Good morning, and welcome to PepsiCo's Third Quarter 2019 Earnings Conference Call. Your lines have been placed on listen-only until the question-and-answer session. [Operator Instructions] Today's call is being recorded and will be archived at www.pepsico.com.

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

Ravi Pamnani

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 some brief prepared comments from Ramon and Hugh and then open up the call to your questions.

Before we begin, please take note of our cautionary statement. We will make forward-looking statements on today's call, including about our business plans and 2019 guidance. Forward-looking statements inherently involve risks and uncertainties and reflect our view as of today and we are under no obligation to update.

When discussing our results, we refer to non-GAAP measures, which exclude certain items from reported results. Please refer to today's earnings release and 10-Q available on pepsico.com for definitions and reconciliations of non-GAAP measures and additional information regarding our results, including a discussion of factors that could cause actual results to materially differ from forward-looking statements.

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

Ramon Laguarta

Thank you, Ravi. Good morning, everyone. Before we get to our results, I would like to congratulate Ravi on his recent appointment to Senior Vice President of Investor Relations. Ravi has been with PepsiCo Investor Relations since 2012. Most of know – most of you know Ravi very well.

We're very pleased to have Ravi advanced to lead the IR function. Jamie Caulfield was recently appointed CFO for Frito-Lay North America. And we're glad that he'll continue to play a very important role in PepsiCo's finance organization and in the Frito-Lay business.

Now moving on to the results. We're very pleased with our results for the third quarter and year-to-date. Our top priorities entering 2019 were to accelerate our full-year rate of organic revenue growth and to position the business for sustained future growth, and we have good evidence that we've made solid progress on both fronts.

In the third quarter, organic revenue increased 4.3%, lapping very strong 4.9% organic revenue growth during the third quarter of last year. And year-to-date, our organic revenue growth stands at 4.6%, an acceleration from 3.4% a year ago. So given the strength of our year-to-date performance and the solid momentum we're seeing in the business, we now expect to meet or exceed our 4% organic revenue growth target for the full-year.

Our strong performance in the third quarter was broad-based with organic revenue growth generated by each one of our divisions. Frito-Lay North America grew organic revenue 5.5%, driven by volume growth and net prize realization. Importantly, the business is not only growing, but winning in the marketplace versus competition.

In the quarter and year-to-date, Frito-Lay is growing value share in salty, savory and macro snack categories. Investments we've made in innovation, marketing and consumer insights and manufacturing and go-to-market capacity are providing benefits across the brand portfolio with strong net revenue growth in our large mainstream brands like Doritos, Cheetos, Ruffles and Fritos and double-digit growth in our smaller premium brands such as Bare and Off the Eaten Path.

The breadth of our growth was also evidenced across every key retail channel, with gains in grocery, mass, club, convenience, foodservice and e-commerce.

Turning to PepsiCo Beverages North America. We're very encouraged by the 3% organic revenue growth we generated in the quarter, driven by solid net price realization, the result of effective revenue management execution. Our third quarter growth accelerated sequentially from the second quarter and was on top of 2.5% organic revenue growth achieved in the third quarter of 2018.

The business is benefiting from improved local market focus and execution driven by our streamlined field structure, increased go-to-market capacity and significant step-up advertising support and innovation. We're especially pleased with the performance of Gatorade, which generated mid single-digit net revenue growth and improved sequential market share performance.

Innovation has played a big role in Gatorade's performance, led by Gatorade Zero, which has surpassed $0.5 billion in retail sales since its launch in May of last year. And we recently launched Bolt24, a new functional beverage that supports athletes around the clock by providing advanced all-day hydration.

Other key parts of the business also continued to show progress. Trademark Pepsi posted its fifth consecutive quarter of net revenue growth and Bubly has continued to post very strong growth and is gaining share in the flavored sparkling water category aided by packaging and flavor innovation. Other notable highlights include double-digit net revenue growth for LIFEWTR and Propel and high single-digit net revenue growth for Pure Leaf Tea and Starbucks.

Rounding out our North American performance, Quaker Foods delivered net revenue growth in the quarter propelled by our light snacks, Aunt Jemima syrup and mix, Roni and Near East businesses. With our advertising and marketing having increased in the quarter and year-to-date, we remain focused on accelerating growth at Quaker Foods.

