven additional countries and counting.

Turning to North American beverages, while the marketplace remains highly competitive, we are encouraged by improving overall category growth trends and a generally rational pricing environment.

We had another quarter of sequential organic revenue performance and improvement. Organic revenue growth of 2.5% is the best you've seen in NAB in eight quarters and was driven by retail sales growth in Starbucks ready-to-drink coffee, Lipton ready-to-drink tea, Gatorade, our water portfolio, Pepsi and Mountain Dew.

Certainly strong innovation across the portfolio is contributing to the improving performance. For example, LIFEWTR continues its journey advancing and showcasing sources of creativity with the launch of our Series 6 Bottle themed diversity and design.

LIFEWTR achieved more than $150 million in measured retail sales in 2017 which was its introductory year. And is on pace to achieve more $200 million in measured retail sales in 2018.

Bubly, a new flavored sparkling water where there's no artificial flavors, colors or calories which we launched in February of this year continues to perform exceeding well and has projected to exceed a $100 million in measured retail sales in this first year.

Mountain Dew's performance is benefiting from the launch of Mountain Dev Ice, another launch which should surpass a $100 million of retail in its first year from launch, and from the return of Mountain Dew Baja Blast as our summer limited time offering.

And in June, we launched Gatorade Zero. With zero sugar and all the electrolytes of Gatorade Thirst Quencher, Gatorade Zero is providing hydration options for more athletes in more occasions and is off to a strong start.

And we believe our stepped-up advertising and marketing, particularly on trademarks Pepsi and Mountain Dew, are also starting to contribute to improve performance as we saw sequential net revenue accelerations in both trademarks in the third quarter.

Commodity inflation, operating cost inflation particularly in transportation cost, product mix and stepped-up advertising expense each pressured our profit performance in the quarter. However, we expect that our recently implemented pricing actions will improve profit performance in the coming quarters.

At Quaker Foods North America, our hot cereal business posted its fifth consecutive quarter of market share gains supported by our marketing campaigns highlighting the functional benefits of oatmeal and innovation like Simple and Wholesome Organic Hot Cereal, a Multigrain Hot Cereal with no artificial colors or preservatives.

In addition, Quaker light snacks gains market share with high singe digit retail sales growth. In our Aunt Jemima pancake business, grew retail sales for the eighth consecutive quarter.

And to close out our conversation in North America, we are pleased to report that in the third quarter PepsiCo was the largest contributor to food and beverage growth at retail in the United States.

Turning to our sectors outside of North America, we are extremely pleased with the 10% organic revenue growth we saw in our developing and emerging market as a group, which is the continuation of the strength and experience across many of these markets in the first half.

Strong marketplace execution led to continued solid growth across many of our key international markets. Within Latin America organic revenue grew 10% driven by high single digit growth in Mexico and double-digit growth in Argentina, Brazil and Colombia.

The LatAm team is doing an excellent job, building our business and growing our market share in key countries in the region. In our Europe sub-Saharan Africa sector, Russia and South Africa each grew organic revenue high single-digit, while Turkey and Poland had double-digit organic revenue growth. Even within the developed markets of Europe, we saw mid single-digit organic revenue growth in the UK and France. Again, continued good performance from this team.

And in AMENA, we had strong double-digit organic revenue growth in China, Saudi Arabia, India and Egypt, and high single-digit organic revenue growth in Australia. Excellent results from our AMENA team. This strong top line performance translated into impressive bottom line results with core constant currency operating profit up 12% in our international divisions as a group.

The international results reflect our initiatives to continue to expand distribution of our big global brand and to innovate in locally relevant ways. For example, we continue to drive international growth of our zero sugar Pepsi Black and Pepsi Max trademarks with introductions of lime and cherry flavors across Easter Europe, lime in the Nordics, and lime and vanilla flavors in the Philippines.

We are driving growth in Doritos internationally, whether through expansion to new markets like China where the brand just celebrated its first anniversary since launch, to innovation in existing markets like India, where we launched Doritos Heat Wave.

And the Quaker's trademark continues its global expansion. From the launch of Quaker's super food in Mexico, to our launches of Quaker Kids and Quaker multigrain instant oatmeal platforms in China.

