Good morning, and welcome to PepsiCo's Fourth Quarter 2018 Earnings Conference Call. [Operator Instructions]. Today's call is being recorded and will be archived at www.pepsico.com. It is now my pleasure to introduce Mr. Jamie Caulfield, Senior Vice President of Investor Relations. Mr. Caulfield, you may begin.

Jamie Caulfield

Thank you, operator, and good morning, everyone. I'm joined this morning by PepsiCo's Chairman and CEO, Ramon Laguarta; and PepsiCo's Vice Chairman and CFO, Hugh Johnston. We'll begin with approximately 25 minutes of prepared comments from Ramon and Hugh, and then open the call up to your questions.

Before we begin, please take note of our cautionary statement. This conference call includes forward-looking statements, including statements regarding 2019 guidance and 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. 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 from our reported results. Such items include the impacts of certain tax-related matters, foreign exchange translations, acquisitions, divestitures, structural and other changes, and restructuring charges. You should refer to the glossary and other attachments to this morning's earnings release and to the Investor section of PepsiCo's website under the Events and Presentations tab to find full explanations and reconciliations of these non-GAAP measures.

And now it's my pleasure to introduce Ramon Laguarta.

Ramon Laguarta

Thank you, Jamie, and good morning, everyone. We'll begin this morning's call with a brief recap of 2018 performance, and then move on to a discussion at -- of go-forward priorities, long-term targets and the financial outlook for 2019. So let's begin with 2018, which was a very successful year.

We met or exceeded each of the financial targets we outlined at the beginning of the year. Organic revenue grew 3.7%, which was a meaningful sequential acceleration from 2017. And within the year, we saw the rate of growth accelerate from 2.5% in the first half to 4.7% in the second half.

Purely North America and each one of the international divisions performed very well, and NAV made progress throughout the year with a return to organic revenue growth and improved pricing. At the same time, we continued to make investments in the business, and the solid momentum we have as we enter 2019 is a good indication that those investments are working.

Now on to priorities. As most of you know, I assumed the role of CEO in early October, and I'm pleased to report that the transition has gone very well. And I'm fortunate step into the role at such a well positioned company. PepsiCo competes in attractive, large and growing categories. We've been leading -- we have leading brands and a broad portfolio capable of evolving into new growth spaces. We have a very well-developed geographic footprint, with a stronghold positions in our largest markets and very competitive positions in a number of other rapidly growing markets. We have a suite of strong and very relevant capabilities across the value chain that we've been -- that have been built and strengthened over the years.

We have scale that allows us to run our operations very efficiently and to leverage our capability investments across a large and global business. We have highly engaged associates, a strong cohesive management team and deep talent bench. And we have a distinct winning culture that has its -- at its foundation, well embodied values and a strong sense of purpose.

These traits have enabled us to perform well in an environment characterized by highly-dynamic retail and competitive landscapes, shifting consumer habits and preferences, and volatile currencies, commodities and geopolitics. Over the past six years, organic revenue growth has averaged 3.8%. Core operating margin has expanded by 1.6 percentage points. Core constant currency earnings per share growth has averaged 9%. Core ROIC has expanded by 9.5 percentage points to 24.8%. Dividends per share have grown 9% on a compound basis. And we're returning $45 billion to shareholders through a combination of dividends and share repurchases.

I've spended the past four months deeply engaged in the business, connecting with our consumers, our customers and associates, as well as spending considerable time together as a senior leadership team, having no holds barred debates with a goal of focusing on what the opportunities are to make our company even faster, stronger and better. We looked for opportunities to improve our strategies, our portfolio of businesses, the strength and breadth of our capabilities, how we organize and get work done, how we can take our execution to new heights and how we can elevate our sense of purpose.

And from this review and assessment, we emerged with a set of what I'll call observation and a very clear set of go-forward priorities. Let me begin with the observations. Fundamentally, we're a highly-focused convenient food and beverage company. We compete in very attractive, large, growing and highly complementary categories that share many common characteristics, including consumers, customers, shoppers and occasions. Our ability to leverage the scale of our business to invest in and deploy new capabilities and technologies is a competitive advantage. Furthermore, we have tremendous potential to expand consumption across multiple dimensions. We believe we can capture a greater share of consumption occasions by considering to broaden our portfolio to provide greater choice to satisfy consumers evolving taste, whether they are seeking for an indulgent treat or a more nutritious snack, hydration or a functional drink, on-the-go convenience or take-home value. And we also see the opportunity to continue to increase consumers perceived visibility of our products as an additional growth avenue.

Relatedly, we believe our product and geographic portfolios make sense. And we do not currently see the need to shed or acquire businesses in any significant way. Those businesses are not squarely on strategy, are relatively small and generate very healthy cash flows. And there is no apparent value-creating path to divest them because of tax consequences and/or transaction complexity. Let me go now into our individual businesses.