Before we move on to international, I want to note the terrific work our supply chain and customer teams are doing in North America with our snacks and beverages businesses, receiving the two top ranking in the 2019 U.S. Advantage Survey for Food Multichannel Report. This is one of the annual surveys, where retailers across multiple channels provide feedback on how suppliers are performing with respect to strategy, people, category development, marketing, supply chain, customer service and e-commerce.

Moving beyond North America. Each of our international divisions delivered solid organic revenue growth in the third quarter, despite ongoing macroeconomic volatility in certain markets. Notably, organic revenue in our developing and emerging markets increased 7%. This included double-digit growth in Mexico, Saudi Arabia, China, Turkey and Pakistan, and high single-digit growth in India, Egypt, Poland and Colombia.

Our international results reflect the benefits of our increased investments, as we continue to leverage our global capabilities to drive higher per capita consumption and improved market share, while executing in locally relevant ways.

PepsiCo’s performance today gives us confidence that the strategy we laid out in February to become faster, stronger and better is working. Importantly, we’re balancing our investments to both drive results in the short-term and position our business for sustained long-term performance.

Becoming faster is about winning in the marketplace, being more consumer-centric and accelerated investment for top line growth. For example, we’ve increased our investment in advertising and marketing by 12% year-to-date. This investment spans across many of our big brands and geographies, as well as support for innovation and emerging brands, which we will continue to develop over time.

We're invested to increase the capacity and reach of our go-to-market systems with substantial investments in new routes, merchandising racks and coolers, and we're investing in additional manufacturing capacity to remove bottlenecks and expand growth capacity for our brands. This includes investments in new plants, new lines and added distribution infrastructure.

Becoming stronger is about transforming our capabilities, cost and culture by operating as One PepsiCo leveraging technology and winning globally and locally. For example, we're making significant investments in capabilities like data analytics and systems to digitalize the company to achieve precision at scale, which is to execute in every store with precisely the right products at the right price.

To do so, we're capturing and analyzing more granular consumer level data to build true consumer intimacy, that is understanding the consumer in a much more personal way, to move from thinking of consumers in groups of millions, to understand in-depth the household or individual level by leveraging robust data from multiple sources. Using this information, we're increasingly structuring personalized communication and satisfying demand at the store level.

We also continue to strengthen our omni-channel capabilities, particularly in e-commerce, where our retail sales are expected to be nearly $2 billion in 2019. We're building on this success by investing further in our go-to-market and supply chain systems to capitalize on more opportunities in today's dynamic retail environment. And we're elevating our talent and fostering a culture, where employees act like owners with a greater sense of empowerment and accountability.

To fund these investments in capability and culture, we're driving efficiency throughout the enterprise and we remain on track to deliver our target of $1 billion in annual productivity savings in 2019.

And finally, becoming better reflects our aspiration to integrate purpose into our business strategy and brands. With this in mind, we're embracing a set of focused initiatives to help build a more sustainable food system. And I'd like to spend a little extra time this morning to share with you what we're focusing on.

First is advancing environmental, social and economic benefits to farmers and communities by promoting more sustainable agriculture. Through our sustainable farming program in 2018, we achieved a key milestone with over half our farmer-sourced agricultural raw materials, like potatoes, whole corn, oranges and oats, verified as sustainability sourced. Our aim is to reach 100% by the end of 2020.

Second is improving water stewardship across our businesses and in the regions where we operate. We're striving to improve water use efficiency and aiming to replenish 100% of the water we consume for manufacturing in high water risk areas by 2025.

Third is delivering our vision of a world, where plastic packaging need never become waste. We recently unveiled a new target to reduce 35% of virgin plastic content across our beverage brands by 2025, driven by increased use of recycled content and alternative packaging materials.

Fourth is improving choices across our portfolio by continuing to reduce added sugars, sodium and saturated fats in many of our products. We currently offer several choices that address this objective, including Pepsi Zero Sugar, Lay's Baked, whole fruit and multigrain, Tropicana Whole Fruit and Sunbites Veggie Harvest. And we will continue to expand our offerings of more nutritional options.

