Good morning and welcome to PepsiCo's second quarter 2016 earnings conference call. Your lines have been placed on listen-only until the question-and-answer session. [Operator Instructions] Today's call is being recorded and will be archived at www.PepsiCo.com. It is now my pleasure to introduce Mr. Jamie Caulfield, Senior Vice President of Investor Relations. Mr. Caulfield, you may begin.

Jamie Caulfield

Thank you, operator. With me today are Indra Nooyi, PepsiCo's Chairman and CEO and Hugh Johnston, PepsiCo's CFO. We'll lead off today's call with a review of our second quarter 2016 performance and full-year outlook and then we'll move on to Q&A. We've kept our comments brief this morning and intend to conclude the call by 8:45.

Before we begin, please take note of our cautionary statement. This conference call includes forward-looking statements including statements regarding 2016 guidance based on currently available information. Forward-looking statements inherently involve risks and uncertainties that could cause our actual results to differ materially from those predicted in such forward-looking statements. Statements made on this conference call should be considered together with cautionary statements and other information contained in today's earnings release and in our most recent periodic reports filed with the SEC.

References to organic revenue results exclude the impact of acquisitions and divestitures, structural changes, foreign exchange translation and, for full-year 2016, the impact of a 53rd week.

To find disclosures and reconciliations of non-GAAP measures that we use when discussing PepsiCo's financial results, you should refer to the glossary and other attachments to this morning's earnings release and to the Investors section of PepsiCo's Web site under the Events and Presentations tab.

As we discuss today's results, please keep in mind that our second quarter comprises the 12 weeks ended June 11 for our North American operations and the three months of March through May for most of our operations outside of North America.

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

Indra Nooyi

Thanks, Jamie. I'm pleased to report that our businesses continued to perform well in the second quarter. We had more than 2% organic volume growth in both global snacks and global beverages. While foreign exchange translations continued to pressure our reported revenue results, we delivered more than 3% organic revenue growth led by Frito-Lay North America, AMENA, and Latin America.

ESSA delivered operating margin expansion together with increased A&M investment. North American beverages delivered solid net price realization and margin expansion. And Quaker Foods North America had very strong net revenue and operating profit growth.

And positive net pricing and continued execution of our productivity agenda, including the implementation of our smart spending program, drove 80 basis points of core operating margin expansion. At the same time, we continued to invest in advertising and marketing, which increased 50 basis points as a percentage of sales in the second quarter.

And our performance was well balanced by market type. Our developing and emerging markets businesses grew organic revenue almost 7% for the quarter, with double-digit organic revenue growth in China, Mexico, [indiscernible], and Egypt.

And our developed markets growth was led by the United States where we grew revenue more than 2%. In fact, on a standalone basis, Frito-Lay was the largest contributor to growth at retail and gained value share in both salty and macro snacks. North American beverages maintained its value share leadership and possesses five of the ten top beverage trademarks based on dollar sales – Pepsi, Mountain Dew, Gatorade, Lipton, and Starbucks. And Quaker gained almost 1.5 value share points in hot cereal, while accounting for 100% of category retail sales growth.

Year-to-date, our results are equally strong. Organic revenue grew 3.4%. Core constant currency operating profit grew 7% and up 9% excluding the impact of de-consolidating Venezuela. And core constant currency EPS grew 8%, but up 10% excluding the Venezuela impact.

On the strength of our year-to-date results and our outlook for the balance of the year, we have increased our full-year core EPS target to $4.71 from our previous target of $4.66 driven by the expectations and factors set out in this morning's press release.

Specifically, there are five things we've focused on to deliver in what continues to be a challenging macro-environment. First, consumer-centric relentless innovation; second, connecting with digital age consumers in new ways; third, being a true growth partner to our customers; fourth, flawless end-to-end execution; and fifth, a maniacal focus on productivity.

Let me touch on each briefly. First, innovation and portfolio transformation are enabling us to provide consumers the delicious and convenient products they want and to satisfy their constantly-evolving demands across a broad spectrum of occasions in each stage. We have ramped up our innovation engine.

And as a result, new products comprise approximately 9% of sales or over $5 billion. We've achieved this by leveraging our global scale, while simultaneously tailoring products to appeal to local tastes, addressing consumers' evolving demands for convenient taste and variety from the occasional treat to nutrition by transforming our product portfolio.

So, today, what we refer to as guilt-free products generates approximately 45% of our net revenue, and we're now recognizing consumers' interest in craft, niche, and premium products. So, for example, in beverages, Gatorade continues to innovate in the new areas of sports hydration with the introduction of the G Frost flavor lineup, while Propel by the makers of Gatorade drove more than 40% of the enhanced water category volume growth year-to-date.