Frito-Lay in North America, our largest sector by profit, is an extremely strong businesses -- strong business that generates consistently attractive top line growth and has industry-leading margins and returns on invested capital. The core of Fritos business remains very strong and growing. Over the years, Frito has successfully adopted its portfolio to address new demand spaces, mainly in more permissible and premium snacking. We've added new brands and product lines to capitalize on those opportunities, with products like simply, SunChips, Smartfood, Off the Eaten Path and Imagine. And we expect this approach will enable Frito to continue to compete very effectively across the spectrum of the snacks category.

Furthermore, we see more runway to continue to source volume from other micro snacks occasions in what that played to Fritos strengths -- in ways that play to Frito's strength. Operationally, Frito runs extremely efficient and highly optimized supply chain and go-to-market systems. However, capacity utilization is very high on average and there are pockets where capacity is overstretched. We believe with added capacity, Frito will be even better positioned to capture new growth opportunities.

Let me move now to North America Beverages. NAB, our largest sector by revenue, is an attractive business. It has many leading brands in growing beverage categories and operates a differentiated integrated business model. We believe our operating model is a competitive advantage that provides superior customer and system alignment, speed to market and systemwide efficiency.

With that said, in a dynamic market, NAB has faced a number of challenges over the past 18 months. New entrants have come to market in some of our stronghold categories. There are opportunities to improve some of our brand marketing and consumer engagement. And there are areas where we can step up our local marketplace execution. We have good plans in place to address these opportunities. We've increased both the quality and level of A&M on key core brands, including Pepsi and Mountain Dew. We've increased our innovation to address new category entrants and to drive success in higher growth segments, with innovations like LIFEWTR, bubly, Gatorade Zero, new variants of Propel and extensions within our successful Starbucks and pure life -- Pure Leaf Tea guidance.

At the same time, we're having good success with Pepsi Zero Sugar, and this has been a key element in stabilizing the performance of our trademark Pepsi business. And we're making changes to our NAB organization structure and adding frontline resources to make us a more agile and respondent to local commercial opportunities and local competitive actions.

While there is more work to do, we're very encouraged by this steady sequential improvement we've seen in the business. We are confident that with more well-placed investments, we'll see continued improvement in any of these performance.

Let me talk a bit about international now. We have a very well developed international footprint, and our international businesses are performing very well. We have strong market positions in snacks globally and within most of our key markets. And in beverages, we have very competitive market positions, either outright or in combination with our bottling partners who provide scale and round out our beverage product portfolio.

In most of our key markets, we're the number one or number two overall food and beverage supplier. Our categories travel well. And we had success innovating and marketing in ways that make our products highly relevant at a local level. We have a very well qualified playbook to expand our business in developing and emerging markets by exploiting our global capabilities to grow penetration and frequency. A key element of the playbook is lifting and shifting our ideas from market to market, still that we continue to hold. We believe with greater focus on capability deployments, increasing the local relevance of our products and achieving greater scale, our international business, especially in D&E markets, can be a source of even greater growth and higher profitability.

Underpinning all we do is our commitment to a strong environmental, social and governance agenda. Our sense of purpose is a great inspiration to our associates and makes us a very attractive place to build a career. Furthermore, we understand that we're an integral member of the communities we operate in. We embrace the notion that we can and should make big positive impacts in our communities by leveraging our scale and deploying our capabilities to help our communities strive. We believe a strong ESG agenda is fundamental to long-term value creation. Our dedication to environmental, social and governance leadership will not waver.

So with these observations in mind, let me move on to our priorities. Our first set of priorities relates to becoming faster, specifically, accelerating our rate of organic revenue growth. And if there's one thing I'd like you to take from our discussion today is that, we view topline acceleration as the single biggest opportunity to create more shareholder value. To achieve accelerated topline growth, we intend to strengthen and broaden our product portfolio packaging formats to win locally in convenient foods and beverages. And this means growing our core businesses as we continue to evolve our product portfolio and sharpening our focus on key geographies.

Across snacks and beverages, we'll invest to capture a greater share of consumption occasions, from indulgent to functional, social to individual, value to premium, and across dayparts from morning to night. We plan to do this by continuing to grow our core brands, which include $22 billion brands, and building and/or acquiring new brands to cover new demand spaces, as we have recently done with bubly, LIFEWTR, update in Path or Bare.