Our fifth focus area is mitigating the impact of climate change by curbing greenhouse gas emissions across all our value chain with an ambitious goal to reduce absolute greenhouse gas emissions across our value chain by 20% by 2030.

And lastly, we're working to support our associates and society by advancing respect for human rights, promoting diversity and inclusion in our workplace and increasing the earnings potential of women in our communities. This is a journey with a lot of work ahead of us, but we want all of our stakeholders to know that advancing to sustainability and being a more purposeful company will play an essential role in PepsiCo's future.

For more details on how we're integrating sustainability into our business and our brands, we encourage you to read our most recent sustainability report.

And now, I'll hand it off to Hugh.

Hugh Johnston

Thank you, Ramon, and good morning, everyone. As Ramon noted earlier, we now expect organic revenue growth to meet or exceed our previous objective of 4% growth for the full-year. We continue to expect our core constant currency earnings per share to decline approximately 1%, as we plan to continue to invest in our business for the long-term.

All other guidance measures provided remain unchanged, including a core effective tax rate of approximately 21%, free cash flow of approximately $5 billion and total cash return to shareholders of approximately $8 billion, comprised of dividends of approximately $5 billion and share repurchases of approximately $3 billion.

With respect to the fourth quarter, please keep the following in mind as you build out your models. First, our asset division will be lapping gains from a refranchising and a strategic asset sale; and second, the higher investments in the business will continue, and you will see this again reflected in both our operating margin performance and core EPS.

Now, we'll open it up to questions. Operator, we'll take the first question.

Question-and-Answer Session

Operator

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

Dara Mohsenian

Hey, good morning.

Ramon Laguarta

Good morning, Dara.

Dara Mohsenian

So it looks like in Frito-Lay North America, organic sales growth is probably on track for 5% or even better this full-year based on the year-to-date trends. That'd be the best growth we've seen in a decade. So I was just hoping you could give us a bit of postmortem on what's driven the acceleration year-to-date?

How much is improved category growth versus building Pepsi market share momentum? And given the acceleration over the last year appears to be more driven by pricing, how sustainable is the momentum as you cycle higher pricing in Q4 and beyond? And then just last, with the capacity additions to supply chain work you're doing on the Frito-Lay side in North America this year? Should that have an appreciable impact on volume or mix as we look out to 2020? Thanks.

Ramon Laguarta

Thank you, Dara. This is a long question, good question. The performance of Frito is, I think, is very holistic, right, what's driving the performance and it's, I guess, a combination of increased A&M, increased capacity, we put more routes. And we made some choices around what are the priority brands and non-priority brands and that's driving the overall business performance.

We're gaining share and the category is also very healthy. Of course, we're a big part of the category. So we're driving the attractiveness on the category as well with our increased advertising, very good innovation across the big brands and the small brand.

So I think it's a good performance, both in terms of maintaining the attractiveness of the category and making sure our customers continue to see growth, even by adding this category, which is critical for our customers. And then we're gaining share, because we have, I guess, a very broad portfolio that plays across all the different consumer segment. And the team is doing a fantastic job in terms of building the brand and developing the innovation. So, a holistic set of reasons why this business is continuing to perform at a very high level compared to other consumer packaged goods in the United States.

Operator

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

Bryan Spillane

Hey, good morning, everyone. I had a question, I guess, around NAV. And I think as you started this year, the investment was in a few different areas, one being marketing and product, another being in route, and then also in packaging, like getting mini cans into the market, I guess.

And I guess, specific to CSD, where do you feel you are in the process of having all those investments in place and the effect of those in the marketplace? I guess, currently in – like how much more is there to go to in terms of having that drive some improvement in market share, as we go into next year?

Ramon Laguarta

Yes. Good morning, Bryan. The success of our beverage business is in continuing to drive the – the whole portfolio, the non-carbonated portfolio. So we need to continue to do a great job in our teas, our waters, our teas, our sports drinks and then obviously improve the performance in CSDs.

We’re seeing progress across all of those multiple objectives, which is quite complex to manage, right.