Finally, during the quarter we reach an agreement to acquire SodaStream. As we said on the day of the initial announcement, we believe PepsiCo and SodaStream are an inspired match.

Daniel Birnbaum and the rest of the SodaSteam team have built an extraordinary company that is offering consumers the ability to make great tasting beverages while reducing the amount of waste generated.

That focus is well aligned with performance with Purpose, our philosophy of making more nutritious products while limiting our environmental footprint. Together, we can advance our shared vision of a healthier, more sustainable planet. SodaStream will also add to our growing water portfolio while accelerating our ability to offer personalized in-home beverage solutions around the world.

From breakthrough innovations like Drinkfinity to beverage dispensers like Spire for foodservice and Aquafina water stations for colleges and universities. We are finding new ways to reach consumers beyond the bottle and the SodaStream is fully in line with that strategy.

As we previously announced the acquisition was unanimously approved by the boards of both companies. The transaction is subject to a SodaStream shareholder vote, certain regulatory approvals and other customary conditions and consummation of the transaction is expected by January of 2019.

Net, we are encouraged by the momentum we are seeing across many of our international markets. In North America, Frito-Lay continues to perform well, North American beverages is making steady improvement, and our recently implemented pricing actions will help improve profit performance in North America. And finally, we are excited about the new opportunities that the pending SodaStream acquisition represents.

With that, let me turn it over to Hugh Johnston.

Hugh Johnston

Thank you, Indra and good morning everyone. I'll jut provide a quick update on the outlook and then we'll move to your questions. After considering our year to-date performance and other factors we've updated our guidance for 2018.

Specifically, we now expect at least 3% organic revenue growth for the full year. We now expect our core effective tax rate to be between 19% and 20%. We continue to expect core constant currency EPS growth of 9%.

However, we now expect core earnings per share in U.S. dollar terms of $5.65, which reflects a one-point headwind from foreign exchange translation based on current market consensus rates due to the recent strengthening of the U.S. dollar. This is an 8% increase compared to 2017 core earnings per share of $5.23.

We continue to expect strong cash flow and to exercise disciplined capital allocation with prudent reinvestment into the business. For 2018 we continue to expect free cash flow of approximately $6 billion which includes approximately $9 billion in cash flow from operations, including a $1.4 billion discretionary pension contribution made in the first quarter. And we now expect net capital spending of approximately $3.3 billion.

We continue to expect to return approximately $7 billion to shareholders in 2018 with cash dividends of approximately $5 billion reflecting a 15% increase in the annualized dividend per share that began with the June payment and share repurchases of approximately $2 billion.

Finally, as you update your models, I'd like to highlight the following items to consider for the fourth quarter. Frito-Lay North America is lapping 5% organic revenue growth from the fourth quarter of 2017.

We expect operating profit to decline in our AMENA division as we lap strong results and a refranchising gain in Jordan from the fourth quarter of 2017. We expect the previously announced refranchising of our Czech Republic, Hungary and Slovakia business operations to benefit ESSA operating profit in the fourth quarter.

And finally based on market consensus forecast, we expect foreign exchange translation to negatively impact both net revenue and operating profit by approximately three percentage points in the fourth quarter.

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

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Our first question comes from the line of Dara Mohsenian of Morgan Stanley.

Indra Nooyi

Good morning, Dara.

Dara Mohsenian

Hey, good morning. Congratulations Indra, on an illustrious career of Pepsi and best wishes for you in the future.

Indra Nooyi

Thank you.

Dara Mohsenian

So, the quarter itself clearly saw a large acceleration of the organic sales in emerging and developing markets that's in contrast to some of the fears out there over slowing macro. So, I was just hoping you could give us some more detail there on what drove the sequential improvement? Do you think it's more category growth accelerating or Pepsi market share picking up, maybe some of the key countries behind that. And then most importantly, just are those drivers sustainable as you look going forward beyond Q3 as you think about the strength in the business in the quarter?

Indra Nooyi

Hugh.

Hugh Johnston

Yes. So from an international perspective, I think we saw remarkably broad-based results. The list of countries that had a strong quarter is probably too long to enumerate on the call. We'll use up our entire time doing that. Maybe most notably I think if we saw a strong volume growth both in snacks and in beverages. Snacks were somewhere between 4% and 5% volume growth, beverages between 3% and 4%. And I think it really does sort of demonstrate that both the power of the portfolio and then in addition to that the relatively broad-based strength of economic performance around the world.

