

Good morning and welcome to PepsiCo's Third Quarter 2015 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. Joining me on the call today are Indra Nooyi, PepsiCo's Chairman and CEO; and Hugh Johnston, PepsiCo's CFO. We'll lead off with prepared comments and then turn to Q&A.

As we begin the call, it's important to note the following. We will make forward-looking statements on this call. Any forward-looking statement inherently involves risks and uncertainties that could cause actual results to differ materially from current predictions and expectations. Information on such risks can be found in today's earnings release and our most recent Form 10-K and subsequent SEC filings. In addition, we will discuss results using non-GAAP measures and you can find the GAAP to non-GAAP reconciliations on our website under the Investors section under Events and Presentations tab.

As a reminder, beginning this quarter, PepsiCo reported its realigned segments. We provided retrospectively revised summary segment results, reflecting the company's new organization structure in early August. As we covered in this morning's release, we have changed the accounting for Venezuela operations and consequently will no longer consolidate their operating results beginning in the fourth quarter. Further details on this can be found in today's earnings release and the soon to be released third quarter Form 10-Q filing.

And now it is my pleasure to introduce Indra Nooyi.

Indra Nooyi

Thank you, Jamie, and good morning everyone. Despite a continued choppy global macro environment, we are happy to report another great quarter at PepsiCo.

In the third quarter, organic revenue grew 7.4%, with Global Snacks up 10% and Global Beverages up 5%. Core gross margin improved by 120 basis points. Core constant currency operating profit increased 12% and core constant currency EPS increased 14%.

Based on our year-to-date performance and our outlook for the balance of the year, we are increasing our full year 2015 core constant currency EPS growth outlook to 9%. Also, we now plan to return approximately \$9 billion to shareholders through dividends and buybacks with share buybacks at the high-end of the range we had guided to. Hugh will go into additional details of our guidance later.

But let me now comment briefly on our results. We again had very strong results in North America, and this comprises over 60% of our net revenue and approximately two-thirds of our core division operating profit year-to-date.

North America Beverage had a terrific quarter in which we grew our organic volume by 3%, organic revenue by 5%, and core constant currency operating profit by 10%. During the quarter, we held value shares in liquid refreshment beverages and gained value share across important sub-categories including ready-to-drink tea and water.

Frito-Lay North America delivered another quarter of solid results with organic revenue growth of 2% and core constant currency operating profit growth of 7%. Core operating margins increased by 155 basis points, reflecting execution of price-pack architecture management and ongoing productivity initiatives across the value chain.

In Quaker Foods North America, organic revenue increased 2% and core constant currency operating profit increased 1.5%, and operating profit performance is noteworthy given the fact that they are lapping a divestiture gain in the prior year. Quaker has gained value share in both hot and read-to-eat cereal, both in the quarter and year-to-date.

And we are proud to report that during the third quarter, PepsiCo was the largest contributor to US retail sales growth among all food and beverage manufacturers with over \$400 million of retail sales growth in all major channels. This was double the next largest contributor to growth. Notably, North American beverages was the key driver of US retail sales growth within PepsiCo and the largest contributor to US retail sales growth on a standalone basis.

On a year-to-date basis, PepsiCo has contributed over \$1.1 billion of retail sales growth in all major channels, which again was the largest contributor to US retail sales growth among all food and beverage manufacturers, and this is really 2.5 times the next largest contributor to growth.

Now turning to our international market. In our developing and emerging markets, although we continue to face volatile and challenging macros in a number of these markets, we're managing what we can control to stay

competitive in this market – in this marketplace, and we continue to see good growth in a number of these markets. For example, our business in Turkey achieved double-digit organic revenue growth, Mexico achieved high-single-digit organic revenue growth, and Egypt achieved mid-single-digit organic revenue growth.

And as we mentioned last quarter, in each of our earnings calls, we will provide an update on our big initiatives to drive our operating and financial performance, brand building innovation, execution, productivity, and cash returns to shareholders.