So we’re seeing as continue to gain share in what are the critical strategic categories for ads and doing very well with some of our critical brands like Pepsi. As we discussed last quarter, we still have a pending matter in Mountain Dew. The Mountain Dew is improving, but it’s not to the levels that we would like to see.

So that’s the focus of the team for the next few quarters to make sure that we get you back to a what we think is a more sustainable performance. But we’re happy with the growth we’re having in all the other categories. We’re happy with the way Pepsi’ is performing.

And as I said on my remarks, we’re very happy with Gatorade. And with the performance of Gatorade in the sports drinks category, this quarter reflects both the additional investment we’ve made on core Gatorade, the great innovation behind Zero, which is really a very well received incremental innovation to the category, and now we’re starting to make some additional investments in that category with Bolt24. We’re testing and learning and there will be a bigger roll out of that brand next year.

So, overall, we feel good. Again, Mountain Dew continues to be the pending matter, But we feel good about the ideas we have, the resources we have allocated to this brand and how the teams are thinking about Mountain Dew for the future.

Operator

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

Ali Dibadj

Hi, guys. So I have two questions. One is on CapEx specifically, clearly is signal that going up. I want to better understand please the CapEx obviously in FLNA, you had mentioned increased capacity. But in PBNA, in particular, and where you are and rolling that out, because if it’s things like your competitors doing in North America like in-store displays like coolers, like more efficient routes, like more efficient vehicles, there’s a lag before you get that benefit. So I want to get a sense of what you expect the benefit on the CapEx, again, particularly in PBNA to start coming through going forward?

And then the second question is around Latin America, Latin America foods and I’m sure with Jamie going there CFO. I won’t have to ask about it again.

But it looked like it slowed a little bit, goes on the top line, the bottom line, you can add any color there. That'd be helpful? Thank you.

Ramon Laguarta

Let's start with Latin America. I already said, Jamie is going to Frito-Lay North America, Latin America as a separate division, but regardless. The Latin America performance continues to be very strong. Mexico is growing double digits. There was a – we had a lap in our Brazil business last year. We had the drivers strike, remember, in Brazil, then we had a very strong June or lapping that June this year. The business in Brazil is back to very good performance in the back of the quarter and into the Q4.

So we don't see any deceleration. The biggest challenge obviously in Latin America is Argentina. You guys read the news every day. It's a very volatile environment with the currency devaluation and then we're having to adjust to – in our affordability levels with a consumer. So that – that's the biggest challenge in Latin America, but it's not meaningful enough to – for the overall Latin America performance now that's there.

In terms of NAB, as you said, we're – I think, it is the same answer as with Frito. We're trying to make investment in a very holistic way, so that we drive performance with no bottleneck. So we're investing in the brands, both in the large brands, but also in the smaller brands in PBNA. We're investing in routes. We're investing in coolers and marketplace, cooling infrastructure, which drives our business and drives our profitability. And yes, we're seeing the performance. As you see, it's a – 3% is a very good performance for NAB.

We think that – or we still have opportunities to do better than that, and we'll continue to fight for that for that performance. So again, it's holistic CapEx investments across all the leavers of grills that will make a successful long-term.

Operator

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

Vivien Azer

Hi, good morning.

Ramon Laguarta

So I wanted to follow-up please on the commentary that you just offered on NAB and the continued improvement. With the CSD volumes down 3%, I mean, I think, from a fundamental perspective, it is a structurally challenged category. So what do you think is reasonable from a volume perspective? What does success look like on the CSD component of the segment? Thank you.

Ramon Laguarta

Yes, great. As we discussed last quarter, I think, there is a – I think a structural change in consumer demand and this category is moving to a smaller format, different formats that drive a different volume, net revenue construction here. So the net revenue of CSD is up. Part of that is pricing, but a lot of that is mix and is mix driven by obviously as becoming, I would say, more insightful in what are the different occasions that consumers are buying our products and offering the best pack for those locations.

But also, I think there is a fundamental change in demand or consumers are going for smaller packs. And that's driving a change in the price per liter of the category and price per unit. So that is the – and to reiterate into that to what Ali asked before, that drives some of the CapEx as well. So we're investing capacity for those smaller formats and we're seeing the return in higher pricing.

