FINAL TRANSCRIPT

Thomson StreetEvents℠

PEP - PepsiCo at Consumer Analyst Group of New York Conference

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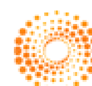

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PRESENTATION

Unidentified Participant

If everyone could comment find their seats, we are going to start a couple minutes early here for a special announcement. Something that we like to do around this time each year at the conference is take a moment to recognize those that have served as President of CAGNY. And so, in keeping with that tradition, I would like to ask all of the past CAGNY presidents here today to please stand up and for the audience to join me in thanking them for their prior service.

And now I would like to take a minute to give special recognition to our current CAGNY President, Jonathan Feeney, and to present him with this plaque as a reward for his service. Jonathan has been a thoughtful and effective CAGNY officer, making a positive impact in each of his roles as monthly lunch chair, Treasurer and now CAGNY President. And I have to say he has done an amazing job in setting up the weather for us this week. So a special thank you for that. And, Jonathan, if you would like to come up, it's been great working with you and congratulations.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

Great, well, thank you very much. And it's now my pleasure to welcome back to CAGNY Indra Nooyi, the Chairman and Chief Executive Officer of PepsiCo, and Hugh Johnston, their Chief Financial Officer. Before we get started, I would like to take this opportunity to thank them for the great launch and their longtime sponsorship of CAGNY. Thank you very much, PepsiCo.

When Indra became CEO in 2006, she introduced a new standard for PepsiCo, performance with a purpose, the belief that PepsiCo can be both a profitable company and, at the same time, a responsible company. This includes sustainable financial performance, human and environmental and talent sustainability as well.

And, to that end, she has begun the transformation of PepsiCo's distribution network at home with the bottler acquisitions, laid the groundwork for strengthening PepsiCo's position in the future in Russia and a vision to grow its global nutrition portfolio

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to a $30 billion business by 2020. And while that might sound like quite a vision, we know there will be plenty of Pepsi Max and Diet Mountain Dew to keep it all caffeinated and full of energy.

So it's my great pleasure to welcome her here today. And starting off for us will be Hugh Johnston, Chief Financial Officer. Hugh, take it away.

Hugh Johnston - *PepsiCo - CFO*

Thanks, John, and good morning, everyone. It's a pleasure to be here with you. It's particularly a pleasure to be here in Florida, away from the snow, cold and fun of the Northeast that many of us live in.

Of course, before we begin, please take note of our Safe Harbor statement including a reference to our website, where you will find disclosures and reconciliations regarding any non-GAAP measures we use during this morning's presentation. And unless otherwise noted, all references to EPS and division and total operating profit growth are on a core constant currency basis, and all references to management operating cash flow exclude certain items.

So, with that, let me jump into the core of the presentation. In today's presentation, the agenda we've set out, Indra is going to discuss the trends shaping our business, the power of PepsiCo in dealing with those trends and our snack and beverage plans specifically. But, before she takes the stage, I wanted to take just a minute on our financial outlook, including our financial growth and returns, commodity management and to reiterate our 2011 guidance.

Our financial objectives are actually very straightforward -- first, to grow net revenues in aggregate faster than category growth; second, to grow EBIT ahead of revenue, which assumes margin expansion from productivity and scale leverage, offset somewhat by investments in emerging markets and in building our brand equities; and finally, and most importantly, converting our operating earnings into strong, attractive cash returns for our shareholders.

What we will do to deliver this is also actually very straightforward. We will profitably hold or grow share in key developed markets in our core snack and beverage categories. We will invest in key emerging markets to establish a strong competitive position in our core categories before the growth in these markets slows as the markets mature. And finally, we will accelerate the growth of our nutrition business right alongside our core snack and beverage businesses.

In order to convert the top-line growth into attractive operating profit, we will continue to leverage, continue to carefully manage the portfolio, deciding when to invest in certain markets to strengthen our position while managing other markets for higher profit and cash returns. We will also continue to relentlessly drive productivity, which is a capability we have had for some time and continue to further strengthen.

A new capability we are developing is in managing a world of higher commodity volatility, and I will discuss this a bit more in just one moment.

Finally, and most importantly, we will convert our earnings to strong cash flows and ultimately to cash returns for shareholders. We maintain discipline around all our capital reinvestment decisions, both CapEx and acquisitions. At the same time, we will continue to maintain a prudent capital structure that gives us ready access to debt and capital markets at attractive interest rates. We recognize that our two major acquisitions in the past year represent significant commitments of capital and that we have increased our leverage ratios above our historically low levels.

At the same time, the bottler transactions have strengthened our position in our profitable North American beverage business, and the Wimm-Bill-Dann acquisition provides an important foothold in value-added dairy and fills out our nutrition portfolio in conjunction with our positions in grains with Quaker and in fruit and vegetables with Tropicana. Net, we will continue to be

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a highly disciplined user of capital. And returning cash to shareholders and maintaining a strong balance sheet will remain top priorities.