Following on the success of Mountain Dew Kickstart, we've introduced Mountain Dew Black Label, a deeper, darker dew, made with real sugar and crafted with dark berry flavor and herbal bitters. Mountain Dew Black Label is for those times the DEW Nation wants to live it up with a touch of class.

Dew Black Label is initially released exclusively at approximately 600 colleges and universities, giving students the first taste of the unique beverage and demand for the product built as word quickly spread across social media.

Along with the nationwide release of Mountain Dew Black Label, the brand is extending its boldly refined campaign. It started with activation during the South by Southwest Music Conference and festival in Austin, which included the Mountain Dew Black Label parlor, a South by Southwest takeover concept, and product seating at local bars and venues. The campaign continued with the release of a new digital spot called Gentlemen of the Jacket. The content showcases different gentlemen skaters including Dew athlete and pro skateboarder, Theotis Beasley, mixologist and gamers, all crossing over to the classer side of Dew with the help of putting on a unique jacket, transforming world therein to become a more refined version of itself, yet still getting at the heart of all things Dew.

In the second quarter, we also launched Aquafina Sparkling, a new line of flavored sparkling water that provides a light and naturally sweetened hydration option. Aquafina Sparkling is offered in three delicious fruit flavors, Black Cherry Dragonfruit, Lemon Lime, and Orange Grapefruit. Each sleek single-serve, 12-ounce can contains just 10 calories and the tiniest pinch of fair trade certified sugar for a smooth, crisp finish. Aquafina Sparkling would also be available in multipacks containing two flavors.

We're also appealing to consumers' desire for discovery and more premium experiences. Naked Juice launched a line of cold-pressed juices branded Naked Pressed. It provides a new take on fresh taste and the line comes in five varieties. It's sourced from cold-pressed whole foods and vegetables and is non-GMO project verified.

And Pepsi has introduced 1893 from the Makers of Pepsi-Cola. It capitalizes on the cultural food revolution and is inspired by consumer interest in bold and interesting taste combinations. 1893 is packaged in sleek and premium 12-ounce cans and brings together premium ingredients and more than 100 years of cola making expertise to present a great tasting, unexpectedly bold experience. 1893 is a blend of premium kola nut extract, real sugar, and sparkling water available in two delicious flavors, Original and Ginger Cola. 1893 can be enjoyed as a delicious standalone beverage and is also the perfect complement for cocktails.

In the Quaker business, because consumers are increasingly seeking greater convenience, portability and nutrition in their breakfast, we've introduced Quaker breakfast Flats, crispy baked snack bars that contain delicious ingredients that you can see, like oats, real pieces of food, crunchy nut, flakes and sunflower seeds. Each serving contains 18 grams of whole grains, with less than 200 calories and no artificial flavors or added colors. Quaker Breakfast Flats comes in three delicious flavors, including Cranberry Almond, Banana Honey Nut, and Golden Raisin Cinnamon.

Turning to Frito-Lay, we continue to expand our portfolio with a particular focus on premium offerings and healthy snacking options. So, for example, we've expanded our Simply line with the introduction of Simply TOSTITOS Black Bean Chips made from real black beans. It's non-GMO project verified. And Simply TOSTITOS Black Bean Chips offer consumers an excellent source of fiber with 5 grams per 1 ounce serving.

And this Simply line has also introduced Simply TOSTITOS Organic Chunky Medium Salsa and Simply TOSTITOS Organic Black Bean and Corn Mild Salsa. And both salsa varieties are USDA-certified organic.

Sunchips has introduced Veggie Harvest Farmhouse Ranch Flavored Veggie and Wholegrain and Veggie Harvest Tomato, Basil and Cheese Flavored Veggie and Wholegrain. And both are made with real veggies and whole grains.

And Smartfood has introduced Smartfood Delight sea-salted caramel flavored popcorn which offers 50% less fat than compared to regular Smartfood white cheddar popcorn. It offers 100% whole grains and 35 calories per cup.

So as a result of initiatives like this, year-to-date, our Frito-Lay US premium portfolio growth is outpacing the growth in the balance of the portfolio by a factor of more than four times. And we're extending our value share leadership position in premium salty snacks. So that's innovation.