Operator

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

Andrea Teixeira

Hi, good morning, and congrats to Jamie and Ravi on the new assignment.

Ravi Pamnani

Thank you, Andrea.

Andrea Teixeira

So very – you're welcome. Thank you for everything. So very top down on international and in particular because of your experience, Ramon. I was thinking like the international growth has been accelerating. And I was hoping to hear, how do you feel about both beverages and snacks consumption going forward, given the macro volatility? And also if you can, I think, we haven't heard about Mountain Dew on the beverage side. So if you can kind of explain if investments might be going to that – into that brand as well going forward?

Ramon Laguarta

Okay, let me start with international. It is a volatile, macroeconomic and political situation and more and more geopolitical and the macroeconomic discipline. And if you go, our larger businesses are performing very well. I mean, like Mexico is growing double-digit, Russia is having a very good year. We see high growth, double-digit in China, very high growth in India. Even Saudi Arabia was a challenge for us, it's going back to double-digit.

So we're seeing, from the demand point of view, we're seeing a very, still very strong demand to our, what are our categories. Part of that is, we're gaining share in many of these markets. Part of that is still the categories are very – not not very developed and consumers continue to come to our categories as we offer more innovative products and more affordable products.

So far, we're not seeing a reduction in demand for our categories on a global level. There are some markets where we're seeing the consumers acting a little bit differently. For example, the UK is one where we're seeing the consumers a little bit – a little more defensive, as you know, with all the political uncertainty there. We're seeing obviously, Argentina, as I said, Venezuela, we've been there for many years now.

But we don't see and they have a fundamental change of demand, let's say, in the last few months versus the beginning of the year or last year. We're seeing the categories still growing very healthy and the demand come into our categories in good, I would say, good positive levels, right.

So that Mountain Dew, I said, the – it is our pending subject. It is a focus of the organization. And we're, I think, the brand is well-resourced at this point and it's going to be down to having the right ideas and execute in the right – the ideas with quality. And as we're becoming a better execution company, I think, that will happen.

As we talk – it is a brand that is in the intersection of CSDs and energy. And it's not as easier problem to solve in terms of maintaining the relevance and the consumer high awareness for this brand compared to some of the other – the new trends that are happening in energy. So that's work for us to do. But I would say is – the brand is flat at this point. And we'll continue to invest to make it a positive brand for us in the coming quarters.

Operator

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

Caroline Levy

Good morning, and congrats, Ravi, and as Jamie is in the room, too, listening.

Ramon Laguarta

Good morning.

Caroline Levy

I was wondering if you – good morning. I was wondering if you could elaborate a little bit on your SodaStream and the opportunity there. I mean, just given, I think, priority number one for many, many companies now seems to be reducing plastic. And then, what is the cost of recycling investments that you see hope, you view as a corporate having to make alongside, but perhaps states and governments? And then what role the SodaStream play, particularly in the U.S., just because it hasn't really taken off in the way it has in parts of Europe?

Ramon Laguarta

Yes. It's a great question. And it's – we made a strategic bet, right, when we decided to go by SodaStream. We saw this potential consumer change stores on plastic beverages in part of the world. And also we saw that SodaStream adds the opportunities for consumers to personalize their drinks or add a personal touch to their drink.

So the good news is that, SodaStream is driven very well. And it's doing better than what we had in our business case for M&A. So it continues to be very successful across multiple parts of the world. So, obviously, Western Europe, what is started is very, very strong, Germany, France, Holland, Central, Northern Europe as well. It is strong in Japan. It is very strong in Canada. And there is some opportunities in the U.S., which we're making some organizational changes or upgrading talent.

We're leveraging obviously the customer relationships that we have with our PepsiCo business to open some new relationships and we are innovating a lot. You will see some, I think, some transformational progress for SodaStream next year in the U.S. that I think – I'm very optimistic about the step change in household penetration that will give us. But overall, this is the huge strategic opportunity for us as a company.

We're realizing, I think, part of that opportunity. We're adding some of the knowledge from PepsiCo to SodaStream. And that will make that company better in a very, very innovation and design of the machines and some technologies direct-to-consumer. So I think SodaStream will be a better company as part of PepsiCo and PepsiCo will be a better company by having

SodaStream and being able to address that potential consumer opportunity. So good news on the financial short-term delivery and I think very good news coming for us in the future with this new business.

