Good morning and welcome to PepsiCo's Fourth Quarter 2012 Earnings Conference Call. (Operator Instructions) Today's call is being recorded and will be archived at www.pepsico.com. It is now my pleasure to introduce Mr. Jamie Caulfield, Senior Vice President of Investor Relations. Mr. Caulfield, please go ahead.

Jamie Caulfield

Thank you, operator, and good morning everyone. 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 fourth quarter performance and 2013 outlook and then we'll move on to Q&A. In an effort to get to as many analysts' questions as possible within the hour, we're going to have a one question limit, so we can hopefully get through the full queue of your questions.

Before we begin, please take note of our cautionary statement. This conference call includes forward-looking statements, including statements regarding 2012 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 in such forward-looking statements. Statements made on this conference call should be considered together with the 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 total operating profit growth are on a core basis, and all references to volume exclude the impact of an extra week of results in 2011. In addition, references to organic revenue results in this call exclude the impact of acquisitions, structural changes, foreign exchange translation, and the extra week of results in 2011. 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 investor presentation tab.

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

Indra Nooyi

Thank you, Jamie, and good morning everyone. Because this is our year-end call, I intend to provide a broader context today on PepsiCo's journey, our progress to date and our expectations for the coming year. As we entered 2012, I shared with you that we needed to use the year to reinvest in

PepsiCo. Our business strengthened during the course of the year, with the fourth quarter looking particularly good. And we are well positioned to compete and create value as we enter 2013.

Let me look back on the year and I think we made good progress on several fronts. First, we delivered on all of our financial commitments. Our 2012 organic revenue growth was squarely in the middle of our long term target range of mid-single digits, with growth of 5%, both in the quarter and for the full year, reflecting a good balance between volume growth and net pricing.

We grew organic revenue growth across each of our businesses, both for the quarter and the full year, with particularly strong growth in emerging and developing markets. And we also had very solid growth in a number of our large developed markets businesses like Frito-Lay North America where organic revenue was up 5% in the quarter, driven by strong volume growth and was up 4% for the year. We stepped up investment in our brand by increasing our advertising and marketing support by 50 basis points of net revenue, exactly on target.

We delivered our earnings per share directly on target. We exercised very disciplined cash management. Our capital spending was 4% of net revenue for the year, below our target of 4.5%, a 20% reduction from our 2011 CapEx investment level. We also saw improvement across each our key working capital metrics, particularly a decrease in inventory days and increase in payables days. All of these contributed to extremely healthy cash flow for the year.

Our management operating cash flow increased 3%, even with the $1 billion after tax discretionary pension contribution and cash payments related to the major restructuring actions we implemented in 2012. Excluding the pension and restructuring cash outflows, our management operating cash flow increased 20% or by more than $1.2 billion compared to 2011. This cash flow performance enabled us to return $6.5 billion to PepsiCo shareholders through a combination of share repurchase and dividends, a 16% increase from 2011.

Just as importantly, we leveraged our 2012 investments to strengthen the competitiveness of our businesses across a number of key dimensions that will drive long term value creation. First, we enhanced the equity of our global brand. We increased our spending across geographies and across both the food and beverage businesses. Importantly, these increased investments made across the spectrum of our brand from expanding our media spend in Good-For-You product platforms like Quaker to ensuring the competitiveness of our large, Fun-For-You brands like Pepsi and Doritos.

And we not only stepped up the level of investment in A&M, but we also took steps to improve its efficiency and effectiveness by better leveraging our global scale and driving consistent brand positioning and coordinating advertising, creative and production activities. By doing this, we made our investment dollars work harder, allocating a greater percentage of the investment to what we refer to as working A&M, that is media and other consumer facing activities that drive greater awareness and regard for our brand. We're seeing positive results already from our increased investments, both in higher brand equity scores and in market share results that are beginning to improve nicely.