The second capability I mentioned is connecting with consumers in the age of social and digital media and the purpose-driven consumer. So this summer, Gatorade is running For the Love of Sports, a national campaign that encourages athletes to think about and hold on to that moment when they were younger and further in love with sport. The multifaceted campaign features a national retail promotion, TV commercials, and a unique cause initiative that encourages consumers to vote for deserving sports-focused organizations to which Gatorade will donate on their behalf.

The retail component includes limited-time-only bottles featuring athletes such as Usain Bolt, Serena Williams, Paul George and April Ross with a special callout of the For the Love of Sports cause initiative. Gatorade has partnered with a 19 sports-focused non-profit organizations, five of which was selected by a roster of athletes featured on the limited time offer bottles. For the remaining 14 organizations, consumers will have the opportunity to vote for their favorite online to receive donations that will help athletes pursue their love of sport.

We're also driving greater consumption of Quaker Oats in the warmer shoulder season by promoting the concept of overnight oats. We have collaborated with influential foodies to bring consumers quick and easy online tutorials on how to make delicious and nutritious jars of chilled overnight oats perfect for days when you just need a simple, no-cook recipe.

And earlier this year, we kick off Quaker's very first Bring Your Best Bowl contest, a nationwide search for the next Quaker oatmeal flavor. The Bring Your Best Bowl contest highlights the endless ways to enjoy oatmeal and invited fans across the country to submit their oatmeal creation using two to five ingredients, along with their inspiration, for a chance to win $250,000 and have their combination brought to life as Quaker's newest oatmeal flavor.

Millions of consumers submitted creations using two to five ingredients, along with their inspiration behind their idea. Three finest flavors are now being developed by Quaker and will be revealed on around National Oatmeal

Day, which is October 29. The selected flavors will then be made available in stores across the country for consumers to taste. Then it's up to America to vote online before the winning flavor is revealed in February of 2017. The grand prize winner will take home the cash price, along with a chance to have his or her oatmeal combination debut on shelves nationwide.

At the same time, Frito-Lay drove greater consumer engagement with the Lay's brand, by asking Americans to help decide which Lay's flavor stays and which ones go. Lay's Flavor Swap campaign asked Americans to unleash the power of their pallets and allowed their voices and their taste buds to be heard. Consumers were invited to visit flavorswap.com to vote for their favorite flavor in each of the four flavor swap matchups. We received millions of customer votes, drove tremendous social media buzz and consumer engagement and strengthened Lay's brand awareness in regard.

To support trademark Pepsi, this summer, we're taking the world's global language, emojis, we're taking it offline in a visually striking and socially shareable campaign, inviting consumers to Say it with Pepsi from a smirk to a kiss to a wink. This initiative connects cola lovers around the world through a common language that is uniquely and definably Pepsi.

The PepsiCo design and innovation center created more than 600 PepsiMoji designs, all incorporating the essence of Pepsi, including the brand's iconic globe shape and the colors of blue, red and white. Both globally relevant and locally significant PepsiMojis designs come to life across the full Pepsi portfolio and also beyond packaging in unexpected ways such as a fashion collaboration with designer Jeremy Scott.

The limited edition Pepsi with Jeremy Scott Capsule Collection includes six styles of emoji-inspired sunglasses featuring PepsiMoji designs. We have partnerships with famed photographer, Ben Watts, as well as Daniel Arnold, a street photographer with one of today's most enviable Instagram followings. Their work shares the story of #PepsiMoji in the same non-verbal vein as emojis themselves with a quirky, candid and playful tone.

We also have localized experiential content from vending machines in India that dispense Pepsi product adorned with the PepsiMoji design that matches users' current state of mind to online engagement in Argentina where consumers can create a personalized PepsiMoji design or use PepsiMoji accessories to fashion their selfies. And we also have a free PepsiMoji keyboard app that can be downloaded at the Apple App or Google Play Stores.

Global television and original digital creative also showcase how communicating through PepsiMoji icons can lead to unpredictable and memorable adventures and experiences. And consumers around the world have already begun to experience #PepsiMoji in the US, Australia, Canada, India, Mexico, Russia and Thailand. The global campaign is being featured in more than 100 markets around the world in 2016.

We're also capitalizing on our partnership with the UEFA Champions League with Global Activation. Every year, the UEFA Champions League brings together the best teams across Europe to compete in the game's biggest club competition. Fans of the tournament extends far and wide around the world.