Operator

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

Bonnie Herzog

Hi, thank you. Good morning. I'm actually…

Ramon Laguarta

Good morning.

Bonnie Herzog

…good morning, I did want to ask on gross margin, which has really been quite impressive this year. So kind of wondering how we should think about the margins through the end of the year, especially given the tough comp year lapping in Q4? And then could you highlight some of the key puts and takes for margins, especially as we look into next year, you're definitely going to be facing some tough gross margin compares in 2020. So any color on how you're looking at lap those, particularly if FX headwind amounts, that would be helpful? Thanks.

Hugh Johnston

Good morning, Bonnie. It's Hugh. Yes, a couple comments on on margin. Number one, obviously, we've gotten very good price realization across the company this year. As we get into Q4, we will start to lap some of the pricing that we took in Q4 of last year. So we'll get less of a pricing benefit to gross margins.

Regarding commodities, nothing notable there. As you know, we have our four buying program on commodity. So we have good line of sight into what we will see there and no notable change versus year-to-date. And then last, obviously, our productivity has been quite strong this year. We'll continue to see that in Q4. So gross margins will certainly continue to be positive as we move forward. But do note that the pricing benefit toward gross margins will be less as we enter the quarter.

Regarding 2020 and forward, I think it's best if we talk about that holistically as a part of our 2020 guidance, which we'll get to in February.

Operator

Your next question comes from the line of Rob Ottenstein of Evercore.

Robert Ottenstein

Great. Thank you very much. Ramon, you touched on it a little bit in terms of consumers moving to smaller packs for CSDs. But I was just wondering if you could kind of step back and and give us your assessment of where the U.S. consumer is on health and wellness-related issues, sugar, artificial sweeteners, and what your company strategy is on that? And then one of the reasons why I'm asking it is, Gatorade Zero doing really well, great product, and then – but then you come out with the Bolt24. And if I recollect quite a bit of sugar in that, which was a little bit surprising to me. So I'm just trying to understand where you see the consumer and how you're responding to it. Thank you very much.

Ramon Laguarta

Right, the question – great question, and it's critical to our strategy, right? So when we talked about our strategy in February, we said we're going to play against each one of the vectors of demand in our categories and not all the health and wellness, but every vector of demand.

So we're seeing the consumer and he's not only snacks, but beverages and the two categories. We're seeing the consumer going after functionality, going after health and wellness, but also going after indulgence and going to many spaces in the convenience, association. So a lot of different vectors that drive consumer preference and choices. And then, obviously, a very important vector, which is price. So premium value and mainstream being a very important segmentation as consumers make choices.

So we're – we – the decision we made is that, we've gone to either consumer maximum choice against each one of the vectors and we're trying to capture demand from all of the different occasions throughout the day. That – that's the only way we're going to keep our share, continue to grow and we're going to be successful in our category. So that's where we're seeing.

The trend towards small packs is not only in beverages, it is also in snacks. And actually, it has been going on in snacks for several years as well, where our variety packs in Frito-Lay are growing very fast. And then internationally, by far, our smaller packs are the number one packaging of choice for consumers.

Then to the point on Gatorade, yes, Zero is great. Zero has been a great addition to the category to the brand. It is capturing consumers that I think were very heavy users of Gatorade and had abandoned the brand because of the calories. So it's been a great addition. It's putting the brand back as a relevant brand to many more consumers as they exercise or do other activities. And it's expanding the brand, I think, is structurally and will give us, I think, a lot of great moments going forward.

Bolt24 is a very low calorie product and is not no added sugars, and it's all this sugar that is in the – basically the watermelon water that is that is kind of the base of the product. Obviously, we reserve the right to have a Zero Bolt24 going forward. I think at this point, the brand is positioned for athletes of the field and you will see innovation around functionality more than sugar, no sugar, but very, very low sugar levels, actually much lower than competitors in that space for sure. And I think is the right way to launch the brand. It is below 100 calories per bottle, so it's 80 calories. So it's very, very, a very healthy balance between taste, functionality and sugar levels.