Within snacks, we intend to further capitalize on the consumer trends of convenience and on-the-go in locally relevant ways. Here, we see themes of convenient mini meals, local street foods and local recipes, just a few inspirations to evolve our portfolio in very locally relevant ways. We intend to rapidly scale our beyond the bottle initiative, building on the foundations of our recent acquisition of SodaStream and our internally developed Spire, Drinkfinity and Aquafina water station platforms to offer consumers even greater variety and choice in beverage formats. From a geographic perspective, our priorities are clear: #1, invest to sustain Frito-Lay North America's growth and leadership; #2, strengthen North America Beverages to grow sustainably with the market; and third, accelerate our international expansion with a disciplined focus on right to win markets.

Across each of these initiatives, we'll deploy a simple, clear and very effective growth model that's highly focused on the consumer. That is providing the consumer 4 key benefits: variety, that is what I want; ubiquity, where I want it; desirability, from a brand I trust; and value, with the benefits or affordability that appeals to me. Our entire commercial agenda is centered on delivering these four benefits to the consumer. Our second set of priorities relates to becoming stronger. This involves becoming more capable, leaner, more agile and less bureaucratic. In doing so, we will drive down cost and that enables us to plow the savings back into the business to develop scale and sharpen core capabilities that drive even greater efficiency and effectiveness creating a virtuous cycle.

Our productivity programs will be guided by a set of universally applied principles, namely: achieving local affordability; simplifying and standardizing processes; collaborating across functions rather than optimizing within functions to achieve lowest cost end-to-end processes; relentlessly automating and merging the best of our optimized business models with the best new thinking and technologies. Just as importantly, we're also adopting a philosophy that recognizes that not all the capabilities or costs are equal, so we'll be very discriminating in where we need to pay for best-in-class or we should pay for just good enough. These principles will be applied across the entire cost structure, from labor to discretionary costs, and advertising and marketing, to fixed assets.

The savings from our productivity programs will be substantially reinvested to develop and scale a set of core capabilities that we believe are necessary to deliver the consumer benefits I mentioned earlier. These capabilities are: indispensable brand building; science and design-led innovation; point of choice excellence across all channels, whether traditional or emerging; consumer intimacy, that is leveraging technology and connecting data to deepen our relationships with consumers, moving from relationships with groups of consumers to relationships with individual consumers. This enables a number of benefits, from individually based media and marketing engagement to personalized pricing; and finally, supply chain agility, where we deploy integrated and more robust data to improve demand forecasting and automation, advance robotics and other technology to make our manufacturing assets and go-to-market systems much more flexible to satisfy that demand with greater speed, precision and efficiency.

And of course, executing this aggressive agenda of top line acceleration productivity and capability building will require fostering a high-performance culture, one that is aligned on a common set of leadership behaviors and is supported by the right incentive systems. Among the values we are emphasizing throughout the organization are being more center on the consumer, acting like owners, and moving with focus and speed. And finally, we're examining ways to refine our incentive and pay systems to encourage local empowerment and accountability, as well as even greater alignment between management, our shareholders.

And our third and final objective relates to being a better company, with -- by being purpose-led. Performance with Purpose has been a cornerstone of PepsiCo for 12 years. Its guided our strategy and has been a point of differentiation. We're very proud of the progress we've made to date and equally excited about the continued evolution of our purpose agenda. With this in mind, our organization is committing to winning with purpose, which marks a new chapter in our purpose agenda. It acknowledges PepsiCo's leadership in integrating sustainability with a strive for more than a decade and conveys our belief that sustainability can be an even greater contributor to our success in the marketplace.

Essential to our winning with purpose agenda will be a sharpened focus on advancing sustainability -- advance in sustainable agricultural practices, a holistic strategy to support the creation of a circle or plastic economy, a striving for positive water impact and continuing to make our products more permissible to consumers. As we work to execute each one of these priorities, our overarching goal is to accelerate the rate of topline growth to enable us to deliver balanced, sustainable financial performance that creates greater long-term sharehold value.

With that, now let me hand it over to Hugh to cover the financial goals in more detail.

Hugh Johnston

Great. Thank you, Ramon, and good morning, everyone. The plans Ramon just laid out are intended to create durable, attractive long-term financial performance and total shareholder returns, driven by organic revenue growth of 4% to 6%, 20 to 30 basis points of average annual core operating margin expansion, high single-digit core constant currency EPS growth, growing core net returns on invested capital, and attractive free cash flow and cash returns to shareholders.

To support our free cash flow and core net ROIC goals, we remain committed to disciplined capital allocation with our existing priorities intact, namely: number one, investing in the business, number two, paying a dividend; number three, tuck-in acquisitions; and number four, returning residual cash to shareholders through share repurchases. Productivity is a key component of our go-forward plans, providing both fuel for reinvestment and improving our operating margins. We're extending our productivity savings target of more than $1 billion annually through 2023. Contributing to this goal are savings we expect from restructuring actions we announced in this morning's release.