Second, we stepped up our game-in innovation by bringing to market more balanced offerings, from line extensions that bring additional locations to our existing products and to new product platforms that are truly transformational. I am particularly pleased at both the number and rate of our new product platform as these typically have higher greater staying power and also the opportunity for consistent growth over a number of years. For example, just in the last year or so we've introduced Quaker Real Medleys, a high quality oatmeal with real fruits and nuts which was just named breakfast product of the year for 2012.

Pepsi Next which delivers real cola taste with 60 percent less sugar and achieved more than $100 million in retail sales in its first year. Starbucks Refreshers, our 60 calories sparkling beverage that provides a delicious boost of natural energy from green coffee extracts and real fruit juice and Gatorade Energy Chews, a convenient form of carb energy to fuel athletes prior to athletic competitions.

In snacks, Doritos Locos Tacos sold more than 325 million shelves, contributing to the most successful product launch in Taco Bell's 50 year history, and expanded our presence in the food service channel. We are gearing up for year-two of our Doritos partnership with Taco Bell, with even more exciting products. And Quaker Yogurt Bars, originally launched in Canada, were a great example of our lift and shift model, as we successfully introduced them in the United States, driving recent U.S. share gain in bars.

And we believe we are still in the early stages of reaping the benefits of our investments in R&D over the past several years. During 2012, we continued to invest in the R&D platform that will drive us future innovation and we will continue to do so in 2013. Now our R&D investments are highly focused. We are investing in technologies and capabilities that will enable us to deliver differentiated taste, functionality, packaging, and other benefits to consumers over the next five years and beyond. All of which we believe, will enable us to create differentiated product platforms that resulted in incrementality both at the top and bottom line.

Third, we delivered on our productivity commitment. We executed a comprehensive restructuring program and accelerated our productivity efforts across the value chain. How we make, move and sell our products. We de-layered the organization and improved its efficiency. We reduced our headcounts and we rationalized our supply chains to reduce cost and investment in fixed asset. As a result of these efforts, we delivered in excess of $1 billion in productivity in 2012. And we are continuing to drive productivity across the entire value chain and across all of our businesses.

We have a robust pipeline of projects, from leveraging best in class supply chain activities around the world, to increasing automation across the value chain from raw materials handling through to the route truck, to implementing new processing technologies that enable us to both increase asset utilization and reduce input cost. Now much of this is enabled by the IT investments we have made over the past several years, giving us greater visibility into our performance metrics across the globe. Some of these changes, from small actions repeated millions of times to utilizing new technology that changes the overall cost of key processes. Both of these give us high confidence that we will achieve a three-year, $3 billion productivity target through 2014. And even more importantly, we have already begun the work on our next big tranche of productivity.

Fourth, we stepped up our execution game in 2012. In North America, we continued to drive cross-category in-store programming to increase the frequency with which our snacks and beverage products are purchased in the same basket, resulting in increasing in our share of our cross-category co-purchases in the United States. So while we have a great deal of opportunity to sharpen our capabilities of brand building, innovation, productivity realization, market place execution, I believe that 2012 marked a turning point for PepsiCo. We truly stepped up our game and created a foundation for continued improvement and competitive advantage.

Now let me turn to our businesses and comment briefly about them in five buckets. I am going to talk to Frito-Lay North America, North American beverages, other developed markets in the group, developing in emerging markets as a group, and our Good-for-You nutrition businesses. Let me start with Frito-Lay North America.

Frito obviously plays a critical role in the PepsiCo portfolio. It still enjoys terrific leadership in the growing savory snack category with lots of room to grow in the overall macro snacking market share in the United States and North America as a whole. Specifically, Frito's focus on generating steady, predictable growth and value creation by sourcing occasions from other macro snacks category, growing into the premium segment of snacks, and selectively competing in the value tier of the category. And doing all of this in a sensible, margin accretive, competitively advantaged manner.