Operator

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

Laurent Grandet

Hey, good morning, Ramon and Hugh. Hey, a question on Quaker. Quaker's trend seems to be getting better, second quarter in a row that – of organic growth at Quaker something not seen since 2016, if I'm correct. So could you please give us more granularity in those results, especially it's not necessary what we are seeing in instant data? And how sustainable this trend is in your view?

And also, I mean, this growth seems to be coming at the expense of operating income, which seems to be a change of strategy versus the last few years? Should we think about the gross margins to continue to compress to sustain the growth here? Thank you.

Ramon Laguarta

Good question, Laurent. Of course, we want our – each one of our businesses to be a positive growth business. So Quaker no difference. We will continue to invest to make sure that business continues to grow, maybe not at the levels that we have Frito-Lay, but yes, good levels.

We've done several things with that business. One is, we invested a bit more both in CapEx and kind of cost of goods, specifically in the area of improving the formulation of our Quaker products. So we've eliminated all the artificials. Now it's only natural. And I think that will do well for the brand going forward, although, it's quite an important investment in terms of cost of goods. So that's why you're seeing the operating – the gross margin reducing a little bit in Quaker.

In terms of the breadth of growth, it is across all the different brands that make up that business. So it is our oats, but it's also our life snacks, which I think have tremendous potential. It's part of Aunt Jemima. It's part of the convenient foods in – with Near East. So it's a broad growth. And I think it's sustainable as we put a bit more focus on the brands, the innovation and the execution of those particular brands.

The fact that we've put this business under the Frito-Lay organization, so they report to Williams. Now he will bring more operational excellence to that organization in terms of both supply chain and sales and I think that per se will drive growth as we execute better. So I would say, again, holistic, look at the business starting from innovation brands. And in this case execution as well being a big lever, I think, of potential future performance.

Operator

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

Kevin Grundy

Hey, thanks. Good morning.

Ramon Laguarta

Good morning.

Kevin Grundy

Question on the Pioneer Foods deal and then M&A more broadly. So the Pioneer deal announced back in mid-July, I understand it hasn't closed yet. But perhaps a little background how the deal came together and why Pioneer is the right asset to accelerate growth in the sub-Saharan Africa region? And then more broadly, Ramon, on M&A. Is it fair to say that international and food snacks is where investors should expect to see capital deployed going forward from an M&A perspective? Thank you.

Ramon Laguarta

Yes. Listen, Pioneer is –Africa is a continent of the next 30 years. So we're putting a capital against a market opportunity that will deliver itself in the next 20 years.

What Pioneer gives us is more scale in a continent where you're successful, not only because of you have good products, but you need to have very good infrastructure, very good, go-to-market, very good manufacturing clearly closer to the consumer and very good talent.

I think, from Pioneer, we get a very good set of brands across multiple categories, starting with basic food and – but going all the way to more sophisticated breakfast solutions and juice solutions. It gives us great talent, great local talent that understands how to operate in Africa. It gives us scale for our go-to-market and these will help our beverages and our snack businesses. And it gives us a good operating efficiency as we integrate all these businesses.

So it is a good investment for us. Why Pioneers? We've been looking at different options, obviously, over time. And Pioneer, we've – we're a good friend for many years with the Pioneer team and the opportunity came as of recently. So, it is a strategic geography for us from, I would say, Horizon 3, not Horizon 1 or 2, but Horizon 3. And we think it was going to be a very, very strategic investment for us going forward.

Operator

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

Amit Sharma

Hi, good morning, everyone.

Ramon Laguarta

Good morning.

Amit Sharma

Ramon, a follow-up to, I think, Dara's question earlier about pricing in FLNA, like clearly pricing-driven, but just about how sustainable that is going forward? And then broadly for Hugh, we clearly hear you on small packages and innovation in beverages. But as you look at your overall portfolio, do you feel like you have the brand to meet the evolving consumer demand, or do you need to look at M&A for your beverage portfolio as well?

Ramon Laguarta

Yes, I'll talk about the brands and then maybe Hugh can talk about the other part of the question. I think we have a very good portfolio actually in North America to cover both existing demands and future demands, right? So if you think about our CSD brands, when you think about water brands with LIFEWTR, Bubly, Aquafina, if you think about our coffee, Starbucks, if you think about our teas, Pure Leaf, I mean, we have the newly acquired value-added dairy business, SodaStream going forward.