We intend to make substantial investments in the business in 2019 in A&M, manufacturing and go-to-market capacity, end-to-end supply chain transformation, and global systems harmonization and standardization. While there are investments in each category in each operating sector, in terms of emphasis, in Frito-Lay North America and our international sectors, there is relatively greater emphasis on adding manufacturing and go-to-market capacity and supply chain transformation. In the case of North America Beverages, there is relatively greater emphasis on investing to support the core brands, ramped up innovation, and adding and redirecting resources to drive enhanced local marketplace execution.

And across all the sectors, as well as at the corporate center, we're investing to drive global systems harmonization and standardization. These investments are being made with the aim of building the capabilities and implementing the processes that will support the achievement of the strategic priorities Ramon just reviewed, especially the achievement of sustained accelerated topline performance. We deeply analyze and assess each of the planned investments. We've established detailed guidepost to measure our progress and success against each one. And we're confident that the investments will return meaningful value to investors over time.

Beyond the stepped-up investments, our 2019 core earnings performance will be impacted by three other factors: first, we're lapping a number of strategic asset sale and refranchising gains and insurance recoveries net of a frontline bonus that contributed approximately $0.17 to earnings in 2018; second, we expect the core tax rate to increase to approximately 21% in 2019 from a rate of 18.8% in 2018; and third, we expect foreign exchange translation to be an approximate 2 percentage point headwind to both revenue and EPS performance in 2019.

Taking all of this together, for 2019, we expect organic revenue growth of 4% and core EPS of approximately $5.50. Importantly, we expect to see a return to high single-digit core constant currency EPS growth in 2020. For 2019, we also expect free cash flow of approximately $5 billion, reflecting a step-up in CapEx to approximately $4.5 billion. Most of the increased capital spending is associated with accelerating progress on our strategic priorities. Following 2019, we expect our capital spending to moderate and to return to approximately 5% of revenue by 2022. We expect total cash returns to shareholders of approximately $8 billion in 2019, comprised with dividends of approximately $5 billion and share repurchases of approximately $3 billion.

With that, we'll now open it up to your questions. Operator, we'll take the first question.

Question-and-Answer Session

Operator

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

Dara Mohsenian

So Ramon and Hugh, your 2019 guidance clearly implies some substantial reinvestment, both from a P&L standpoint and on the CapEx line. Just at a high level, how did the organization come to that decision under new leadership? Is this more sort of underutilized opportunities under new CEO, you're looking at, as you highlighted maybe on the Frito capacity side? Or is it more a need to reboost coffers after a tough external environment the last few years that may have pressured spend a bit? Because you do appear to be leaving 2018 with some nice momentum from a topline perspective. So just trying to better understand the decision at a high level. And then also it would be helpful if you could give us some more granular detail on which product categories or geographies that incremental spend is particularly focused on, both from P&L and CapEx standpoint. And what gives you confidence around the ROI behind that spend as you look out getting it back to that high single-digit algorithm beyond 2019?

Ramon Laguarta

Okay. Let me start. I mean the process was a, say a four month process that we've -- you know we've been together as a management team over a series of meetings, trying to define what would be the next chapter of PepsiCo. And we came to the realization that we have a good company, we can be a great company. And there is a, say an aligned vision to be a much faster growing company, because we see that our categories are very healthy in large, growing across the world. And we have been performing okay against the category, but there is further growth and further opportunities for us to grow share in those categories. And the process started with, let's see how we can refocus the discretionary funds that we have in each one of our business against the growth opportunities. So we're doing that as part of the AOP for '19. And then we came to the realization, there is even further opportunities for us to invest and grow our top line in a very competitive way and profitable way. So that's what we are. In terms of the areas of spend, you should think about we're investing across all the businesses, from our North America business to our international businesses. And we're investing in brand building, selling capacity and supply chain capacity. Those are the big areas. And also, we've been in building capabilities for the last few years, and we are going to continue to do in areas like away from home, e-commerce, some of the large channels that are driving a lot of growth for the categories.

Operator

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

Bryan Spillane

So just two questions related to the investments this year. One, is there incremental -- is it $1 billion of incremental productivity also in 2019? And then second, I guess, as we look at -- there were some investments that went into the business in '18 and then some incremental investments that goes into the business in '19. So in trying to understand like how much of that goes in and stays in the business? Kind of the relative size of that? I mean back of the envelope, I was set of getting to about $500 million. So if you can give us any sense as to whether that's close to the ballpark in terms of the size of the reinvestment?