So, I think we do expect international to continue to perform very well. I think the portfolio was sturdy and well insulated. Look, at any given time as countries are disrupted, we always have some exposure to those disruptions. But by and large I think we have a remarkably powerful international business.

Indra Nooyi

And our execution also picked up quite a bit.

Hugh Johnston

Yes, absolutely.

Operator

Your next question comes from the line of Kevin Grundy of Jefferies.

Indra Nooyi

Good morning, Kevin.

Kevin Grundy

Good morning, Indra. And I want to extend my congratulations as well. Can we start on the North American beverage business? Results improving. So congratulations on that. But coming at costs when we look at the margin pressure year-over-year and understanding the freight and commodities are playing apart, but you're also picking up your advertising and marketing spending. So maybe you could touch on the ROI on the spent if you're satisfied at this point?

And then two, maybe touch on the necessity to maintain higher levels here into Q4 and even next year particularly behind CSDs and sports drinks as we look at the some of the market share trends we see in the Nielsen data in order to maintain this level of growth? Thank you.

Hugh Johnston

Hey Kevin, it's Hugh Johnston. Couple of things on that. You're right. The P&L was negatively impacted by two things. Number one was cost pressure both transport cost and aluminum were up. Number two, it was the increased in advertising and marketing spend across a number of our businesses. Maybe just we'll step back a little bit in terms of the way that we think about advertising and spending levels. Our intention generally speaking is to be competitive on advertising and spending levels, but not to accelerate beyond competition.

Our goal is to win based on the quality of our advertising and the execution that follows that advertising rather than that the level itself. So I think we will maintain levels of spending that are competitive, but not beyond competitive. Regarding the input cost inflation whether it's transport or whether it's aluminum, our history is always been to price through inflation in our developed markets. We'll look to do that here. We did that post Q3. It's fairly unusual to take pricing in the middle of the summer. So despite the fact that we felt some of that pressure in the summer, we didn't take pricing until September. I think you'll see the profit picture improve in Q4 as a result of that pricing.

Operator

Your next question comes from the line of Bryan Spillane of Bank of America/Merrill Lynch.

Bryan Spillane

Hey, good morning everyone, and Indra, really just want to wish you the best going forward. It's been a pleasure the last 20 years covering you.

Indra Nooyi

Thank you. Thank you very much.

Bryan Spillane

I guess the bigger question I would have is just -- you're looking at the business today in this year, right? We've seen some an increase in investment for advertising and marketing. We've also seen SodaStream as a relative to some the acquisitions you've done in the past a little bit bigger, which Soda suggests that there's just more of a need to sort of invest to continue to drive the top line.

So I [Indiscernible] yes, Indra, if you could if you could just sort of address this. We are at a point now where there is just a need to spend more whether it's operating expense or M&A to sort of drive the top line or was this year sort of more of an anomaly?

Hugh Johnston

Hey, Bryan, it's Hugh. Those are too fairly points, so let me address them separately. In terms of capital allocation broadly no change in policy here. We talked about $500 million here in tuck-ins that continues to be our stated policy. SodaStream in a lot of ways is a unique asset in that it gets into a completely different market that we really weren't touching at all, which are consumers who preferred to prepare beverages at home, whether they be just sparkling water, whether they be flavored beverages. So I would view [Indiscernible] to increase in advertising and marketing in the beverage business as anything more than a response to competitive increase and that's a competitive increase that remains to be seen as to where it goes in the future. I think our expectation as we said before is we want to compete on execution, we want to compete on the quality of innovation that we want to compete on the quality of our marketing and we think we are well positioned to do that particularly whether integrated system.

Operator

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

Ali Dibadj

Hey guys, first Indra very start -- if you go, you've really transformed the company and frankly the whole industry, so we feel very good about that, so would love to hear what made you decide to go after 12 great years and maybe that will be in the closing remarks but would love to hear that at or now or later. And then more specifically about the quarter, clearly the topline has been very good, the margins have seen little bit of pressure and we understand about the advertising increases as well as some of the commodity and other costs that are in there, but historically you've been able to insulate a lot of that through the $1billion or year of cost savings plan that we've seen here, where do you think you are on that, are you towards the end of that and that's why we are seeing a little more pressure on the margins or do you think that has led to continue for many more years and to insulate you guys from what we are seeing from this quarter and most recent quarters on margin pressure? Thanks.