As you saw in the fourth quarter and for the full year, Frito-Lay North America generated very healthy organic top line growth, which is an encouraging sign that our strategy and execution are both working. As we look to 2013, we expect continued steady top line growth. And because we have returned to a more normal commodities environment with lower inflation, we expect the top line to have more balance between volume and pricing. Our goal is to gain value share in a sustainable way over the long-term through iconic brands, differentiated targeted innovation and flawless execution from farm to shelf. This is what the teams are focused on and I'm pleased with their progress.

Let me now turn to beverages North America and let me start by giving you my perspective on the CSD category. To begin, there is still growth potential in Carbonated Soft Drinks outside of Colas. Evidence the fact that Mountain Dew, our second largest CSD trademark, grew volume in North America in 2012 and we continued to innovate behind you as you saw with the launch of Mountain Dew Kickstart earlier this week.

However, Colas have been under pressure for some time now. Colas have declined as consumers have increasingly sought greater variety in their repertoire of beverages. For this reason, we diversified our portfolio in North America actually that begun in the early 1990s when we embarked on a strategy to be a total beverage company and as a result of multiple steps in the diversification, today we have the leading position in liquid refreshment beverages in measured channels in North America. Almost 40% of our North American beverage volume is non-carbonated and only a fifth of our North American beverage volume is full sugar Cola.

Our non-carbonated portfolio is very strong, with great brands in isotonics, juice and juice drinks, ready-to-drink teas, ready to drink coffee and waters, all of which have good growth prospects and we continue to innovate in every one of these categories. So what's our approach in Colas? Simply put, we'd like to lead disruptive innovation. The industry has not had truly meaningful innovation in Colas since the introduction of Diet in 1960s. Our research indicates that consumers still love bubbles. They love the Cola taste, but would like to lower their caloric intake without the taste of artificial sweeteners.

So as we shared with you over a year ago, we've been developing new natural sweeteners and flavoring aimed at producing calories with no compromise on taste. We have some promising projects that are currently going through the FDA review process that once commercialized could potentially alter the trajectory of our Cola business in a meaningful way. And in the meantime, we're just going to continue to appropriately invest behind trademark Pepsi with marketing and innovation in order to maintain consumer excitement in the brand.

Now besides our work on disruptive innovation, across the entire North American beverage business, we've continued to optimize our supply chain to reduce costs. We're implementing price pack strategies to maximize revenue realization and we're exploring a variety of potential structural alternatives to improve profitability and returns and to drive further value creation. Early next year, we'll report our progress on these initiatives which will allow us to further unlock value from the PepsiCo North American beverage portfolio.

Other developed markets. These businesses are relatively well positioned. We have very strong leadership positions in salty snacks in many of these markets and our beverage portfolio is strategically well positioned with a highly developed zero calorie carbonated soft drink and non-carbonated beverage portfolio. Even in a relatively difficult macro environment, our major west European markets as a group grew snack and beverage volume in 2012.

Moving on. We continue to see very good growth in our developing and emerging markets, with organic revenue growth of 9% in the fourth quarter and for the full year 2012. Over the past five years, we've deliberately invested to increase the significance of our emerging and developing markets within our total portfolio so that we could provide a more attractive growth profile for PepsiCo overall. We are growing in these important markets by driving greater penetration, frequency of consumption through tailored distribution models and by offering locally relevant innovation and a broad spectrum of value oriented offerings. These markets still have relatively low per capita consumption and therefore provide sizeable runways for future growth.

Moving to major developing markets. Let me speak to a couple of key countries. We have a terrific position in Russia where we are the number one food and beverage business by a factor of two. And in the fourth quarter, our organic revenue growth in Russia was 10%, demonstrating our ability to leverage our brand, scale and product spread to drive growth in this important market. A second developing market, Mexico. We have a powerful snacks business with clear leadership in both salty snacks and biscuits. We have combined our salty and biscuit businesses into one unit, driving greater synergies and growth. And just over a year ago, we strengthened our Mexican beverage business, through the consolidation of our bottling system under a new joint venture that increased our scale and stepped up our operating capability. And our snacks and beverage businesses in Mexico continue to find new ways to work together on joint promotion and creative channel development initiatives.