On our Q2 earnings call, we talked about innovation. Today, we are focused on productivity, which is critical to succeed in today's challenging environment. With volatile macros globally and increasingly competitive landscape with digital technologies disrupting many aspects of our business, productivity has never been more important. And as all of you know well, productivity enables current financial performance and provides investment funding to sustain growth into the future. When we think of productivity, we think both in terms of efficiency, which is getting the same result using fewer resources and effectiveness getting a greater result using the same resources. Our productivity initiatives to-date have been largely focused on efficiency and we have had pretty good results. We delivered \$3 billion in productivity between 2012 and 2014, and we're on track to deliver the first year of our current five-year, \$5 billion program that we started in 2015, and this productivity has been supported in large part by investments we made in technology, starting with our implementation of SAP in the early 2000s, and this allowed us to establish a common operating language and to standardize operating metrics across the globe.

We also adopted an operating model that has reduced plans and layers in the organization and has promoted the sharing of best practices around the world. We also established truly global functions in operations, procurement, IT, HR, and finance as well as very lean category horizontals that are driving greater capability building, harmonization and efficiency in new product development and global brand management.

Together, our technology investments and operating model are allowing us to leverage our global scale to a much greater extent. With these foundational elements in place, we have made progress in multiple areas.

First, increased automation. We have installed packaging automation across approximately a third of our snacks plant worldwide enabling us to reduce packaging label costs in these facilities by at least 50%. In Frito-Lay North America, for example, approximately 65% of all production utilizes fully automated packaging. In Mexico, we updated the majority of our packaging

tubes with high speed equipment over the last few years, enabling us to increase throughput by approximately 40%. Across the Middle East, we installed automated palletizing and warehousing technologies in many key markets, resulting in improvement in labor productivities since 2013.

Second, we are restructuring our go-to-market systems. Since the success of our Perry, Georgia pilots in 2009, we have expanded our geographic enterprise solutions or GES as we call them at Frito-Lay North America to a total of 11 projects, which are now at various stages of deployment across locations in both the US and Canada. The consolidation of these plants and distribution networks will result in scale that enables economic implementation of automated order picking, the reduction of distribution centers, and a highly efficient direct-to-store delivery system directly from our plant. This model is also being applied to the North American beverages business, where they are combining large format and small format routes on the same trucks. The plan is to eliminate geographic overlap resulting in 15% fewer routes.

Third, we are optimizing our global manufacturing footprint. Since 2010, we have reduced the number of company-owned beverage plants in North America by 23%. At the same time, we've increased our capacity utilization by 20%. In Europe, in the past three years, we closed six plants across our beverage and dairy businesses, decreasing our footprint by 7% and generating more than \$20 million of annual savings and further increasing our capacity utilization.

Finally, in shared services. We're increasingly leveraging share service centers and selectively outsourcing financial transaction processing, accounting, reporting and other back office tasks. To-date the program has been executed in 18 countries, reducing costs, while improving analytical capabilities and service levels and streamlining IT infrastructure.

Our efficiency journey is in no way done. In addition to the major supply chain productivity initiatives, we have also embarked on our version of zero-based budgeting, something we call smart spending. You know, we studied ZBB in great detail and we realized that implementing it as currently designed, ran the risk of starting resources to drive topline growth initiatives. Our version of ZBB or smart spending as we call it focuses on rightsizing our operating expenses, now that we are beginning to see benefits from our technology investments and global coordination, while ring-fencing top line driving resources to focus more on deriving additional effectiveness from them. And this is a balanced approach, one that focuses both on a relentless drive for efficiency but preserves investments to drive top line growth, which brings me to our focus on increasing the effectiveness of our spent.

We have expanded our view of productivity to ensure greater effectiveness across every element of spending. Just to give you a few examples, we're sharpening our capabilities in revenue management to drive greater effectiveness of promotion and other trade spending. We're building the required tools and training to realize a greater return on our advertising and marketing investments. And we are developing new product platforms that can scale across multiple countries rapidly. And all of this is being enabled and accelerated by our lean global category structures. We believe our approach is working and driving meaningful tangible results. Over the past three years ending in 2014, we have realized an average of \$1 billion of annual productivity savings. Net revenue per employee is up 10%, operating profit per employee is up 9%. This quarter marks our 13th consecutive quarter of gross margin expansion.