Hugh Johnston

Ali, well I'll handle your second question first. In terms of productivity going forward, the bucket which we drive productivity, we call operating expenses about $28 billion bucket. It's got a natural rate of inflation of about 3% to

4% partly because the bucket is more tilted internationally where inflation rates are higher. So I do think we've got years and years of productivity to come into the future. I'm not here to announce a specific new program right now beyond what we've announced, but I do think we have lots of opportunity out there for further productivity.

Regarding your question on whether we can continue to drive growth through the P&L funded by productivity. I think broadly the answer to that is yes, in a lot of ways I think that the third quarter was reflective of the timing of our pricing decisions where we decided to take those post Q3 rather than during the quarter which obviously pressured margins a little bit, and it was also reflective of continued investments that we are making in top line growth initiatives, whether it's advertising and marketing which was up about 6% in the quarter, R&D spending was up about 22% in the quarter, e-commerce spending was roughly double in the quarter.

So I think in many ways what you saw was a timing issue in terms of the timing of commodity increases versus the pricing increase and continued investment in the business while delivering the short-term performance that frankly in many ways has been emblematic [ph] of interest entire 12 years in running the company or posture in doing so over the last 20 or more years with the company.

Indra Nooyi

Ali and I'll answer your first question in my closing comments for sure.

Operator

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

Judy Hong

Thank you, good morning and congratulations Indra and best wishes from me as well. So I guess first on the guidance used so the FX [ph] obviously came down by about a percent, the core EPS didn't change, the revenue went up, the tax rate came down so maybe there's a little bit of additional pressure kind of between those lines, so maybe a little bit color there. And then just follow up on NAV pricing, so Q3, post Q3 the price increase, can you just give us a little bit color just the magnitude of the price increases and the category that you have announced the price increases and where you think the elasticity might be in terms of the pricing impact? Thanks.

Hugh Johnston

Yes, so in terms of the – the point that you made regarding the P&L. We've said all along to the degree that we have upsides from tax and things like that we intend to deliver our guidance and invest back in the business. You just heard me articulate a few of the areas that we've been investing in. Regarding pricing in the market place what we said broadly is the pricing will be somewhere in the low to mid single digits and that pricing is basically in right now in the beverage business.

Operator

Your next question comes from the line of Lauren Lieberman of Barclays

Indra Nooyi

Good morning, Lauren.

Lauren Lieberman

Good morning, thank you. Indra, I was hoping to just take this opportunity to ask you kind of as you look forward and you think about what are the biggest opportunity do you think that are still ahead for PepsiCo what do think some of the biggest challenges are and into the loss that has been built under your watch to continue development for example of DST in the U.S. and that we've got this dramatic changes in retail. So if you could just give us some thoughts on kind of opportunities but then also some of the challenges and adjustments that might need to be made in the business model going forward as you set to your retirements in the company? Thanks.

Indra Nooyi

Thanks, Lauren. And I think PepsiCo has the scale and scope to remain one of the most successful food and beverage companies well into the future. I think over the years we've assembled the portfolio that is very synergistic, has tremendous growth potential and more importantly we've built out a geographic footprint which is quite impressive.

Going forward, I think there's still tremendous amount of growth available in emerging markets. I think there's growth available and re-thinking some of our businesses as platforms rather than just products. For example, we still haven't fully exploited how snacks can be mini meals and what we can do with the combination of our snacks and dips [ph] and that's something our teams are looking at very seriously. How do we look at sports beverages more as holistic sports nutrition on a sports field platform and our teams are looking at that? And so our growth prospects whether it's a development markets or the developing markets and emerging markets is actually what we imagine it to be, not necessarily what the reported numbers are, so that's the first topline opportunity.