The strength of our operations in Mexico was evident in the fourth quarter with organic revenue growth of 7%. Moving on to our emerging market businesses which are largely centered in our EMEA sector because EMEA is predominantly an emerging market business because we have relatively small presence in countries like Japan. Within the Asian emerging markets we have strong salty snack leadership. Our China beverage business was recently strengthened by a formation of a partnership with Tingyi, giving us a [system] relative market share advantage of 1.5 times.

And in India, we recently further consolidated our bottling network, which will drive greater scale and advantage in that market. In the Middle East, we enjoy a five times relative market share in snacks and a three times relative market share in beverage. Reflecting the strength of our business across EMEA, we enjoyed, double-digit organic revenue in 2012 with especially strong organic revenue growth in Saudi Arabia, India and Pakistan.

Let me now turn to our nutrition business. Over the years, we have built a strong Good-for-Your portfolio across the key platforms of food and vegetables, grains, and sports nutrition. We have strong well-positioned brands like Tropicana, Quaker, Gatorade, Sabra and Stacy's. We are innovating with differentiated products that are worth paying more for. We are increasingly leveraging these brands and product portfolios globally and we are intelligently addressing gaps in our portfolio, as we did with protein through the value-added dairy platform with Wimm-Bill-Dann in Russia, and through our capital efficient Muller and Almarai joint venture that leverage both PepsiCo and our partners unique capability.

Now these Good-for-You products are an attractive category with strong growth tailwinds and good margins, and offer the potential for continued value creation for many years to come as consumers migrate more of their beverage and snacking habits to include more protein, food and vegetable and grain, and value-added dairy products. Because consumers are both very loyal and willing to pay price premium for products in these categories, we have continued to see the opportunity to create a great deal of value through investing behind Good-for-You innovation, and expect that we will continue to accelerate our efforts in this attractive space.

Overall, we feel good about the state of the company, our execution capabilities, and the caliber of our associates. Now, on to our outlook for 2013. I don't have to remind you that there are still considerable unresolved economic and political issues in the United States and Europe, and there are number of emerging and developing markets that are also subject to economic and political volatility. So it's against this uncertain macro backdrop that we are providing our outlook. Now, Hugh, will provide a lot more color on the financial outlook in a moment, but in summary for 2013 we expect mid-single digit organic revenue growth with contributions from each of our division, driven by continued relatively strong growth in developing and emerging markets. And we expect 7% core, constant currency EPS growth reflecting the earnings associated with solid organic revenue growth and our continued focus on productivity and strategic investments.

Well, let me wrap up my comments before I turn it over Hugh. We believe we have a stronger business as a result of investments we made and the actions we took in 2012. And we are well positioned as we head into 2013 with lots of runway for growth in the future. We have strong presence and attractive and highly complementary growth categories. Our product portfolio has broad appeal across dayparts, need states, cohorts, and occasions from indulgent products to nutritious Good-For-You offerings.

Our global footprint is balanced with well-established positions in virtually every emerging, developing and developed market in the world, with strategies and business models tailored to maximize our performance in each market. We have an enviable portfolio of well-defined brands that consumers know and love. Our advantage supply chains enable us to achieve superior reach with greater efficiency. And we have deep offering capability in every aspect of our business. Most importantly, we're not content with the status quo. We'll continue to work hard to strengthen our brand, accelerate innovation and drive relentlessly productivity and excellence in every aspect of our business.

So with that, let me turn the call over to Hugh Johnston.

Hugh Johnston

Thanks Indra and good morning everyone. I'll spend just a minute covering the 2013 outlook in a bit more detail and then we'll open the lines to your questions. For 2013, we expect core constant currency EPS growth of 7% off our core 2012 base of $4.10.

We expect organic revenue of mid-single-digits, core constant currency operating profit growth of approximately 6% and approximately 1 point of leverage below the operating profit line, driven by share repurchases, offset somewhat by higher net interest expense of approximately $90 million from higher debt balances.