And from year-end 2011, Capex as a percent of net revenues went down from 4.9% to 4.1% on a rolling four quarter basis. Importantly, these achievements have contributed to strong free cash productivity and core net ROIC improvement. Since the beginning of 2013 to the third quarter of 2015, we have generated cumulative core free cash flow excluding certain items of more than \$22 billion which represents 115% of core net income over the same time period. And core net ROIC has increased by 380 basis points to 19.1% at the end of the third quarter 2015 compared to 15.3% at end year 2012. Ultimately, we believe our approach creates a virtual cycle with productivity fueling the reinvestment and transformation necessary for sustainable top and bottom line growth and shareholder value creation.

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

Hugh Johnston

Thank you Indra and good morning everyone. First, let's discuss guidance. As Indra mentioned based on the strength of our year-to-date performance and our outlook for the remainder of the year, we've increased our full-year core constant currency EPS growth target to 9% from 8% previously, which includes the expected fourth quarter impact of the Venezuela accounting change. Additional details regarding the change in accounting for Venezuela can be found in our third quarter earnings release and in the soon to be released 10-Q. Our other targets remain unchanged. For the full-year 2015, we continue to expect mid-single digit organic revenue growth, core operating margin expansion as organic top line growth and productivity should offset negative geographic mix and commodity inflation which incorporates the impact of transaction-related foreign exchange headwinds, and approximately \$1 billion in productivity savings.

Below the division operating line, we continue to expect corporate cost to be lower, a core tax rate of approximately 25% and a reduced share count. We now expect foreign exchange translation to negatively impact net revenue and core earnings per share growth by approximately 10 and 11 percentage points respectively based on current market consensus rates. Taking our 2014 core EPS of \$4.63 and applying our guidance and current market consensus of foreign exchange impact implies 2015 core EPS of approximately \$4.54. As you model out the fourth quarter, I'd ask you to consider the following. First we expect foreign exchange translation to have an approximate 8 point unfavorable impact on fourth quarter net revenue growth and an approximate 8 point unfavorable impact on fourth quarter core EPS growth based on current market consensus rates. Venezuelan operations contributed \$0.03 to core EPS in the prior year quarter. Second, the North American beverages business will face a difficult core constant currency operating profit growth comparison.

Below the division operating profit line, net interest expense is expected to increase in the fourth quarter versus last year, driven by higher interest rates and higher debt balances. From a cash flow perspective, we continue to expect full-year free cash flow excluding certain items of more than \$7 billion. We expect our capital allocation discipline to continue to drive core ROIC improvement. This is building on the steady progress we've made in ROIC with core net ROIC up 380 basis points from 2012 to 19.1% through the third quarter of 2015 on rolling a four quarter basis. We expect shareholder cash returns to be very strong. We now expect to return approximately \$9 billion to shareholders in 2015, approximately \$4 billion in dividends and \$5 billion in share repurchases. Our current repurchase outlook is at the high end of the range we provided last quarter. Our annualized dividend is now \$2.81 and approximate 60% payout ratio based on 2014 core EPS. This represents the 43rd consecutive year of annual dividend increases and our annualized dividends per share have grown at a 10% compound annual rate over the past ten years.

So to summarize, our core constant currency earnings per share outlook for 2015 has improved from our last call and free cash flow, disciplined capital allocation and returning cash to our shareholders remain top priorities for the Company. 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 John Faucher of JP Morgan.

Indra Nooyi

Good morning John

John Faucher

Good morning Indra. You talked about some of the markets that are doing well and you know I think the more -- where the street is really concerned here is in terms of some of the markets where you know Russia, Brazil, where we think there is potentially a little more macro impact and given the fact that you guys are about four weeks into the quarter, can you talk about whether or not you've seen some of these macro shifts have an impact on the consumer and how should we think about those markets going forward?

And then a quick question for Hugh, which is, if we look at this, it seems as though Venezuela is about 3% this year on a run rate basis of earnings, you're covering about 50 basis points in Q4, so should we think about the balance coming out through the first three quarters of next year? Thanks.