Hugh Johnston

Yes. Bryan, it's Hugh. So in terms of the size of the reinvestment, we haven't got overly specific with the numbers. But if you think about what our normal EPS is versus what we're doing this year, I would think about somewhere between 40% and 50% of it being reinvestment and then the other factors. We've mentioned the tax rate and the one-timer lapping being the other parts of it. As to the other part of your question, as you know even in late 2017 and into 2018, we did start making some reinvestments back into the business because with the tax cut and other things, we had the opportunity to do that in '18. The thing that gives us a lot of confidence and gives us a belief that the ROIs are going to be good is the money that we've invested so far, we have actually seen good payback. The reason for that is, obviously, we participate in 2 great categories, convenient foods and beverages. And when we invest money in those businesses, there's good consumer and customer response to it. So the fact that we put money into the businesses and we've seen such good response is what gives us confidence, like going forward, we should continue to do that into 2019. The one thing I do want to stress in all of this is, we started with making the internal cost structure of the company more efficient and have done everything we can do with that, and the restructuring is part of doing that. The incremental portion of it obviously is what we're talking to you about its investors, but I want to assure you while that we've worked hard to make sure PepsiCo is as efficient as it can possibly be, and we'll continue to strive to do that as well.

Operator

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

Lauren Lieberman

I know that you very specifically talked about 2020 earnings growth coming back to kind of the high single-digit range. But in the long-term guidance, you did lower the long-term operating margin target to like 20 to 30 basis points, something more like 30 to 50. So can you just talk a little bit about what's driving that view of the long-term margin in the business? Is it a change in the what's passes from a gross margin perspective? It sounds like a lot of the productivity and restructuring that you're doing should be yielding a more efficient cost structure for the long term? So I was curious why there's sort of less operating leverage in the long-term model.

Ramon Laguarta

Yes. Let me start and then Hugh can give you a few more details. If you think about the three things we're trying to do, which is become faster, stronger and better. We want to first, invest in the business and opportunities that we see ahead of us, and that's going to make us faster, and that's -- they're investments we put in the business last year. As Hugh said, we've optimized, we've seen the ROIs, and we're deploying again this year with some incremental investments. The second concept of being stronger goes to the question that you're posing here which is we're trying to look at adapting technology and data much more in our business, in the way we do business. That will drive a lot of savings that we'll be reinvesting in the new capabilities we've been talking about. We believe that will give us a competitive -- sustained competitive advantage over the long term. These are capabilities in the areas of basically consumer customer and supply chain agility. So yes, you will see a, I think, a virtuous cycle of additional savings, being both brought to the bottom line and what we think is a 0.2, 0.3 margin expansion every year, but very importantly, we want to make sure that the business gets the reinvestment required to become -- to stay as a very competitive business long-term.

Operator

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

Ali Dibadj

So I have actually three questions and all under the umbrella of your philosophy, Ramon. One is that you mentioned you met with clients and consumers and employees. But it doesn't seem like you'd done a lot of meetings with shareholders in forming your observations and priorities. And just wanted to understand why. Clearly, the lot of folks on this call are your owners. Secondly, your philosophy on reinvestments, how does that apply to your philosophy on price/mix rationality, for a lack of a better term, i.e. kind of measured increases and pricing over the past few years, and beverages has taken that industry out of the penalty box for investors, so I'd love to hear your philosophy there. And lastly, your level of confidence that one year of reinvestments is enough to get back to your accelerated long-term growth algorithm 2020 and beyond.

Ramon Laguarta

Thank you, Ali. Let me start from the last one, I think it's a core, the essence of what we're trying to do. As Hugh said, we started investing in '18 back in the business. I mean the tax reduction helped us there and we saw areas where we had very high ROIs, which some area where we didn't have so much high ROIs. So we, at the beginning of this year, we went through a what I think is a pretty rigorous process of filtering investments and saying, "okay, these are areas where we need to double down." And we're adding some more resources to those areas. And it's across, what I said, branding, selling capacity, manufacturing capacity, supply chain capacity and some of the new capabilities.

But again, the essence of the model is not this one-year effort that we're trying to make with additional resources. The essence is how we're transforming the machine, the operating machine of PepsiCo with technology and data, and really looking very hard our cost structures to drive sustained savings that we'll reinvest in these new capabilities that we need for the future. That is really the essence of the model. But don't think of a one-year investment which would be a 2-year investment because '18, we already started investing. But think of this as an acceleration and then a very clear transformation of capabilities that will make the acceleration sustainable. And it's a virtuous cycle of adapting technologies, driving savings and reinvesting those savings into what we think are the things that will make us best-in-class in our industry, and it's doubling down on consumer intimacies, doubling down on innovation, doubling down in brand-building, it's multichannel go-to-market capabilities and then flexible supply chain. That's how we are -- how we see the long-term momentum.

Hugh Johnston

And Ali, the follow-up on your question on price rationality, we do think there's price rationality in the market right now. And a part of our long-term algorithm is continued price rationality in the marketplace.