That's why more than 100 markets around the globe, PepsiCo executed programs to realize the benefits of our official sponsorship of the UEFA Champions League. From Argentina to Zambia, we had football fans covered with exciting media-to-shelf campaigns tailored to the local market. For example, in South Africa, Lay's and Pepsi launched a national #PerfectMatch campaign, reinforcing Lay's and Pepsi as a snack and beverage combination of choice. In Mexico, we ran a Power of One campaign promoting the concept, Pepsi and Sabritas take you to the UEFA Champions League final. And in Chile, we leveraged the UEFA Champions League partnership with unique packaging and promotions across our Gatorade, Pepsi and Lay's brand. And we delivered a phenomenal experience of the UEFA Champions League final opening ceremony presented by Pepsi where Alicia Keys gave an incredible performance, ushering a live entertainment era at the soccer final.

The third capability is being a valued growth partner with retailers. And we've done this by continuing to drive traffic and basket size through investing and leveraging consumer and shopper insights, constantly finding new ways to become more efficient and coordinated with our retail partner supply chain, and integrating our marketing initiatives with our retailer strategies, including tailored execution of sports, music and other properties.

As a consequence, we tend to be among the top drivers of our customers' growth. In fact, in the United States, which is our largest market, in the second quarter, we were once again the largest contributor to food and beverage retail growth in the United States, accounting for more growth at retail than all other $5-billion-plus food and beverage manufacturers combined.

The next capability is dialing up end-to-end execution from seed to shelf, making sure our products are fresh and ubiquitously available. We're doing this by using advanced data and analytics to capture more precise demand signals to inform our supply chain and retooling our supply chain and go-to-market systems to improve service, eliminate out-of-stock and reduce the cycle time from raw material to product on the shelf.

Our initiatives in this area now include expanding our successful GES program from Frito-Lay North America to our beverage businesses.

And the fifth and final focus is fueling margin expansion and capability investments with productivity. Year-to-date, core gross margins expanded 100 basis points and core operating margin expanded 115 basis points even as we continue to invest in A&M, which is up 55 basis points as a percentage of sales.

In addition to marketing, we've also continued to invest in critical capabilities like R&D, the establishment of our global design center and the creation of our global e-commerce group. To capture productivity, we are increasingly leveraging automation and advanced technology, as well as the development and deployment of global best practices, all to make our supply chain more efficient.

Let me just give you a few examples from the hundreds of supply chain productivity projects that are currently in flight. We're implementing automated high-speed packaging lines across the globe, increasing packaging line speeds by up to 50%, while at the same time eliminating the bottleneck to total production lines and significantly reducing labor costs.

To improve our water use efficiency, we have developed and are implementing technology and processes that capture sugar and starch from wastewater streams. The waste sugars and starches are then sold as byproduct. The resulting water stream can then be repurposed for secondary manufacturing uses such as sanitation. This not only generates incremental cash flow and saves money, it also reduces our water usage to advance our sustainability agenda.

Our global operations group is identifying and then lifting and shifting best practices developed by our manufacturing teams around the world. For example, our manufacturing team in Romania developed a refinement to our potato cutting process that can reduce raw potato waste by up to 2%. We're now implementing this process improvement in other plants around the globe.

We're capturing significant savings by using advanced logistics planning processes and tools, which enable us to optimize both the mode and routing of material transport. These tools initially developed and deployed in North America have been expanded to nine more countries and are generating 3% to 4% savings in transportation costs.

And in key markets, we’ve also advanced our third-party transportation procurement process by consolidating all transport-origin destination pairs across our food and beverage businesses to present to the market for competitive bids. And we have the opportunity to expand this process to many more markets.

Productivity is also being captured through the implementation of our smart spending program, which is driving meaningful reductions in key discretionary spending areas like travel, facilities and consulting. We’re attacking spending on both rate and volume dimensions.

So, for example, in travel, we’ve adopted much more stringent policies governing mode and class of travel, hotel rate and per diem meal limits, all of which have reduced the rate element of the cost. But we’ve also mandated and encouraged working in ways to reduce the volume element of costs. So, for example, we’ve reduced meeting-related travel by insisting on the use of teleconferencing in place of physical meetings in many instances. And as a result of all of our productivity efforts, we’re capturing significant savings that are delivering meaningful margin improvement and also providing the funding necessary to invest in the long-term health of the business.

Taken together, our top-line-driving commercial activities and our robust productivity agenda are helping us to deliver our financial targets despite continuing macro challenges. We’re aggressively driving innovation, marketing, marketplace execution, productivity to deliver balanced and sustainable performance. We are confident we have the right plans in place and believe we are well-positioned to achieve our 2016 targets, including our increased core constant currency EPS outlook, which we announced this morning.

Just as important, we continue to invest in capabilities and to transform our portfolio to succeed in the dynamic customer and consumer landscapes, with a singular goal of generating sustainable shareholder value for the long term.