Indra Nooyi

John, global macros are volatile as I mentioned in my prepared comments. And whenever there is volatility in the marketplace, the consumer behavior does reflect some of this volatility. The good news is that, we're not luxury items or high ticket items; we are basic food and beverage items. So, we see a slowdown but not significant. Having said that, I think the most important thing is we have a portfolio that we can play between developed, and developing, and emerging markets, and somehow we balance the portfolio to deliver the results, but the macro volatility is here to stay.

Hugh Johnston

And then, John to answer your question regarding Venezuela, as you mentioned, it's worth \$0.03 in that we're lapping right now going into the fourth quarter, and we are covering that as a part of our 9% guidance. For 2016, we will get to guidance in February; we won't discuss that on this call. What I will share with investors is, in 2015, Venezuela is worth about \$0.10, so that's what we will be lapping as we get into 2016, but rather than get into one-off guidance in 2016, we'll provide comprehensive guidance on the February call.

Operator

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

Dara Mohsenian

So, first just a detailed question for Hugh, do you guys have an extra week in 2016? And if you do, how much will that add to EPS? And then, the real question is hoping for an update on the potato chip revenue management program at FLNA. How is it trending so far versus expectations, how is it being received by consumers and your retail partners? And going forward from here, should we expect volume growth to improve sequentially or will it really take another couple of quarters before we cycle the program to see sustained volume improvement? Thanks.

Hugh Johnston

So Dara on the 53rd week, the answer is yes. We do have a 53rd week ever fifth or sixth year depending on how the days fall. And 2016 will be a 53-week year. As I mentioned on John's question as well, in terms of guidance and impact on that, we'll get to that on the February call, it's not time to handle that right now.

Indra Nooyi

And on the PC revenue management, Dara, we're beginning to see all of the work we did on that revenue management program beginning to take root. It's clearly helped the profitability because it's really price pack architecture to manage the SKUs on the shelves which were really getting much too complex. And we're beginning to see the positive impact of all of the work we did over the last three quarters. Volume growth is beginning to come back, and clearly profitability has been helped by the whole revenue management program.

Hugh Johnston

In addition to that there -- one of the goals of the program was to increase the number of households that are buying Lays by virtue of recognizing the smaller households in the United States and in fact that impact is happening. So we feel good about the strategy as well as the revenue management implications.

Operator

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

Bryan Spillane

Hey, good morning, everyone.

Indra Nooyi

Hey, Bryan.

Bryan Spillane

I guess just two questions related to the comments on productivity. I think, first, if I look at currency or constant currency operating profit growth, it's about \$700 million of profit this year. So could you just give us some context in terms of how much of that profit growth has come from productivity dropping, how much of it is just the natural leverage in the business and maybe some context in terms of rate of reinvestment this year?

Hugh Johnston

Yeah, Bryan, as always, this is a challenging question to answer, because in a company with PepsiCo's complexity both geographically and from a channel and product perspective, isolating one of the variables is a little bit tricky. What I would say is this, the combination of the higher productivity in addition to that, the benefits that we are relatively getting on commodities and then comparing that to the natural rate of inflation for PepsiCo's portfolio of 4% and comparing that to the level of fixed cost leverage we get through P&L, 60 basis points for the quarter we think is a good number for the year. We've been delivering good leverage and the balancing act of much are we reinvesting back in R&D and reinvesting back in A&M, again it's a bit difficult to isolate the variable. Suffice it to say, we are investing meaningful amounts in R&D and A&M in order to drive the top line growth that you are seeing.

Indra Nooyi

And we have new tools and technologies as we get more digital tools that are disrupting many parts of our business.

Operator

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

Caroline Levy

Thanks so much. Good morning. I wonder if you could just take us through the US beverage environment in a little bit more detail, talking about how carbonated soft drinks are doing, particularly diets versus specifics, you mentioned how strong tea is, but -- and how that shift in categories affect margins going forward?

Indra Nooyi

Good morning, Caroline. The US beverage environment is pretty good actually. There is good portfolio management happening in the industry and I would say that the CSD market continues to be under pressure from a volume perspective. From a value perspective, because of good revenue management and good pricing in the industry, the value numbers are way better than the volume numbers. But clearly the big story here is non-carbs and the non-carbs are really what's driving all of the growth in the whole industry. And again, in non-carbs, profitability varies. I mean, it ranges all the way from bottled water to other products that have higher profitability. So I think the challenge at every point in the North American beverage business is really two-fold if you want to think about it. How do you play the game across the portfolio between CSDs and non-carbs and within CSDs how do you alternate between a Mountain Dew versus a Pepsi versus a Kickstart, so that's one balancing game that we have to go through.