I think the wonderful thing about PepsiCo is that we reinvent ourselves constantly, whether it's rethinking innovation and top line new capabilities we need to invest behind, or if its re-thinking the cost structure. As I've said to many of you I think there's lot of technology driven disruptions that are coming down the pie that are going to force us to rethink many many parts of our cost structure, but we started that work several years ago and I think over the next year or so you will start seeing a lot of these taking root, and how we implement these in the company and reshape our cost structure for the new realities is really going to separate the great companies from the not so great companies and I'm confident PepsiCo is among the great companies and we will re-shape our cost structure using technology as a big driver and I think will also use data analytics and insights to think about innovation a whole lot differently.

So I feel good about where we are. We have made a lot of investments, the trick now is to keep investing in the company judiciously so that we deliver a good balance of short term results and make investments to keep this engine going into the future.

Operator

Your next question comes from the line of Bonnie Herzog of Wells Fargo.

Indra Nooyi

Good morning, Bonnie.

Bonnie Herzog

Good morning and congratulations to Hugh and Indra, we all wish you really the very best in the future. And I had a quick question on your guidance. Your outlook for organic sales is now slightly higher for the year, but it implies a sequential deceleration in Q4, so could you guys first reconcile that for us and then whether you are being conservative or is there something else going on and then I was also hoping to hear an update on your current thinking on the strategic options you are exploring for your beverage business in North America, guess I'm wondering if you guys have made any more progress and you know determining the right path for this business and really what your latest thoughts are on potential benefits of refranchising? Thanks.

Hugh Johnston

Yes, happy to jump in on that. Number one, I would remind you that the Q4 lap on revenue is more difficult that Q3 was so while the guidance does imply a sequential slowdown in Q4 some of our thinking is driven by that. And frankly the guidance we've laid out there is at least 3%, so we'll see how the quarter comes. And regarding North America beverage and refranchising nothing new to report on that. We've said we look at it as we always do, the one thing that I would say generally is we do think the integrated system does make us more innovative, it does make us faster to respond to customer needs and it does make us more cost competitive. So those are the hurdles that we have to overcome if we were to see some benefit to refranchising in the future.

Operator

Your next question comes from the line of Caroline Levy of Macquarie.

Caroline Levy

Good morning and – and hi Indra congratulations and really can't wait to see what you are up to next, and you've been a great role model for many women, so congratulations. I just – my question is on Frito North America where the margin growth hasn't been as robust this year as it has historically and I'm wondering how you are thinking about the fourth quarter which has a very difficult lap. I know you had some one-time payments in the first quarter on bonuses, but as Frito has always been such a great driver of growth for the total company Frito, North America is there a point at which the margin expansion story thinking longer term maybe needs to slow as you invest in new opportunities?

Hugh Johnston

Hey Caroline, it's Hugh. I think the answer to your question is no, because we think that, that business is so strong in its ability to leverage new ideas and new technology and to scale them relatively quickly to provide increased margin overtime. In terms of the short term numbers that you are speaking to, what are the factors affecting Frito-Lay this year is transport cost. Now transport in Frito was more heavily internal relative to beverages which uses more common carriers. So beverages has been more exposed to the driver shortage and the impact in terms of transport cost, but Frito-Lay is not immune to that it does use some common carrier and there is some wage inflation and the driver pool is well up. One of the things you will see Frito-Lay do is take some pricing in the fourth quarter particularly in single served which I think will mitigate the impact of the inflation and you will see their margin performance return to a more normal, a more normal margin improvement.

Operator

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

Andrea Teixeira

Hi, thank you and Indra thank you for making history and best wishes for you and Ramon as well.

Indra Nooyi

Thank you.

Andrea Teixeira

Thank you. My question is related to NAB, why are we encouraged to see the volumes return to positive, but the trends continue to decelerate on a two-year stag, so how should we think about volume performance on a sequential basis as you move through the fourth quarter, I'm assuming that you are going to have some of the results of your increased investments and also execution that strayed? Thank you.

Hugh Johnston

Yes, Andrea, I'm not going to – I don't want to get into guidance on a division specific perspective and on a division specific quarterly perspective particularly not. I would view it as the business is both improving but it's improving in a broad based way. So watching volume alone may not be as meaningful as watching the combination of volume and revenue particularly in light of the fact that where we're seeing the best growth is often times in non-carbs and premium products which are obviously they moved the needle less on volume but they moved the needle on revenue in a substantive way. So, again I think the message here in terms of North America beverage is continued sequential improvement in the overall business. The pricing will obviously help in Q4 as well and we think we are getting that business back on track with the investments behind the advertising and the innovation that we have.