With that, let me turn the call over to Hugh Johnston. Hugh?

Hugh Johnston

Thank you, Indra. And good morning, everyone. As Indra mentioned, we’re pleased with the financial results for the first half and we have a positive outlook for our performance for the balance of year. And so, as you saw in this morning's release, we raised our full-year core EPS target to $4.71, which incorporates the following: Underlying core constant currency growth of 9% excluding the impact of de-consolidating Venezuela, a negative 2 percentage point impact of the Venezuela deconsolidation, and a negative 4 percentage point impact from foreign exchange translation based on current market consensus. Our outlooks on the other metrics we provide remain unchanged and are set out in this morning's release.

Our efforts to improve working capital continue to yield positive results. Over the past year, we've improved our working capital cash conversion cycle by more than 10 days.

For analysts on the call, as you update your models, I ask that you consider the following factors. Foreign exchange translation continues to be a headwind, more heavily skewed to Q3 than Q4. We have more difficult core constant currency operating profit growth comparisons in the second half at Frito-Lay North America. North America Beverages has particularly difficult revenue and operating profit lapse in Q3. We expect low single-digit raw material inflation including the impacts of foreign exchange translation in the second half compared to modest deflation in the first half. We will continue to invest in our business to drive sustainable long-term growth, including an expected increase in advertising and marketing expense as a percentage of sales for the full year. And finally, we will be lapping Venezuela core earnings of approximately $0.06 per share in Q3.

Taken together, we expect the balance-of-year core EPS growth to be generated entirely in the fourth quarter.

And with that, operator, we’ll take the first question.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Our first question comes from the line of Bill Schmitz of Deutsche Bank.

Bill Schmitz

Hi. Good morning.

Indra Nooyi

Morning, Bill.

Bill Schmitz

Hey, can you guys just talk about the sustainability of the great organic growth at Frito and then also the margins which are pretty close to peak? Maybe I’m wrong on this assumption, but I think Frito disproportionately benefited from GES. And I just wondered like kind of what inning we are in baseball terminology on that front and if you still think there's room for margins to go up there.

Indra Nooyi

Let's talk about the organic growth first, Bill, and then, Hugh, maybe you can chip in on the margin expansion. Look, the macro snack category is a big category. And we're only playing in the salty snack category expanding into savory snacks. And our goal, if you go back maybe 15 years ago, and we've been consistent in this strategy, we've always said, grow the core, add more inch out of the core. We've used these words. And that's what Frito-Lay has been doing, solidify our position in salty snacks and start to step out of the core into other savory snacks and then start to take on other occasions from the overall macro snack category. So all the work we've done in demand spaces says that there's huge opportunity as the world starts to swing more and more towards a liking for savory products. So savory is in and we see amazing opportunities ahead for Frito-Lay to grow its business.

Secondly, Frito-Lay has been a mainstream competitor. We haven't played as much in the premium part of the portfolio. And now, we've gotten our game together in the premium side and we're seeing growth. As I mentioned in the script, the premium part of the portfolio grew four times faster and we're just getting started. So we see tremendous opportunities for Frito-Lay to grow in the premium side.

And I'll make one final comment, Bill, before Hugh to talk about productivity. The great thing about Frito-Lay is that we've got great brands. We've got a great innovation capability, but we've got an amazing pipeline to the customer and consumer. Our DSE system is a well-oiled machine and we can keep expanding the diameter of that pipeline and it's really our imagination in terms of what products we can innovate with to put through that pipeline.

So with that, Hugh [indiscernible] talk about the margins at Frito.

Hugh Johnston

Yeah, happy to. Good morning, Bill. A couple of comments on margins. And the short answer is, I think Frito-Lay still has lots of margin expansion left in it and can do so in a very defendable, sustainable way.

Why do I say that? Number one, it's to build on the commentary that Indra just made. While we are the market leaders in premium, we are relatively underpenetrated compared to where we are in mainstream, and premium does offer very, very attractive margins, particularly as you scale it over time. So I think there's a significant margin uplift there.

Number two is in the area of GES, the initiative that we've been working on for a number of years where we shorten the supply chain, deliver product to the customer and ultimately to the consumer much more quickly by going essentially direct from plant to store or going from plant to cross-dock to store. The benefit of that is we, obviously, eliminate a lot of excess cost in the system, and as we take that excess cost out, we are reinvesting some back in premium and we're delivering some to the bottom line. To use the baseball metaphor that you used earlier, we're really only in about the fourth or fifth inning on GES. GES has a number of years to run. And in fact, I think the GES impact on the financials are likely to be more profound in the future than they have in the past.