But the second part is also channel-wise, how much emphasis you play on single serves and driving single-serve sales which have got a different profit profile than large pack or multi-serve products. So the challenge in this industry, it's a very complex, very big industry. It's, how do you play this whole game intelligently. Now, I will tell you one thing, the fact that we own the bulk of our bottling systems and the fact that most of our bottlers are very aligned, we have very good set of bottling partners, actually allows us to be a lot more nimble and effect in the market, the right pricing strategies, revenue management strategies and get the right innovation into the marketplace.

Operator

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

Judy Hong

Thank you. Good morning, everyone.

Indra Nooyi

Good morning, Judy.

Judy Hong

So, Indra, you talked about the focus on increasing the promotion of spending effectiveness as part of the productivity indicatives. I was hoping to get a little bit more color just in terms of where do you think PepsiCo is in the context of what the industry is doing. We've been hearing this trade

spend effectiveness programs for a while, so how is it different this time? Is it more evolutionary versus revolutionary and then some of the categories that you think are kind of life for this to continue within your portfolio. And then, Hugh, just a follow up on Venezuela. So it seems like Venezuela probably added about 1 to 2 points to revenue growth, so can you just clarify or quantify the revenue impact and then in the fourth quarter as you deconsolidate Venezuela, how much of the organic revenue growth is that risk in terms of taking that out of your P&L.

Indra Nooyi

Yeah, Judy, again, I don't want to get into too much details, because now you are asking us to get into what really drives PepsiCo, but I will just roughly tell you that, you have to look at trade spending management and revenue management together, because in a way the two of them are how we manage the shelf. And as the digital tools get better and better and more tools are available to get more visibility into consumer interaction of different packages, the way we do revenue management improves. So if we look at Frito-Lay's recent program on Project Drive, that was a trade spending and revenue management program because in a way, the way we manage the packaging there improves the profitability of the retailers in addition to improving the whole spending effectiveness.

So I think the pace at which we move in this area is a function of the tools available for us to have more visibility into consumer buying decisions and how we do self-assortment. It's a journey. We are investing more and more in tools, training, capabilities and we are making sure everybody gets trained in these tools, developing market tools, emerging market tools, developed market tools, what we do with modern trade, what do we do with traditional trade, it is all about the training. It's a journey, Judy, and it's going to take a few years before we are fully done. But as these tools roll out, we'll start to see the benefits roll into the P&L and that's what you saw in Frito-Lay. The Project Drive was a great example of it. And even our North American beverage profitability in a way is a function of how they are intelligently managing both their product portfolio and trade spending. So with that, let me turn to Hugh to talk about your second question about Venezuela.

Hugh Johnston

Yeah, Judy, in terms of year-to-date, Venezuela is worth about 2 points in our numbers. And in terms of going forward into the fourth quarter, when we talk about organic revenue growth, we are treating the deconsolidation as a structural change, so we will basically talk organic ex-Venezuela.

Operator

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

Vivien Azer

Hi, good morning.

Indra Nooyi

Good morning, Vivian.

Vivien Azer

My question has to do with your European segment and specifically your beverage volumes. I recognize that you are lapping a slightly easier compare. But it does look like your volumes inflected nicely, so I was hoping you could offer some color on the drivers of that. Thank you.

Indra Nooyi

We have a largely zero-calorie portfolio in Europe and parts of the country, parts of the region did well and there were parts where places like Russia we focused more on value than we did on volume, because in those markets we've got extraordinary inflation and we've got to make sure your price through to get the value up. In France, Germany, Turkey, we had very good beverage strength. And in countries like Russia, because of inflation, the market was tough. But those are all again, I come back to this notion of the portfolio management. In today's volatile environment, the biggest capability we, as a company, have to develop and we have is how we manage the portfolio intelligently to deliver a set of numbers for the company overall. And again managing the company for value share within a volume corridor and that's what we've been doing globally at this point.