And we expect our core effective tax rate to be approximately 27% for the full year. Within these expectations we assume positive price mix, low single digit commodity inflation, productivity of $900 million and A&M growing at least in line with our net revenue growth.

We continue to manage our commodities using a systematic hedging program and at this point we have more than half of our commodity exposures covered for the year with more coverage in the clos-in quarters and the level of coverage will ramp up as we move further into the year.

We expect the rate of inflation to be fairly consistent across the quarters in total and that rate of inflation will be more pronounced in foods than in beverages. Our productivity assumption is completely in line with the three year, $3 billion program that we launched last year and the savings will be used to help offset inflation as well as provide funding for investment back into the business.

One of our key investment areas was supporting our brands with advertising and marketing, where we'll grow our A&M investment at least in line with net sales, meaning you should expect A&M spending of at least 5.7% of sales which was our 2012 base line investment. In addition, we're also accelerating our investment in research and development and innovation.

We anticipate foreign exchange translation to have up to a 1 point negative impact on our net revenue, operating profit and EPS for the full year and this includes the impact of last week's Venezuela devaluation. We also expect an approximate $100 million non-core charge related to the devaluation of our monetary assets in Venezuela in Q1. And we anticipate structural changes primarily bottler re-franchisings will have a negative impact on our full year net revenue growth of approximately 1 point.

As you model out the first quarter, we expect foreign exchange translation to have a negative 2 point impact on EPS. Revenue in the first quarter will have an estimated 3 point negative impact from structural changes and a negative 1 point impact from foreign exchange translation.

From a cash flow perspective, we except management operating cash flow excluding certain items of more than $7 billion. We'll continue to drive cash flow through even more efficient working capital management and continued tight controls over capital spending.

For 2013, we expect to see continued improvement in our key working capital metrics and to manage net capital spending to $3 billion which is well within our long term target of less than or equal to 5% of net revenue.

From an M&A perspective, consistent with our past comments, we believe the portfolio was largely where it needs to be and consequently we do not see the need for any large scale M&A. As a result, we will continue to return strong cash flow to our shareholders. We just approved a new three-year $10 billion share repurchase program to succeed the current program that expires in June of this year, and our board has approved a 5.6% quarterly dividend increase beginning with or June payment.

In total, we expect to return approximately $6.4 billion to shareholders in 2013. $3.4 billion in dividends and $3 billion in share repurchases. Next, our outlook for 2013 is consistent with our long-term targets for net revenue, operating profit and EPS. We expect to drive improved margins and improved net ROIC, and we expect to generate and return cash flow to our shareholders and that remains a top priority for the company. With that I will wrap it up and operator we will take the first question.

Question-and-Answer Session

Operator

(Operator Instructions) Our first question is coming from John Faucher with JPMorgan.

John Faucher - JPMorgan

A question on Frito. If we look at the track data, whether it's the absolute level of sales or even the market shares, the results today are better than I think we would have expected. So can you talk a little bit about what's your scene and maybe in the non-track channel there. And then if you think about the market share issue, how should we be thinking about Frito's share within salty snacks and the how that's going to work in the broader context of the whole Frito-Lay business. Thanks.

Indra Nooyi

John, good morning. Brian Cornell is right here. So let me have Brian talk about the Frito-Lay business.

Brian Cornell

I think we saw a very balanced result in the quarter. I think the overall investments we have made in brand building, in innovation, our focus on productivity and execution, really played out well in the fourth quarter. And I think you saw that equate to growth in our value share or volume share and also improvement in unit share. So we are very pleased with the execution in the quarter. We would expect that to continue as we go into next year.

Operator

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

Bryan Spillane - Bank of America Merrill Lynch

Could you talk a little bit about the progress you have made on the integration of Wimm-Bill-Dann in Russia and just sort of where you see that business today versus what you were expecting at the beginning of the year? And just some more color in terms of the underlying performance and trends there.