Ramon Laguarta

Yes.

Operator

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

Judy Hong

So I guess I wanted to actually ask about Frito-Lay North America, Ramon. So clearly, that business has been on a pretty solid footing. You talked about the potential opportunities to grow that business further. A lot of the growth in the last few years has come from price/mix. So I'm just wondering if you can elaborate on more specific programs to really drive consumption and volume increases in Frito-Lay. And then separately, Ramon, I think you talked about being happy with the portfolio, and not really making a big changes to your portfolio, either acquisition or divestiture. I know you guys been looking at North America beverage business from a refranchising perspective. Is that now off the table as you kind of went through the review in the last 4 months?

Ramon Laguarta

Okay. Let me start with Frito. Listen, Frito is probably one of the I would say, best consumer companies in the world, I would say, and we continue to find ways to transform ourselves, both on the portfolio and on the capabilities and infrastructure of the business. So the way we're thinking about Frito is you think our share of market is about 65% of salty, about 39% of what we call savory and only 19% of micro snacks. We see great opportunities for Frito to grow into new dayparts, into new channels, into even grow within existing channels and within existing consumer occasions. So the growth opportunities for Frito are multiple. I think the team has done a great job in keeping a very healthy core, our Doritos, Cheetos, Lay's, Raffles, Tostitos brands are growing very healthy, and build additional brands that cover new spaces, either cohorts or dayparts. So we see a very strong growth model from the brand perspective, from the channel perspective. And what we're trying to do is make sure Frito gets -- is well-funded to go after all these opportunities both from the P&L and from the CapEx point of view, because the ROIC on those investments is unbeatable. And I believe we have an amazing team that is extremely capable, proves it every day in the marketplace and is very rigorous in how they manage investments. So empowering that team with the right resources and giving them the higher vision of grow even faster and gain more share in the U.S. snack business I think is the right thing to do for the -- for PepsiCo.

Operator

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

Andrea Teixeira

So Ramon, best of luck as the CEO. And I just wanted to ask you about the company's long-term organic revenue growth, the target of 4% to 6%. So could you maybe help us decompose this target between your expectations for snacks and beverages globally, as well as in developed and developing markets? And just a clarification on Judy's second question I think about refranchising. Should we -- have you decide not to refranchise NAB at this time, or is it still on the table?

Ramon Laguarta

Okay. Let me address both. I mean the way you should think and there about our 4% to 6% is we have a great portfolio of geographies and categories around the world, and we see this more side of opportunities where we're investing to drive growth and be more competitive short-term and long-term and should be thinking about the overall portfolio delivering this number of between 4% to 6%. So I won't go into the details of how are going to grow in each one of these categories. You will see us as we unfold the results going forward. With regards to NAB, yes, I think, sorry I forgot to answer the question before, yes, we spent a lot of time as a management team, obviously studying NAB and the different options we have there. We love NAB business. We think it's a great business that will play a very important role in the future of PepsiCo, and we're convinced it will drive very good results for us. And we believe that the key areas of success I think for NAB going forward will be around having the very strong brands in the different spaces and cohorts.

And we think we have the brands. And we've may be may have to strengthen some of the brands or we have those brands and we'll be able to create new brands with -- as we've proven with bubly or LIFEWTR or some of our new innovations. Second will be, our ability to execute in the marketplace, both with the very large customers and also in the local up and down the street. And I think we can do that, and we are a great operating company, and we know we can do this without refranchising. Third point will be having a very flexible and cost competitive supply chain. And the third will be having the right high-performance culture in the business. All of those 4 success factors to me are not related to refranchising, plus refranchising per se will be a very complex and disruptive event for us as a company. So yes, you should assume that we're going to compete very hard in this business. We're going to invest sustainably and rationally. And we'll keep building a very strong company that I'm convinced will do great for us in the near future.

Operator

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

Stephen Powers

And I was hoping we could just dig a little bit further into your strategic outlook. If we think about PepsiCo in 2025, what does being the great company that you mentioned at the outset really look like? How would you describe it? And how important is it to you that you can arrive at that destination without the need for another sidestep or effective algorithm reset somewhere between? And maybe as you just talked about that future vision, just going to the prior conversation, just love some color on what you -- what role you think, the long-standing better together Power Of One strategy plays within that? It sounds like something you remain committed to. So do you think maybe can be strengthened further? But I'll just love if you could expand on that as well.