Operator

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

Ali Dibadj

Hey, guys.

A - Indra Nooyi

Good morning, Ali.

Ali Dibadj

Hi. So I have two basic questions for you. One is when you look at your organic sales numbers there seems to be two things that are a little unexpected or weird. One is obviously that 33% Latin America pricing number and the second is the strong 3% volumes in NAB. So, on the former, can you just give us a little bit more detail about where that comes from? Was that really all Venezuela, how much was Argentina and when you deconsolidate Venezuela what does that pricing specifically number look like if Venezuela isn't in there? On the NAB, good volume numbers, it sounds like a lot of that was stills. Can you give us a breakdown on volume growth between stills and CSDs, so that's question one?

The second question is --

Indra Nooyi

Let's get the question one answered. Go ahead.

Hugh Johnston

So Ali, two things on that. Ex-Venezuela, Latin America was up 9% and number two, regarding your question on breakdown on volumes, the 3% of overall volume growth, CSDs were down 1.9, non-carbs or stills as you call them were up almost 10%. And then within CSDs, regulars were down 1 and diets were down 6.5.

Ali Dibadj

Okay. So super helpful on that one. In terms of the second question, love to hear how you guys are thinking about the potential implications of ABI/SAB to the PepsiCo business. So PepsiCo obviously including the Brazil bottling, what might happen there, how are you guys thinking about that, because you're joint purchasing with ABI. This is no longer kind of rumors or speculations. You guys have clearly done, you usually do good analytics, good math on thinking through the implications here for you guys?

Indra Nooyi

Great question, but we don't comment or speculate on these matters, as it relates to specific bottlers, customers and suppliers.

Operator

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

Bill Schmitz

A couple of questions on the US, just to sort of drill a little deeper on some previous questions. So do you still think the US bottling assets are strategic long-term assets and how far are you from having them fully optimized?

Indra Nooyi

Bill, as I mentioned earlier on my comments regarding North American beverages, today more than ever, the portfolio is shifting to non-carbs. Innovation is becoming more fragmented and the life cycle of innovation is being shorter and the trade becoming more and more complex. Having control of the manufacturing and distribution systems becomes critical.

And when we have independent bottlers, having them aligned is even more critical and I'll tell you based on our recent North American bottling meeting, Al Carey and the team did a brilliant job and the system is more aligned than I've ever seen before. So I think these bottling assets are strategic and as I said earlier, this is a journey.

As the marketplace evolves, we have to keep evolving and optimizing our bottling assets. We've done a lot with the manufacturing assets. As we mentioned, the capacity – we've taken out 23% of the capacity, utilization is up. We're looking at consolidating large format and small format routes and reducing the number of routes by 15%.

As equivalent of GES or Geo Box as our beverage guys call it, get implemented. We too start thinking about different ways to leverage the distribution system. So it's a journey and it's a very, very good team and they are doing the right things to focus on revenue management, trade spending segments, marketing, innovation, training the portfolio, intelligent pricing. So I think we are in a good place in North American beverages.

Operator

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

Kevin Grundy

Indra, so my question to come back to North American beverages, specifically carbonated soft drinks. So profit growth in NAB has been outstanding this year. From a market share perspective, Indra, you've often spoken in the past about managing that market share within a corridor. And as I look at the Nielsen data, it looks like you guys have been losing share within CSDs, not just on a four-week, 12-week, but over the past year and I'm just curious, number one, if you're comfortable with the share position now or if at some point, more investment is needed here whether that's innovation, whether this is trade spend, et cetera. So any comments there

with respect to your carbonated soft drink trends here will be helpful? Thank you.

Indra Nooyi

We're happy with where we are right now and the portfolio is working Kevin. That's the most important thing. When the marketplace starts shifting more towards non-carbs, we've got to make sure that we step up our investment in non-carbs, our innovation in non-carbs, which is really what we've been doing.

And in case of CSDs, there has been a small share loss, but if you look across the portfolio, margin is doing exceedingly well. We are doing very well in small format. Anyway to the question, I think that we've really been working the portfolio to make sure that talent management, price back management, trade management, innovation management and overall portfolio management work to deliver overall LRB share increase.