Indra Nooyi

Yeah. You know the integration has gone exceedingly well, Brian, and the business is performing at CapEx levels. You know I have here, Zein, who was the architect of the Russia business. Wayne, why don't you answer this question?

Zein Abdalla

Yeah, as Indra said, Bryan, the integration has gone exceptionally well. As we did the due diligence on the whole Wimm-Bill-Dann acquisition we realized that we are buying a business with very strong brands and a very strong management team. And obviously those two things really do support your ability to integrate. I think the other thing that we would really call out is that as we have merged these businesses, it's given us the opportunity to really strengthen our go-to-market systems across our total businesses. And again as I have told you about many times, when you think about Russia with its multiple time zones, the immense geography, that the strength that you have in reach across that country as a result of the scale of your operation is critical. And Wimm-Bill-Dann has given us a real step up in that.

And I guess the final thing we would call out is that the innovation opportunity that it brings to really strengthen our snack and beverage approach by getting us into that morning day part and our ability to leverage our assets into a whole new day part, has really proven out as well. So we are just immensely pleased with both the top and the bottom line performance, the synergy that it's brought into the business but also the growth potential that has opened up for us in Russia.

Indra Nooyi

And Wimm-Bill-Dann is a great team. The team is excellent.

Operator

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

Ali Dibadj - Sanford C. Bernstein

Just want to get a better sense of, I guess your thought process on the returns of the investments you made this year and as manifested in your 2013 EPS guidance. Because the 7% core numbers sounds a lot like other CPG companies; but most other CPG companies didn't go through a big reinvestment year and a negative 7 EPS type number. So I totally get the macro challenges here, but could that growth trajectory suggest that they’re not just macro challenges, but there may be structural challenges in the business versus other CPG companies? How do you gain confidence that that is not the case?

Hugh Johnston

Why don’t I take that one? Morning Alex. When we set up the launch from guidance that we shared last year, we set that out within the context of making those investments. So what we were doing with the investments in 2012 was certainly known to us when we said mid-single digit on revenue we said high single digit on EPS. I don’t think that should come as a particular surprise. In addition to that, as we talked about, the investments we were making were in brand building, they were in innovation, and they were in execution. And obviously the returns on those things are not an immediate one year flip the switch type of return. What they’re really geared towards is strengthening the franchise and extending the duration of performance of the company.

So as we put our numbers together and it all really goes back to the fact that we broadened our product portfolio, we expanded our geographic portfolio and then we felt like at that moment we had a good opportunity to so called fuel up the race car to basically deliver an extended period of mid-single digit revenue and high single digit earnings per share by virtue of strengthening our innovation, our brand building and our execution capabilities. And I think from those moves that we've made in 2012, even in an uncertain environment you're seeing us come forward with guidance that's in line with what we projected for the long term and we feel good about that guidance.

Indra Nooyi

If I could just add something to what Hugh said. If you go back to 2012, the big reinvestment we made in the company and the down earnings is because we had extraordinary commodity inflation. All of it was not reinvestment. Commodity inflation was extremely high. Going into 2013, we don't see massive commodity deflation. We're still seeing inflation that's just headed to the lower level and we have a very uncertain macroeconomic environment. So I think it's critically important we take all of that into account while we manage this very large company and not try to get ahead of our teeth and that's what we're trying to do.

Operator

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

Dara Mohsenian – Morgan Stanley

Good morning. So Hugh, there is not much gap between your 2013 mid-single digit organic top-line growth guidance and 6% profit growth. So can you discuss your expectations in a little more granularity around margin performance in 2013, and why you wouldn't see greater margin expansion with both the strong productivity as well as fairly benign commodity costs and flat ad spend as a percent of sales?