Now, part of portfolio management requires judicious investment. We're focusing on supporting the continued growth of our emerging markets businesses and stepping up our brand building, especially in our more competitive global beverage business. These investment decisions are taken with a very clear view on creating value for the enterprise. In some cases, the returns are shorter term, and in other cases the returns may have a bit of a longer tail on them. But in all cases, they are creating value and, most importantly, strengthening the durability and the sustainability of our financial performance and returns.

The other area of investment we have recently discussed is supporting our nutrition business, and Indra will talk a bit more about this in her remarks.

Now, clearly, you have been hearing a lot about commodity inflation over the past several months and, I imagine, over the past several days as well. So I thought it might be helpful to lay out for you our thoughts on managing commodities exposures. Commodities make up about 30% of sales for PepsiCo, and our commodities basket is pretty well diversified across different agro inputs, ingredients, sweeteners, packaging and, of course, energy.

Our approach to managing commodities is to hedge to the extent possible six to 12 months out, with the time horizon driven by market structure, not market conditions. In short, we pick a commodities hedging strategy, and we stick to it.

Said another way, we don't try to guess the markets. We're simply taking actions to provide relative certainty regarding commodities costs, thus providing enough lead time to effectively plan the business. And the length of the hedges is largely driven by what coverage is available for given commodities in given markets.

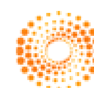
Only about 70% to 80% of our commodities costs are hedge-able right now, but that percentage is always increasing and we are always working with our suppliers to do more. Over time we expect to price in line with inflation; but in some years, particularly high inflation years, that may vary. We employ balanced pricing models that are sensitive to consumer elasticity and that keep us competitive.

Now, as we roll all this up, it leads to our long-term financial goals and our 2011 guidance. Our guidance is the result of considering a range of scenarios rather than trying to develop a single point estimate on key variables. I think the past few years have demonstrated that volatile economies and volatile commodities have made it difficult to forecast to a single point.

So we have run scenarios assuming a range of consumer measures, a range of competitive outcomes and a range of inflation assumptions among all these scenarios to arrive at a conclusion of what we reasonably think the portfolio of businesses we have can do under the most likely range of scenarios. Our long-term goals are to generate high single-digit EPS growth supported by mid-single-digit core constant currency revenue growth and management operating cash flow growing roughly in line with our net income on a rolling three-year basis.

Our 2011 guidance is in line with these goals. For 2011 we expect core constant currency EPS to grow 7% to 8% in 2011 off of our 2010 core EPS base of $4.13. This guidance reflects fundamental performance of the business, bottler synergies, Wimm-Bill-Dann accretion, pricing and productivity and some share repurchase leverage from our anticipated $2.5 billion in share repurchases in 2011. These items will be offset by somewhat higher level of commodity inflation that we expect in 2011 and, to a much lower degree, by incremental investments that we are making in emerging markets growth and in brand building. All of this, all of what I have just said, is completely consistent with what we have discussed on the Q4 call.

So that wraps up a summary of our guidance. And it's now my pleasure to introduce PepsiCo's Chairman and CEO, Indra Nooyi. Indra?



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Indra Nooyi - *PepsiCo - Chairman and CEO*

Thank you and good morning to all of you. I hope you all had your workout this morning. And while you were working out, I hope you didn't just become zero.

So my goal today is to give you a lot more insight into the best of PepsiCo, the many opportunities in front of us and our growth prospects. And I hope, as I finish, you take away the following from our presentation this morning.

One, that PepsiCo has evolved into a global snack and beverage portfolio. We have delivered top-tier operating and financial performance along way. Our cash returns to shareholders have been strong and is accelerating. And PepsiCo's portfolio is poised for continued top-tier operating and financial performance and excellent cash returns based on a geographically diverse portfolio with a good mix of emerging and developing markets, a great product portfolio with a mix of fun for you, better for you and good for you products; strong, flexible go to market systems; and, because of the scale of our categories, we are very, very important to retailers.

And lastly and most importantly, I believe, in this CPG world, PepsiCo has got the best management team with the most amount of experience. For example, just joining me today besides Hugh Johnston are Eric Foss, John Compton and Zein Abdalla. And combined, the five of us represent over 100 years of PepsiCo experience. So I feel pretty good about the management team.

So let me take you back to 2000 and talk about how we have shaped and evolved PepsiCo and our portfolio over the years and why. In 2000 we were a $20 billion company competing in basically social snacks and beverages. We had the Frito-Lay powerhouse portfolio, and our social beverage portfolio was evolving from CSDs to becoming a total beverage company. And in 2000, all that we had as an addition was Tropicana, which we had acquired in 1998.