So we have, I think, a very broad portfolio to cover both existing demands, future demands. And as I said, indulgent functional hydration, I mean multiple occasions around the day and today's demand and future demand, weather we'll need some smaller brands to add to their portfolio, like we have KeVita or some other smaller brands, we'll see as we go forward. They will not be meaningful to the overall breakdown of the portfolio that I think we have the big brands that we need to take the business forward and those brands can innovate into multiple spaces, right?

So I mean, that's the beauty. So Gatorade can see the beautiful brand that has been playing on part of the market. Now we take it to another part of the market and we generate $500 million of additional revenue in one year now. So I think we have the brands that we need to keep those brands very relevant, keep them modern, keep them attractive to the consumer as the new generations come into the marketplace, and then we need to keep innovating into new spaces under the umbrella of those brands and they're broad enough brands that can cover multiple spaces.

So I would not, I think, we're very well positioned better than our competition, I think, in that space. And then we'll have to, as I said, keep innovating and keep building the brand into more modern ways of communicating. But it's, I think, we're very well positioned to capture today's demand and future demand. And Hugh, do you want to talk about the other part?

Hugh Johnston

Yes, regarding Frito-Lay. I'm at a couple of things to keep in mind. Number one, the Sabra business. We include Sabra in our volume, but not in our revenue. It's not a consolidated venture. So we do capture volume, but not revenue. Sabra is growing below the Frito-Lay average and the product is quite heavy.

If you back out Sabra, that's worth 0.5 a point. So the 1.5 volume is actually two points of volume if you back out Sabra. That relates more directly to the 5.5 Frito-Lay revenue. So that leaves you about 3.5 points of price mix. Obviously, pricing was a bit higher this year than what we've seen on average over the last couple of years, but not dramatically.

So and mix is clearly a tailwind as well as we move more of the portfolio into premium products. So I think you'll see numbers that are pretty consistent with that relationship. Once you back out Sabra maybe a little bit less, but not dramatically so in the Frito-Lay business.

Operator

Your final question comes from the line of Bill Chappell of SunTrust.

Bill Chappell

Thanks. Good morning.

Ramon Laguarta

Good morning.

Bill Chappell

Just looking at Gatorade, in particular, I mean, great that it's turned around? And is it as simple as saying just long overdue and putting a Zero cal version out there? And if that's the right way to look at it, I mean, is that resident in the whole business? And maybe you were a little too conservative, a little too slow to some of the changes and some things can be done to kind of accelerate the beverage business from going forward?

Ramon Laguarta

It's not – we feel – good morning. We didn't say it was the only lever, right, it's multiple leavers that we're playing to make Gatorade successful. And we changed some packaging, we improved our communication, we improved our execution on kind of the broad Gatorade brand and then we added innovation, which normally it is a big lever of acceleration, right?

If you hit the right innovation in this big brands, that is really a big, big, big lever. We're looking at hydration as a holistic opportunity and we have Gatorade. We have Propel. We have Bolt24. So we're looking at different solutions for different type of consumers there. We're looking at direct-to-consumer solutions for Gatorade. We're looking at other ways of personalizing consumption for Gatorade to make sure our kind of value added to the consumer is higher, more personalized.

So, I didn't mean to say that it was only launching zero. And that was – it's a much broader set of efforts across the organization to make sure that we continue to be the preferred house of solutions for sports drinks, Gatorade being one part, again, Propel is growing very fast. And it's a great solution for low calorie hydration. And the same now with Bolt24 we expect to innovate going forward.

So that we're looking at this opportunity and physical performance is a big going forward consumer need that I think we want to participate not only with hydration, maybe other solutions as well.

Ramon Laguarta

So thank you all for your time and participation in this morning's call. To conclude, summarizing, we're pleased with our results in the third quarter and we now expect to meet or exceed our original target for our full-year organic net revenue growth. We're executing well against our key priorities. And especially, we thank you all for your confidence you've placed in us with your investment. Thank you.