Ramon Laguarta

You should think of PepsiCo as a, I said, a company that plays in two huge large categories that globally, have a lot of tailwind. And our ability to perform on a very high competitive level in those two categories globally gives us the ability to be a top-performing investment for you guys in the consumer goods space. So I think you should be thinking about a company that has a long-term value creation model, center around accelerated growth and sustained growth, and gaining share consistently in our two large categories. That's how I would ambition. How we do it. I think we painted a picture on how we're thinking about our portfolio and how we're going to be look very holistically at the opportunities in each of our categories. And there's multiple demands, spaces, there's a lot of coffers, there's a lot of different dayparts in those categories that provide for immense opportunities for us to innovate and build brands and continue to grow.

Geographically, you should be thinking about a company that is, I would say, skewed to developed markets, Western Europe and the U.S., And obviously, long-term, we would like to be stronger in some of our developing markets, while we have strong positions to build on top, so we have strong talent, we have strong market position in some of those markets. And you should think about us growing very fast in those geographies and adding to our -- how we reach consumers around the world. Think of us, we sell 1.5 billion servings a day, so we touch conceptually 1.5 billion people around the world every day, so our ambition is to become at least a 2 -- touch at least 2 billion people every day, that's some of the aspiration we have as a management team. So you should be thinking around the vectors of how many people we serve every day and around what do we offer that people in terms of the both the convenient foods and the beverage categories.

Operator

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

Caroline Levy

My question is around -- I'm just hoping you can actually elaborate on what you can do in the route to market field, just a little more detail, because if I think about the beverage business, it feels like you have some catch-up, particularly in North America. In snacks, you're already really, really good. So taking the 2 different sides, are you going to focus more on the small channels where brands are often built and nurtured? And how do you manage an online business when you're shipping heavy beverages? So just touching on that range of opportunity.

Ramon Laguarta

Yes. Listen, thanks for the question. The -- you know the value creation of a category is proportionate in the impulse part of our business. So obviously, we want to maximize our go to market where we can generate impulse occasions, we capture much more value for our -- I think we provide more value to the consumer and we capture more profit as a company. So obviously, as you think about the areas where we'll be investing money to become much more of a great -- a customer service company, we will invest against the large customers and they are critical for us to serve a lot of households. And there, I think, the opportunity to put all our categories together to serve customers like Walmart, Amazon, et cetera, is a big idea. Then in terms of the capillarity and the ubiquity of distribution of our categories, I don't think we're satisfied with NAB or we're satisfied with Frito or we're satisfied with any of our companies. There are almost unlimited numbers of point of sale for our categories. And our strategic intent is to be everywhere where there could be a location to serve a consumer to buy a snack or a beverage. And it's not only the conventional points of sale that you're thinking about. It could be endless numbers. So how do we become -- how do we make money in servicing those stores is the biggest strategic idea. We have a lot of technology to unlock this. I mean we're playing obviously across nonconventional ways to get to those points of sale, and that's core capability of the company.

Operator

Your next question comes from the line of Nick Modi [ph] of RBC.

Unidentified Analyst

Ramon, you talked about the reinvestment and you talked about frontline, putting more investment in frontline. Can you maybe help us understand in terms of kind of the percentages you're allocating or you're thinking about in terms of increases in advertising and then also the in-store execution portion in NAB? And then the second question is you also talked about perhaps adding more capacity in the Frito business. So does that mean you're going to reduce your alliance on copackers?

Ramon Laguarta

I'll just start with Frito. Yes, we -- with the growth of the business, we're stretched on some of our technologies, which impacts the service, the demand on some of our products, so we'll be investing in additional capacity in Fritos. We're actually investing, and you should see it in -- I would assume, an additional share of market gain from us in the coming years. With regards to NAB investments, obviously, I cannot give you detail. This is a very sensitive information of where we're going to invest in our SMP money, but you should think about us adding selling capacity across the U.S. for both our food service and our small format outlets.

Operator

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

Bonnie Herzog

All right. I certainly sensed an overall level of urgency from you based on your competition. And specifically, on NAB, you mentioned you're stepping up innovation investment to reignite growth. So I guess I've got a couple of questions. First, how much of a lag do you anticipate before you anticipate seeing improvements on your top line? And then, in general, how do you think about balancing this higher level of spending with your ability to drive profitability growth, and then more importantly, your ability to expand margins in NAB specifically, again, over the long term?

Ramon Laguarta

Yes. We've been investing in NAB now for a year or so in -- especially in our brands, but also in some of our execution capabilities. And we're seen good returns on some of those investments and not so good returns from some others. So what we're doing is, clearly, optimizing our investments against the areas where we see we're getting more overall return. The performance of the company, as you saw in our Q4 numbers, is improving, right? So we're doing -- we had a good 2.5% in Q3, we grew 2% in Q4. So we'll keep investing in the business to get to a -- to stay positive. And our ultimate ambition is to grow with the market, and the timeline we're aspiring to do that is by the end of this year. It might take us a bit longer. The way I see this is -- and this is my experience with businesses, large business that need to turn around is, you need to agree on a long-term objectives. In our case, is growing with the market and eventually growing share. And then give -- empower the team with the right resources, make them feel that you support them and give them very clear milestones to go after those -- that turnaround. That's what we're doing with NAB. The team is responding. We're having very clear process internally to monitor progress. And we feel good. We feel good and we feel fortunate to have the rest of the company portfolio to -- that we can still deliver a very good performance to the company and invest in what is going to be a very powerful business for us in the future.