And then, the third element to this is this whole area of smart spending. Frito-Lay has absolutely taken the ball and run with smart spending as they always do, but we're really only right now exploiting four out of what could potentially be about 30 categories in smart spending. So I think smart spending also offers us years of runway to deliver additional productivity.

So if you put all of that together, premium, plus GES plus smart spending and combine that with the fact that Frito-Lay's strong market position gives it the ability to scale things in ways that none of its competitors can, I think we have many years of margin improvement to come and, frankly, significant margin improvement to come in Frito.

Indra Nooyi

I think we should add that the way we've executed smart spending makes sure that we create the breathing room, but reinvest back in capabilities to keep this virtuous circle going. And that's what's important with our productivity programs.

Operator

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

Indra Nooyi

Dara, good morning.

Dara Mohsenian

Hi. Good morning. So maybe building on that Frito-Lay margin commentary there, you've seen very strong SG&A leverage if you exclude the increases in A&M spending over the last couple of quarters here, Hugh. As we think about that going forward, is that sustainable going forward? And what's driving that because it is different than what we've generally seen over the past few years?

Hugh Johnston

Yeah. Happy to answer that, Dara. To me, number one, it is absolutely sustainable. We’re able to continue to drive that. Why are we able to continue to drive it? We have invested significantly in streamlining our supply chains. And remember, with PepsiCo, the supply chain doesn't just have cost in cost of goods. There's also a significant piece of it in the selling systems, which fall into SG&A. That's primarily the DSD system. We’ve got lots of room to be more efficient on that. We’re really very much in the early innings on that.

Number two, we do continue to streamline the organization. And number three, smart spending is having a significant impact on our SG&A spending. So put together, the combination of making DSD more efficient, making the organization more efficient, and leveraging smart pending, you’re seeing improvements in the non-A&M portion of SG&A that are likely to continue to deliver for number of years.

Indra Nooyi

I want to add something to what Hugh said. Dara, we spend a lot of effort, time, and money on putting in an ERP system when we invested in SAP and we started that way back in 2000 and we've been doing that for the last 10 or 15 years. And putting in an ERP system takes time, takes money, and now we’re beginning to see some of the benefits from that ERP implementation. And as we complete a lot of those implementations, we’re able to take out the costs from those implementations and start to realize the benefits. So it’s streamlining the supply chain, the organization, smart spending, and now the increased leverage from the SAP investment.

Operator

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

Indra Nooyi

Good morning, Ali.

Ali Dibadj

Hey, how are you?

Indra Nooyi

Good, thank you.

Ali Dibadj

Good. Hey, I have two questions. One is just trying to get a little bit of a better handle on your earnings guidance raise today. I know, last quarter, a lot of people were kind of thinking about it going up. But this quarter you raise it from 8% to 9%. The top line isn't any different. Productivity is roughly the same. Commodity looks the same. Taxes look unchanged versus last guidance. So you are assuming an acceleration of about 2 points for the back half of the year. Just trying to get a better sense of what gives you that confidence that it's going to go up to 10% for H2. It’s clearly not macros. You knew the Q4 compare. So trying to get a sense there. That’s question one.

Question two, and, Indra, don't take this the wrong way at all. In fact, take it very positively. But there continues to be a real thoughtful set of questions from important investors about your future at Pepsi versus, for example, any future presidential administration. And these are real questions. People are really thinking about it. So can you in any way give us some help in clarifying your future interest between business and politics? You’ve done such an incredible job at Pepsi. People are really kind of asking themselves this question. So anyway you can help clarify that debate, whether you know it or not is out there, would be helpful. Thanks.

Indra Nooyi

So, Hugh, go ahead and answer the first question.

Hugh Johnston

Yeah, happy to, Ali. Thank you for the question. We always start the year with a perspective on the macros and on the world that tends to be conservative. When we give guidance, our intention is always to hit it and perhaps beat it. Now that we’re halfway through the year, I think we’ve seen two things. One, the macros are operating in a consistent steady way, so there has not been a deterioration, which, obviously, is to our benefit relative to our expectations. And number two, we do see significant innovation launching in the back half of the year that we’re quite optimistic about. Some of the things you’ve seen more recently that Indra mentioned, whether it's Mountain Dew Black Label, Aquafina Sparkling, 1893, the Simply line at TOSTITOS down at Frito, or Quaker Breakfast Flats, which are doing terrifically well, and INIT coming out of Quaker as well, when you put together all of that innovation, it will have a disproportionate impact in the back half of the year, which is really our cause for optimism in the balance of year. So that's the driver behind the raise at this point.