Operator

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

Indra Nooyi

Good morning, Steve.

Hugh Johnston

Hey, good morning.

Steve Powers

Good morning and congrats and thank you from me as well Indra.

Indra Nooyi

Thank you, Steve.

Steve Powers

I guess – I had a question on I guess the question that Brian asked earlier on sort of a different perspective. If we step back and look at what's happened over the course of the summer with the official creation of KBP [ph] with the alliance between Nestle and Starbucks with Coke purchasing body armor and then cost to coffee and your own action with SodaStream it just- it feels like there is a tremendous amount of activity and change all across beverages right now. I just – I've loved your thoughts as to why there is so much activity right now and what does it say about the feature of the LRB category and PepsiCo's role in it amidst all this change? Thank you.

Indra Nooyi

Go ahead, Hugh.

Hugh Johnston

Yes. You know Steve I agree with you there is a large amount of activity right now and you just sighted a couple of competitors coming at it from a couple of different angles. I don't want to speculate on their strategies as those are questions probably best asked of them. I do think you have people using different approaches to reach for growth and to reconstruct their portfolios to some degrees.

From PepsiCo's perspective by and large we like the construction of our portfolio right now, it's been built over the better part of the last two decades and we think it's well positioned to compete, well positioned to innovate on as we build on the platforms that have existed here for a long time. SodaStream, I wouldn't compare to the other things that you have citied, I think it's an exception to the rule because it actually gets into a market that we weren't playing in at all up until now and frankly I don't think any of the other people that you mentioned are playing in a substantive way at all later, so I wouldn't compare our move in SodaStream with some of the other competitive moves because I think it's driven by a new opportunity for us as opposed to getting into categories that some of those folks already in that just weren't scaled up.

Operator

Your next question comes from the line of Vivien Azer of Cowen.

Indra Nooyi

Good morning, Vivian.

Vivien Azer

Good morning, Indra and congratulations. One of the things that I think is rung through through your tenure at Pepsi and certainly coming through a lot and here on this call is the focus on innovation and how that really helps differentiate the story. So with that in mind, I was wondering whether you could speak at all to how Pepsi is thinking about an opportunity in Canada's based products and specifically non-psyhcoactive cannabis as an additive to non-alcohol drinks. Thanks.

Indra Nooyi

I mean, really I don't have anything to say, but Hugh, I don't know if you want to add something there.

Hugh Johnston

Yes, I mean obviously we – I think it's fair to say we look at everything, but I think that the difficulties in investing in that category particularly in the U.S. were federally these things are still not legal or quite a considerable challenge. So, we look at everything but certainly no plans at this point to do anything.

Operator

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

Indra Nooyi

Good morning, Amit.

Amit Sharma.

Hi, good morning everyone. Hi, good morning, Indra and very best wishes for you after the retirement here. Two questions if I may. One, Hugh to your response on the NAB franchising and perfectly [Indiscernible] answer, I just wanted to look at it from, when you look at your potential partners from a bowling side, if that also a consideration in your decision to keep the current structure imtact?And then second, as we look to the end of this year or next year, there is a ton of contribution from below the line in terms of EPS, as you look at next year how much room do you have in that below the line in terms of flexibility or should we expect operating profit to be generally in line with earnings throughout next year?

Hugh Johnston

Yes, Amit happy to answer both of those. In terms of the potential bottling partners we have a lot of high quality bottlers in our business, so that's not a factor in the decision. The factors are the ones that I mentioned earlier. Regarding your question on 2019, we are always quite disciplined around not talking of our guidance for 2019 or even things that potentially impact guidance until we get to that year, so we'll talk about that in February.

Operator

Your next question comes from the line of Pablo Zuanic of SIG.

Pablo Zuanic

Thank you, all the best Indra. All the best, two quick questions if I can. You know a bit forward think in terms of snacks, it seems to me that yes, Frito is very strong and salty, but a lot of innovation it's more on the savory side I would argue. We have seen a lot of the food companies coming into to snacks, so just help us frame how Pepsi fits in there, because from my perspective the company obviously protects it's very strong salty franchise and they have seen adjacencies very lightly maybe perhaps not to dilute the core, but the market seems to be moving and shifting away from salty into those other categories, so is that a concern how should we think about that?