Hugh Johnston

Sure. Happy to, Dara. Obviously there's a lot of variables that go into a $66 billion P&L. we talk about productivity. We talked about the low single digit commodities. We talked about A&M being at least 5.7% and we also talked about making investments in R&D and innovation. All of those are factors. In addition to that, as you certainly know and is common across CPG companies, the faster growth comes from developing and emerging markets and there is a bit of a margin drag out of the faster growth in those markets. Obviously over time the margins will increase in those markets, but it takes a bit of time for that to happen. So as we put all of the numbers together, risk access the plan, we felt like going from 5 revenue to 6 up profit to 7 EPS was the right guidance for 2013.

Dara Mohsenian – Morgan Stanley

Okay. And then just following up on the R&D comment, Indra, you touched on innovation that could eventually impact your beverage business in a meaningful way. We've heard similar comments in the past. It sounded a little stronger to me today. Are you closer to commercialization on the beverage side of the business? Can we expect something there in the short to medium term?

Indra Nooyi

We're just waiting for the FDA approval Dara and that's not in our hands. It's in the government's hands. Once we get the FDA approval we'll be launching _.

Operator

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

Bill Schmitz – Deutsche Bank

Good morning. Hey, can you talk about the update on the US DSD system? I think you said at the Analyst Day it was 12 to 18 months to decide how it was progressing. So can you just give us an update on, relative to the plan you put in place last February, how you think things are progressing there and if anything has changed down the strategic alternatives front.

Indra Nooyi

Well, as we talked about on the script, we are doing a lot of things with our North American beverage business. We are investing in brand, all the brand equity scores are trending up nicely. We are optimizing the supply chain to reduce cost, doing a lot of work in price-pack strategy and while doing all that, we are looking at structural alternatives. Sensible structural alternatives to improve profitability and returns. Bill, early next year we will report our progress on these initiatives. And we want to make sure that as our disruptive technology all comes to the marketplace, we don't do something in the short-term to really lose out on big value creating opportunities in the long-term. So stay tuned, we will be back to you early next year.

Operator

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

Judy Hong - Goldman Sachs

I guess I just wanted to get your perspective on pricing outlook in North America across both snack and beverages. And in the context of just the CSD category as a whole being a little bit sluggish, consumer a little bit still challenged. And in snacks with more benign commodity environment, can you just give us your confidence level in achieving some type of price realization in 2013 to kind of be part of that 5% or mid-single revenue growth algorithm.

Hugh Johnston

Yeah, Judy, this is Hugh, why don’t I take that one. From the standpoint of the foods businesses, I think what you are going to expect to see for the year is modest pricing. Obviously the numbers that you are seeing right now don’t reflect that, but as we get towards the end of the first quarter, I think you will start to see modest pricing come into place inside of the food businesses. In the beverage business, we have got our North American pricing in place. We are satisfying with the pricing that we have been able to get out into the market place. And we think it's consistent with the algorithm we provided and we are comfortable with that in the context of the commoditized environment that we are facing in 2013.

Operator

Your next question comes from the line of Caroline Levy with CLSA.

Caroline Levy - CLSA

I would love you to just bring us up-to-date with what's going on in China. How your volume looked in the quarter and what your strategy is in terms of the portfolio of CSD versus non-carbs. I think you are starting to get a little bigger in juices, sports drinks are growing there. If you could just talk a little bit about that.

Indra Nooyi

Ever since the refranchising of our beverage business at Tingyi, the business has strengthened quarter after quarter. And our business in China, especially as we are going to the Chinese New Year as we speak, is looking very strong. Remember the refranchising to Tingyi was done from a position of strength. They brought to the market, teas, some juice and juice drinks. We brought to the market some juice and juice drinks, and we brought a very strong CSD portfolio. So the combination created a business that's 1.5 times the size of the next player. As I look at the business today, February second week and year-to-date, and looking back over the last couple of quarters since the refranchising, the business is strengthening. And usually in the December period, in anticipation of Chinese New Year, you start seeing some weird volume numbers, but the best way to look at it is through Chinese New Year. And we are in the middle of the Chinese New Year as we speak and I would say that through this Chinese New Year, our volumes are looking extremely attractive at this point. The market is robust and I think we have ourselves a good business in China.