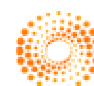
In 2001 we acquired Quaker Oats and with that the terrific Quaker and Gatorade brands. And by 2005, our portfolio had grown to $32 billion, which was a 10% annual growth rate over that five-year period, and the portfolio is taking shape in a number of dimensions. We were expanding our international footprint, we were rapidly growing in emerging markets. And within those five years, we also found the room to retool our infrastructure by investing in a massive SAP implementation, and we did that without taking any extraordinary charge for an SAP implementation.

At the same time, we were also driving the health and wellness agenda, moving products from fun for you to better for you and good for you. Clearly, Tropicana, Quaker and Gatorade played a major role in this evolution. In that five-year period, our financial performance was fantastic. We grew revenues, operating profit, core EPS, management operating cash flow and dividends per share double digits. And our total cash return to shareholders over that five-year period was $18 billion.

Now, the next five years, from 2006 to 2010, we grew net revenues compound growth rate of 12%. During this period, our growth rate was certainly augmented by M&A, most notably our acquisition of our Anchor Bottlers in 2010 and, to a lesser extent, the acquisition of Lebedyansky in 2008. But believe me, even without these acquisitions, our top-line growth rate would have been about 5% to 6%.

Over this five-year period from 2006 to 2010, which included the tremendous economic meltdown and the transition from a period of cost deflation to inflation to deflation -- I mean, tremendous commodity volatility -- we generated strong financial performance. We grew net revenues and operating profit double digits. We grew EPS and management operating cash flow in high-single digits. Our dividends per share grew 13% on a compounded basis. And our total cash return to shareholders over this five-year period was $29 billion.

But numbers alone don't tell the story. In reality, especially over the last four or five years we have been shaping and evolving PepsiCo for the realities of a new environment that we believe is going to be quite a lot different over the next decade. I think the next decade will be defined by a number of trends that will have a big impact on our business and the broader industry. Let me just talk about five of these trends.



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First, the continued growth of emerging and developing markets. More than ever, any company's growth is going to be defined to the extent to which they have a presence in developing and emerging markets. And I believe this trend will continue into the future as developed markets' growth rates slow down and developing and emerging markets pickup.

Second big trend, health and wellness -- this is no longer a trend or a fad. This is here to stay. Profound changes are underway, both due to the aging population and significant pressure from external sources for consumers to change their lifestyles and to get healthier.

Environment sustainability -- I don't want to spend any time talking about it. That's a major trend that is here to stay.

The other trend is the digital revolution. It has fully revolutionized the way we need to engage with consumers and the way we innovate.

And lastly, the role of brands and their connection to a purpose. This is a relatively new trend, and recently we are beginning to notice that people the world over are relating to global brands if they connect to them through a higher purpose. Additionally, we're also noticing, especially in the food and beverage space, that there appears to be a hark back to local brands which bring back good memories.

And the work we have been doing over the last five years has in large part been to position PepsiCo for these emerging trends while delivering the kind of financial performance I just reviewed with you.

So let me share with you the results of all this portfolio transformation that we started five years ago and we are continuing. First, we have dramatically increased our international exposure and we have become a lot more global. Between 2000 and 2010, our international mix increased by 14 points. And believe me, that happens while the developed markets in the US, in particular, are still growing. And over the past five years alone, our emerging market exposure has increased by 10 points, moving from 21% to 31%. And, as I said, this is impressive because the developed markets continue to grow. In spite of that, we increased this emerging market exposure by 10 points.

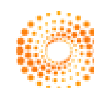
To address a second major trend, health and wellness, we took major steps to move our fun for you portfolio to better for you by removing trans fats or eliminating trans fats, reducing sodium levels, moving to baked products and lowering sugar levels. At the same time, we have built ourselves a pretty attractive good for you portfolio. And over the years our nutrition business has grown from 11% of the $20 billion portfolio to 21% of a $62 billion portfolio, $62 billion after the Wimm-Bill-Dann acquisition, 21% of the $62 billion portfolio, which positions us very well to capitalize on health and wellness trends.

As I said, I'm not going to comment on environmental sustainability, except to say that it's a trend that is gaining momentum and we have been on the leading edge of this trend. We are doing a whole bunch of work on water conservation, reducing carbon footprint, recycling initiatives. We have done a whole lot in this area, so I'm not going to talk about this.

In the area of digital, we are really building a powerful digital capability in PepsiCo. And we have hired some of the best digital brains in the country. I think you have seen the books by Shiv and Bonin as part of your welcome package in your room. But we don't have time to talk about all that we are doing in the digital world. But we want to be a cutting-edge Company in this whole digital space.

Which brings us to this whole notion of the changing view of brands. PepsiCo has an amazing portfolio of billion-dollar brands. 10 years ago, we had 11 billion-dollar brands. Today, we have 19 billion-dollar brands. Basically, we have doubled the number of billion-dollar brands over a decade, and I'm proud to say that every one of these 19 brands are performing well globally.