And the second very, very brief is there room for a closer collaboration with Starbucks in the case of coffee. I mean, obviously Starbuck now is doing things with Nestle overseas and in the U.S. is there room for Pepsi to do something with Nescafe for example if you can comment on that, thank you.

Hugh Johnston

Yes, Pablo, it's Hugh. Regarding Frito-Lay I think we've continued to inch out of salty into savory, really over the course of the past decade or more whether it's our Sabra joint venture or whether it's Stacy's, there is a lot of examples where we've gotten beyond salty and into savory. I think the good news is the combination of our consumer insights which are broad-based around how people consume snacks, I think leads us into savory in a fairly effective way. The reality of it is consumers don't think in these industrial terms like salty or savory. They think about occasions and they think about what they feel like eating. Frito-Lay's insights I think are extremely well-positioned to pick the right areas to go and to develop the right products to take advantage of those consumer opportunities. And then in addition to that, the scale of the Frito-Lay operation, once a decision is made to enter a new subcategory, I think allows us to be very very successful very very quickly.

The scale being from the perspective of brands, from the production systems, from the distribution systems, so I think you'll see Frito-Lay continue to be very successful in the savory area. Regarding your second question around Starbucks, look, we've had the Starbucks partnership now for the better part of 20 years. It's been remarkably successful for both of us. I think you'll continue to see us expand and build on the relationship with Starbucks.

Indra Nooyi

The only thing we're not going to do again is the restaurant business with Starbucks.

Hugh Johnston

Correct.

Operator

Our next question comes from the line of Robert Ottenstein of Evercore ISI.

Indra Nooyi

Good morning, Robert.

Robert Ottenstein

Good morning and congratulations. Two questions, Indra, a little bit more big picture. First, a few years ago you describe and I think you were talking more about the U.S. consumer is somewhat confused on health and wellness issues in terms of how they were viewing sugar and artificial sweeteners. I think there's probably three years ago. So I'd loved to get an update in terms of your thinking about U.S. consumers is looking at the health and wellness space and particularly with regards to sugar and artificial sweeteners?

And then the other question is perhaps maybe give us a little bit more insight into your successor. Obviously he has done a fantastic job on the international front, but maybe a little bit of thought of kind of the things that he's done in his past that could be very helpful with the rest of the organization? Thank you.

Indra Nooyi

Yes. So I'll just speak to the U.S. consumer. What we have been seeing over the past three years is that even though there's occasional confusion on artificial sweeteners good for you or not, why not real sugar. What's wrong with the high fructose corn syrup, those kinds of questions, there is a general trend towards health and wellness, whether its consumption of more zero calorie, flavored waters or drinking diet products or lower calorie products, there's definitely a trend towards whole grains, closer to nature. So that trend might vary in speed year-over-year, but the trend is there.

And as a millennials age, I think they are driving this trend more and more. And the availability of more healthy products whether its ready prepared meals or home delivery of anything that's healthy is actually taking away any barriers to buying a healthier products whether it's better for you or good for you products. So I think you're going to see an acceleration towards that trend as the years go by.

Now Ramon is an outstanding executive and you'll get a chance to get to know him over the next few weeks and months. The good thing is a lot of the trends we are seeing in the U.S. have already happened in Europe, whether its retail consolidation, whether its trends towards health and wellness, competition amongst all of the European food and beverage companies where warehouse delivered products are really have to negotiate to the retailers, all of those trends, Ramon is a veteran of. And he's going to bring all those skills to the United States.

Second as you know over the last year as President, Ramon has been leading the productivity program for the company, been leading innovation. So I think he's uniquely suited to bring a fresh pair of eyes to everything we do here in North America while preserving its knowledge of the international market. Finally, he's just a good guy. I think you'll find his mix of operating expertise, plus his ability to think about customers, consumers, and bring the two together, to be refreshing. So get to know him. I think you will be very happy with what you see.

Operator

Our next question comes from the line of Laurent Grandet of Guggenheim.

Indra Nooyi

Hello, Laurent.