Indra Nooyi

Ali, on question number two, in the foreseeable future, next several years, I see myself running PepsiCo.

Operator

Your next question comes from the line of Mark Swartzberg of Stifel.

Mark Swartzberg

Hello, thanks. Good morning, everyone. Two questions on Latin America, if I could, Indra or Hugh. One is, in the quarter, advertising and marketing in the region was up. I believe for the half, it's flat or maybe even down a bit just by the omission of the reference to being up for the first half. So question one is, do you intend for it to be up for the full year?

And then question two is, if you take these two large markets of Brazil and Mexico, could you give us a bit of an update on your outlook for each of those two regions because, of course, the conditions and your performance there are quite diverged. I'm just looking for how you are looking at your future performance in those two markets.

Indra Nooyi

Yeah. I'll just talk about the second and Hugh can talk about the A&M issue. Brazil, all of us have the read the news on Brazil. Brazil is going through a difficult time politically and socially. So they have to work through their issues. Mexico is actually doing well. The strength of the dollar, the increased remittances into Mexico doing well, the country actually is one of the brighter stars in the whole Latin American economy. So we feel good about our business in Mexico. Our teams are performing very well in Brazil in a very difficult environment. And I think what we're focused on right now is stepped-up execution, making sure we have the right value equation and trying to gain share in a difficult environment and that's really what we're focused on right now. So a tale of two cities.

Hugh Johnston

Yeah. Happy to jump in on your question regarding A&M, Mark. We're actually up 80 basis points on A&M year-to-date. So happy to close the loop with you one how you're calculating the number that you came up with. But the number is actually up 80 basis points year-to-date. We're not going to get into A&M guidance for the full year. But given that we're up 80 basis points year-to-date, I'd certainly expect it to be up for the year. And I think that's a reasonable expectation for you and all the investors to run with as well.

Operator

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

Judy Hong

Thank you. Good morning.

Indra Nooyi

Morning, Judy.

Judy Hong

So I have two questions. One is, obviously, you guys have been very disciplined on the capital allocation front and particularly on the M&A side. And I know that your business is, obviously, performing pretty well right now. But kind of how you are assessing that as it relates to maybe even kind of volatile macro-environment, change in consumer environment and given some of the robust multiples that some of these assets are getting fetched for, do you have any views on looking at divesting some of your assets in this kind of environment?

And then completely unrelated, so you are bringing back Diet Pepsi with aspartame, so just wanted to get your perspective on kind of lessons learned and then as you think about your diet portfolio, the risk of maybe fragmenting the portfolio even further with different kind of offerings and how you manage that.

Indra Nooyi

I’m going to talk about the second one. And I can also talk about the first. But I'd like Hugh to talk about this because Hugh is my right hand and left hand when it comes to disciplined capital allocation, and so I’d Hugh to talk about that.

Let me talk about Diet Pepsi, Judy. You know what’s interesting? If you go and poll consumers today and read all the social media reports, there’s still trepidation about aspartame. There’s no scientific reason for that, but people are somehow worried about aspartame. And when we launched Diet Pepsi aspartame-free, it’s because there was a huge consumer need for that product. What we did not anticipate is that there is a group of consumers that absolutely loved the original Diet Pepsi. And in the cola category, in particular, because it's been optimized over years, people get incredibly fastidious about their products and don't want to have any changes. So rather than remove the aspartame-free, which is still loved by a lot of people – in fact, I tell you, when we announced that we’re bringing back the old Diet Pepsi, the few people who thought aspartame-free was going away wrote me some pretty tough emails. And so, there is a very loyal group that is thrilled that we have an aspartame-free following. So we brought back the original Diet Pepsi in addition to keeping the aspartame-free product, so we could serve all consumers with the products that they love. I think that's going to be net positive for us.

Now, let me just say, the marketplace is fragmenting. Forget Pepsi or Diet Pepsi or the cola category, any new category that’s expanding is becoming niche, more fragmented. And that’s why it was important for us to own the distribution system because once you have control over the distribution system, you can pump a lot of niche products through it, all our craft products, all of those are low-volume products. So we have to learn how to handle complexity, not walk away from it.

So, Hugh, talk about capital allocation and the portfolio.