And that's really what we are focused on. I think focusing just on CSDs is actually a thing of the past and I would strongly suggest everybody looks at total LRB, because that's the right way to look at the market going forward.

Operator

Your next question comes from the line of Bill Marshall of Barclays.

Bill Marshall

Now, your last comment notwithstanding, I do have a question on carbonated soft drinks, just from a qualitative perspective, obviously you've made the switch to aspartame-free on diet Pepsi. So I'm just curious what the consumer reaction has been to the move?

And then broadening that out into other sweetener technology and you've used Stevia in some cases, just where we should look at how this is developing and how the consumer is reacting to these new products? Thank you

Indra Nooyi

Bill, it's too early to tell you exactly how the consumer is reacting, because our belief is that you've got to wait a few cycles to see what the purchase repeat adoption cycle is. So at the end of Q4, when we go into next year, we might be able to give you some more information, but at this point, it's way too early to talk about how aspartame-free is performing in the marketplace.

And in terms of new sweetness, all the information is out there in the marketplace. We've been talking about it. I don't see a zero calorie naturally sweetened CSD on the horizon in the next few years, but if you want to talk about low-calorie naturally sweetener beverages, I think combination of sweeteners, tools, techniques, we have probably the best portfolio of development tools to enable that to happen.

It may not always be in CSDs, but it will be a part of it in non-carbs, part in CSDs and you'll start seeing these innovations roll out as we speak. I mean, we've rolled out a couple of products this year in Manzanita Sol and Mug with somebody's tools. You'll start seeing more of that as next year rolls by.

Operator

Your next question comes from the line of Steve Powers of UBS.

Steve Powers

So Frito-Lay volumes were a bit better and I think some investors fear they might be just based on the standard data trends. So is there any light you can shine on that related to maybe sell-in versus sellout timing or strength in outside the track channels for example, foodservice, that's my first question.

And then, Indra, longer term, picking up on your commentary surrounding productivity, as you look forward over the next four years of your current program, how do you see that balance between efficiency and effectiveness contributing to the next 4 billion? Is it split, is it skewed one way or another and then within the efficiency bucket, do the drivers remains supply chain restructuring and smart spending or are there other initiatives on the horizon that we should be thinking about? Thanks.

Indra Nooyi

In fact, I'm going to take the productivity question. I am going to have Hugh talk about the Frito-Lay volume issue. I think on productivity going forward, the next four years, again year-by-year, it varies. As all of these programs, you can measure the efficiency program more directly on productivity and the effectiveness you see it more on the top line and you see it in pricing. That's how you get the pricing is a function of how we implement all of the effectiveness programs.

So it's much harder to isolate the effectiveness part of productivity, but I will tell you the way we measure it is in top line growth and the kind of pricing we get, so that's where it should manifest itself and now the algorithm is talking about mid-single-digit revenue growth and given today's extremely

turbulent environment, I think effectiveness oriented productivity program is what's going to allow us to deliver that mid-single digit growth. Let's talk about Frito-Lay volumes. Hugh, if you want to take that one?

Hugh Johnston

Yes. Steve, happy to. Absolutely, we did see volumes in Frito-Lay a little bit stronger than I think what analysts were generally expecting and what they were interpreting based off of the scan data. I think the reason for that is convenient source. We're particularly strong in Frito-Lay. We saw volume growth in C stores for the quarter of 4.5% and that channel tends to be tracked a little bit less closely. It's about 20% of Frito's business. So I think that probably accounts for the data difference.

More broadly, I think the important point here is project drive, which has obviously suppressed volumes to some degree is going on very successfully. As Indra mentioned earlier, from a revenue management perspective, it's yielding the results we expected and in addition to that and strategically more importantly, the household penetration on Lays is going up and frankly that was the goal of project drive and it is working for us quite successfully. Obviously, we've got a couple of more quarters of overlaps to work through in terms of the volume impacts, but we feel very, very good about project drive right now.

Indra Nooyi

So with that, thank you all for your questions. In closing, let me reiterate that we are pleased with our year-to-date results. We are confident that our plans are working and that we will deliver on our financial targets for 2015. I want to thank you all for your time and questions this morning and more importantly for the confidence you've placed in us. Have a great day.

Operator