Laurent Grandet

Hey, good morning, Indra, good morning, Hugh. Indra, so let me first congratulate you on for having been at the forefront of consumer goods company with performance [indiscernible] your vision that redefine, I think, the company role in society and embrace, I mean, the new reality of consumer mindset. So having seen this from the insight I can only relay your passion and commitment were second to none.

Indra Nooyi

Thank you.

Laurent Grandet

So, maybe something you will cover in your closing remarks, what will you have done differently should you have the opportunity to rewind time? And then more in the business, right now, your campaign, Pepsi generations and increased A&M behind the brand did probably enough to stabilize the brand Pepsi this year? Now, good thing that the campaign was probably pleasing to boomers with some nostalgia retro back, but not sure it's attracting the consumer into the franchise. So could you please share with us Pepsi specific, I mean, brand KPIs especially as -- in regards to millennial consumers, please?

Hugh Johnston

Yes. So as you might imagine that the KPIs on Pepsi are the ones that you would traditionally look at. First, the highest level market share performance and velocities in the stores from a consumer perspective we tend to look at purchase intent regard relevance to consumers. A lot of this stuff is done through survey work. And we have seen over time the metrics that we measure while it may not be immediately responsive. They do tend to prove out over time sales trends both positively and negatively.

And the good news is what we are starting to see are given the increases in advertising early green shoots of improvement in those performance metrics, that again do overtime tend to correlate with sales performance.

Indra Nooyi

Thank you all for your questions. Just, let me make some closing comments. After 12 years at the helm of the company, today is my final day as CEO. It ends my 24-year career as a PepsiCo Executive. I have been blessed to have had the opportunity to lead such a great company and work with such incredible people including our outstanding board, executives and other associates, our customers and other partners, our shareholders and all our other stakeholders.

You know 12 years is a long time as a CEO, and even though I have a lot of fuel still left in my tank. I wanted to do something different with my life. Spend more time with my family and give the next generation in PepsiCo a chance to lead this great company.

Throughout my tenure however, we've strived to achieve a difficult balance between attending to short term pressures while managing for the long-term. And I'll leave today proud of the work our team has done. We were pioneers in business sustainability and social responsibility and embedded the sense of purpose in everything PepsiCo does guided by our Performance with Purpose philosophy. We have transformed our product portfolio by growing our good for you and better for you option from about 38% of revenue in 2006 to roughly 50% in 2017.

We more than doubled our investment in research and development to expand our more nutritious offerings and minimize our environmental impact. We became an even more valued partner to our retail customers. We were selected as a number one food and beverage supply in the United States in the most recent 2017 Advantage Report and named Best-in-Class Manufacturer by Kantar for the second year in a row.

We've made positive contributions to communities around the globe in which we operate through our support of access to clean drinking water, human rights, nutrition, agricultural programs and many more initiatives. And we invested significantly new capabilities in areas like design and e-commerce to better position our company for a successful future.

In the midst of managing the business for the long-term, we also delivered strong and consistent financial performance specifically during the period 2006 to 2017. Net revenue grew more than 80%. We added a new billion dollar brand almost every other year. We returned $79 billion to shareholders through dividends and share repurchases. Our market capitalization increased by $68 billion. Dividends per share nearly tripled from $1.16 to $3.17, and we generated total shareholder return of 162%.

Finally and very importantly, we have been on Ethisphere's list of most ethical companies for the past 12 years. For all of this I am grateful to my outstanding PepsiCo associates who gave so much to PepsiCo and me over the past 12 years.

And now, I'm handing the reins to Ramon Laguarta, who becomes PepsiCo's sixth CEO. Ramon is a terrific executive with a long and proven track record of growing businesses. He has a deep understanding of the changing preferences of consumers and other critical trends unfolding around the world, and he has demonstrated that he knows how to navigate them successfully. He has been a critical partner to me in running the company and I'm confident he will lead PepsiCo to new and greater heights in the years to come. The potential for PepsiCo is enormous. Finally, I want to thank you, our investors and analysts.

During my time as CEO and CFO, I've had a lot of spirited and fascinating conversations with many of you. I've always valued your perspectives even in those instances when we may have disagreed. You often challenged me, offered your opinions and provided different perspectives. My interactions with you over the years helped make me a better executive and helped make PepsiCo a better company. Thank you all for your time today and your engagement through the years. And thank you for the confidence you have placed in us with your investment. Thanks.