Hugh Johnston

Yeah, sure. Happy to, Judy. Let me just start with a bit of historical perspective on this because, obviously, there's lots of activity in terms of people trying to reshape their portfolios right now. Again, as a reminder, we have about a little over a quarter of our portfolio in nutrition. And then if you add in the better-for-you products, it's really – it gets upwards to almost half of our portfolio in terms of the balance that we have right now. We’re also, from a developing and emerging markets perspective, about a third exposed to developing and emerging markets. All of that as a result of transactions that we've executed really over the last decade or even more, whether it's Quaker, Gatorade, Tropicana, Naked Juice, Wimm-Bill-Dann, Izze, we've executed a variety of transactions over the last ten-plus years in order to get the portfolio into a place where it could consistently deliver performance. And frankly, that's what you've seen, is this portfolio now, regardless of economic cycle, regardless of consumer sentiment, regardless of consumer trends in chips, seems to be capable and has been capable delivering good, strong performance throughout all of those shifts.

As we look at things going forward, what we’ve said is, we intend to expend something on the order of $500 million a year in tuck-in acquisitions. As those good opportunities emerge, we look at them and we look at them through two lenses. One is a strategic lens around, does it make sense relative to where we think the consumer is going, and second is, obviously, a financial lens, is this good for our shareholders. And you can count on us to continue to do that because we think that's the right way to think about M&A on a go-forward basis.

I will also tell you that we look at everything. We've looked at everything that has transacted and probably every company that hasn't transacted. And if something transacts and we're not a part of it, you can very reasonably assume it's because we didn't want to be.

So the result of that is, we feel like we're operating from a position of strength. We feel like we're in a position right now where we'll continue to look at things, we'll do things if they make sense, but the guidance that we've given right now is the guidance that makes sense and that's the way we're thinking about it going forward.

Some investors talk about the notion of, sell when everyone's buying and buy when everyone's selling, we tend to be good stewards of capital and we follow that maxim fairly closely.

Operator

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

Indra Nooyi

Caroline, good morning.

Caroline Levy

Good morning, Indra and Hugh. Thank you. Actually just to follow up on what you said, Hugh, for clarification, I guess Judy's question had been around a willingness to sell anything and I think you said that when prices are high you are a potential seller. Is that right?

Indra Nooyi

Only if it makes sense to the portfolio, Judy – or Caroline, I'm sorry. Only if it makes sense to the portfolio.

Caroline Levy

Okay. So then my question was around Diet Pepsi and the Pepsi franchise overall because, Indra, you gave this stunning number that you drive more growth for retailers than the next five companies, large companies combined. In the case of Pepsi and Diet Pepsi, that has not been the case from what I can see. And so, how do you maintain your shelf space, how do you think about strategically moving those in a different direction? Is it through fragmentation or is there something else you need to do because that seems to be one area where you are really losing share?

Indra Nooyi

Okay. I think, Caroline, and we talked about it in the Q1 earnings call, it is critically important that all of you change your frame of reference in the beverage market from cola to CSDs to LRBs. 30 years ago, it was colas. 25 years ago, it was CSDs. 15 years ago, it was CSDs. It's been LRB for the last decade or so. And I think the sooner we can shift our frame of reference, the better it is because just beating a category that is in secular decline, just beating that all the time is not a game to play, that's not a game that is going to guarantee good results. If we play this rich LRB game, multi-category, placing the bets where the growth is and where the consumer is going, I think we're better off. So my request to you and all of you who are tracking the company in this category, expand your aperture. LRB is the game to play. That's the game we're playing and we watch LRB share very, very carefully. That's the right strategy for any company.

Operator

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

Indra Nooyi

Morning, Rob.

Rob Ottenstein

Good morning. And thank you very much. Could you give us a little bit more sense on the North American beverage business? It looks like you've got about 2% price mix. Can you give us a little sense about how much of that is headline pricing, how much is channel mix, category mix just so we have a better idea of what's going on there?

Hugh Johnston

Yeah. A couple of things on that, Rob. This is Hugh. Number one, there was more pricing in CSDs than there was in non-carbs. Not a surprise on that. Number two, about half-and-half split between rate and mix. So very comfortable from that perspective. Obviously, our single strategy has been working particularly well and it's giving us what we think is sustainable mix lift [ph] benefit, with lots of runway left to go on it. So, really, the pricing environment right now, is very good. It's very healthy. We feel terrific about where pricing is in North America.

Indra Nooyi

So thank you all for your questions. And in closing, I just want to say to you that we're pleased with our results for the first half of the year. We believe we have the plans in place to deliver our targets for 2016. We appreciate the trust you've placed in us with your investment. We're absolutely committed to increasing the value of your investment. Thank you.