Operator

Your next question comes from the line of Jonathan Feeney with Janney Capital Markets.

Jonathan Feeney - Janney Montgomery Scott

I wanted to follow-up on the impact of the U.S. macro environment on both the snacks and beverage business. Because it occurs to me that -- it seems like for most of the past couple of years you've had a depressed environment for those key channels and some of your higher margin channels. And now there's counter currents going on. You have a little bit, it seems better consumer confidence, but at the same time you are getting hit with this payroll tax. Would you say the fourth quarter was a better sequentially from the third quarter as far as your takeaway on performance in those macro-sensitive channels? And looking into 2013, do you see sustained improvement in those channels for your products? Thanks.

Indra Nooyi

Jonathan, you are asking the question of the impact of the economic environment on the retail channels. In a quarter that's usually the most difficult quarter to read because Q1 is full of storms in the East Coast, storms in the Midwest, and retail activity is influenced by all of these weather-related activities which have nothing to do with the underlying performance. All I would tell you is, as we came out of Q4 going into Q1, notwithstanding the fact that we've had all these weather-related issues and we are overlapping a very warm winter from last year, retail trends are okay, by and large holding up. Week-to-week there are some changes, but overall they are holding up and our business is holding up too.

This year it's more about volume. Last year it was more about price. We're still seeing foot traffic and gas prices haven't gone up too much. So on balance our retail activity still seems to be holding up and our business is holding up, because again as I said, Q1 is probably the most difficult quarter to extrapolate from, especially January and February because weather plays havoc on traffic, business and overall performance. So we plan accordingly.

Operator

Your final question comes from the line of Ann Gurkin with Davenport.

Ann Gurkin – Davenport

Good morning. One of the great prospects for me for Pepsi was always a potential for increasing snack sales and penetration outside of the U.S. so I was wondering if you could update us on the potential for that strategy. And then returning to the U.S. the CSD categories are getting a lot of pressure on sugar drinks, obesity and I was wondering how Pepsi plans on attacking those claims and is there a need for increased spending?

Indra Nooyi

Thank you for asking the question. Internationally as we said in our script our snack business is doing very, very well, Mexico, Latin America all over Western Europe, East Europe, Middle East, you name it, Asia Pacific. There is not a country in the world that our snack business is not doing well. More importantly many, many countries of the world, the snack business, piggybacks off of our beverage business very nicely. We take talent from our beverage business, put them into the snack business and in many cases they even share a common distribution system. So our snack business is looking good. Low per caps in many countries so we have lots of room to grow going into the future. So good prospects. Turning to sugared beverages in North America as we said in our script, a couple of decades ago we started to diversify the portfolio. We are the number one liquid profession beverage company in measured channels in North America and we have a very diversified portfolio where 40% of our volume in North America comes from non-CSDs. And so we feel good about the portfolio.

Yes there is a lot of talk about sugared beverages and sort of negative conversation going on about it. Diversification of the portfolio is one thing.

Investing in disruptive technology as we talked about is the second thing. And we started to do both several years ago. Diversification a couple of decades ago, investment in disruptive technology about three to four year ago and we've been very consistent in talking about it for the last three to four years because we anticipated this market trend a couple – three years ago. And I think we are in a good position. The challenge is not to do anything stupid in the short term in terms of chasing share just in order to maintain some sort of a volume share. That’s not the way to play this game I think we’re playing it in a very sensible way. I feel good about our North American beverage business.

Operator

That was our final question I'll now turn the floor back over to management for closing remarks.

Indra Nooyi

Let me just close out our call this morning. Again we made great progress in 2012 and delivered on our commitments. We are entering 2013 a stronger business as a result of the investments we have made and the actions we have taken. Third we have a great business, with so much to be proud of and upon which we can continue to build and grow. And finally we remained unwavering in our focus to deliver results, create value and doing what's right for the short, medium and long term health of the business. Thank you all for joining us and for the confidence you’ve placed in us with your investment. Have a good day.