Operator

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

Kevin Grundy

So I wanted to come back to portfolio considerations with beverages and snacks. So particularly, Ramon, the ability to drive more consumption occasions, so under sort of the thinking of the two or Better Together. And it sounds like you too are of the view that the beverage and snacks do belong together. But I think there have been some questions on how successful the company has been in that pursuit of cross-selling over the years, particularly given some of the notable challenges in beverages. So do you see it that way? Is that an unfair assessment that the company has not done as well as it could possibly could in terms of cross-selling and utilizing the strength of both of these businesses. And as you're thinking about the priorities of how to reaccelerate growth in NAB, is there a greater cohesiveness with Frito that could be part of that strategy? So any comments there will be helpful.

Ramon Laguarta

Yes. Listen, I've been -- as you guys know, I've been in Europe for a few years. And there, we have this kind of what we call Power of One model in some countries, I don't know, in a lot of countries actually. And so I understand the value of where the scale makes sense and where the focus makes sense. And more or less, I mean it's not a science. It's almost an art on where does the scale give you a competitive advantage and where the scale defocuses you. And so, listen, I don't know if you guys walk around the stores for the Super Bowl. But if you see the displays we're able to build together as an organization, the amount of traffic we build for our customers because of those displays, and the combined consumption that was between our 2 categories because of those display, you would see that there is a very clear opportunity for us to dial up if that is an opportunity. Also, on the cost side, we're doing a lot of things together, right? So if you think about freight, for example, it's a great area where we're in a lot of productivity because of combined freight. And as you think about future capabilities, we're trying to build them as a combined company.

Our e-commerce capability, some of the ones I referred to this morning, the consumer intimacy, so our ability to attract talent, special talent, retain talent and challenge talent is much, much -- we have a much higher likelihood to succeed if we do it as a full PepsiCo. So we see many areas of value for Power of One, but we also see areas where Power of One could derail the performance of each one of the businesses. So you will see, yes, there are opportunities, but we have to address them very carefully and with -- and we'll try to narrow. We'll make mistakes in some areas. We'll get better in others. So that's how you should think, but yes, of course, France is a competitive advantage, and we would not be doing the best for our shareholders if we don't explore this area to the maximum.

Operator

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

Laurent Grandet

Lots of question about NAB and Frito-Lay. I like to -- would be interesting to having your perspective on the Quaker business and the role of Quaker in PepsiCo's portfolio in the near or long-term future. Is its margin now is at a relatively high level, especially in comparison to other sales, I mean, businesses? Now it has not been growing for one and it seems like it's not really at the center of the impulse occasion, you said was the strength of PepsiCo. So really, would like to have your perspective on the Quaker business going forward.

Ramon Laguarta

Okay. Thank you, Laurent. Listen, we love our Quaker business. I think it's a -- it compliments our portfolio, and it makes us strong in a daypart that in where we're weaker otherwise. Now we need to be better at exploiting some of the opportunities of that brand internationally. So we have a very strong business in Europe and it's doing very well. Here domestically, you could think of the more we see clearly breakfast becoming an on-the-go occasion. It is -- people are rushing for to get to work early in the morning. There is a huge opportunity for us to play with Quaker in that, I would say, higher value, new consumer demand moment of breakfast on the go. You're going to see us innovating in that space. And you might -- you will see, again, another vector of Power of One as we leverage some of our go-to-market strength to deliver on the convenience on the go forward for Quaker. So I think it plays a role in our portfolio, apart from the, obviously, the cash flow it generates and the great returns we get from that business, but I would see it as part of our broader strategic opportunity of capturing demand moments where we're not very strong in right now.

Okay. I think we run out of time. So thank you all of your time and participation in this morning's call. To conclude, I'd like to leave you with just 3 key thoughts: first, our overarching objective, as you saw, is to accelerate in a sustainable way, our top line growth; secondly, we're investing to lift performance across the business, making our best businesses better and our productivity lower performing businesses stronger; and third, we expect that investments we're making would not only benefit 2019 with accelerated top line growth, but will provide a solid foundation for sustainable, attractive market place and financial performance for the years to come.

We look forward to updating you on the progress throughout the year, and we thank you for the confidence you've placed in us with your investments. Thank you.