Interestingly, what is even more powerful about PepsiCo is that we have 24 other brands with retail sales ranging from $250 million to $1 billion. And these 25 brands are balanced between global and local brands. This, we believe, is an unparalleled



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capability we have and is an incredible lineup. We are, at our core, a branded consumer products company, and our brands are much loved. They are extremely strong.

And what we're beginning to do is selectively infuse purpose into these brands. For example, with Pepsi we did the Pepsi refresh project. And we're going to take it into new places. Sun Chips, made by the sun, in compostable bags. Or Lay's, the connection to local farmers. So we are going with the consumer trend and infusing purpose into those brands where it makes sense.

And you know, for recognizing these trends and moving the whole Company to capitalize on these trends, we have received many accolades. Last week, just to mention a noteworthy one, we were recognized by Fast Company as one of the 50 most innovative companies. And notably, were the only food and beverage company to make the list, and this follows on the heels of making the list in 2010. So we feel pretty good about what we have been up to.

So today, what we have is a Company that is highly focused on three complementary categories -- social beverages, savory snacks and an emerging, very strong nutrition business. We have good to excellent positions in each of our categories, supported by terrific brands.

We are globally the number two beverage player. Our snacks business is a global powerhouse, and I will talk more about this. And we have clear global leadership in savory snacking with a 10 times relative advantage versus our next global competitor. And you know what? In the nutritional space we're one of the top three global nutrition players with extremely strong equities in health and wellness.

So with that, let me talk about where we are headed. Our growth framework has not changed from what we shared with you a year ago. What I want to do now is give you an update as to what is going on in each of these planks.

So, just to recap, build and extend our macrosnack portfolio, sustainably and profitably grow our beverage business worldwide, unleash the power of Power of Fun One, build and expand the nutrition business and, in short, prudent, responsible financial management.

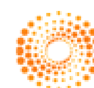
So let me address each of these in order, starting with building and extending our macrosnack portfolio. You know, we are a global snack powerhouse. The savory snacks category is large, it's growing, it's profitable. We define the category of savory snacks as, you know what? All of our research indicates and indicates very strongly that interaction between savory snacks and gum and confectionery is almost nonexistent. I don't think they're going to eat a sandwich with a TicTac. Okay?

And I think Frito-Lay globally has got leading market positions in most countries, built on the strength of advantaged go to market systems tailored to local retail environments. We also have a large stable of billion-dollar global brands with many local high-share brands. In fact, seven of our snack brands are over $1 billion in retail sales, including Lay's, Doritos, Tostitos and Cheetos.

We talk about brand equity; let me just give you one example. We have compared the brand scores for Lay's potato chips in the United States to a well-known beverage brand which is considered an icon in the beverage industry. Look at top-of-mind awareness, unaided awareness, brands you love and tastes better than other brands. Almost across the board, Lay's scores better than even that beverage brand, and I think it's pretty damn impressive for a brand like Lay's.

And as I said to you, our salty snack market shares across the world are impressive. As this chart shows, many of our shares are 50%, 60%, 70%, approaching 80%. And these shares are in pretty significant markets. Now, I'd like to have spent the time today going through country by country, telling you how we are doing in potato chips and corn chips and grain ships. Unfortunately, I have to talk about three businesses, don't have the time to just dwell on one.

But we do have a 10 times relative market share advantage globally if you include a broader definition of savory snacks that includes things like nuts and seeds and popcorn. And I think, in 2010, we demonstrated the strength of our business and the



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category. We maintained our clear global leadership, retaining a 10-to-1 size advantage over the next largest layer. Our American snacks business, as a portfolio, had balanced top-line and bottom-line growth. We have continued to drive per cap in emerging markets, fueling remarkable growth in Russia, where revenue is up 27%. China was up 20%. The entire AMEA region capped off its fifth consecutive quarter of double-digit volume growth. And even Europe, the developed markets of Europe, had a good year with momentum building in the second half of the year.

2010 demonstrated that our snacks business can flex in different economic conditions to generate balanced top-line and bottom-line results as a portfolio. And yet, even with the size and position of Frito-Lay around the world, we believe there is still lots and lots of room to grow because per capita consumption is expanding around the world. We have lots of per capita consumption headroom. With many parts of the world the per capita consumption is a fraction of what we have been developed markets.

And to go after this growth, we employ well tested market development models to grow this business. We consider the salty snack per caps and our relative development in each of these markets, and then we set goals for each of these segments. So, for example, in a highly developed high-share market we pursue growth through adjacencies. And in markets with no per capita development we grow by driving frequency and penetration.

So let me very quickly touch on some of our initiatives for 2011, which are great examples of how we deploy this market development model. Frito-Lay North America, which represents the top right-hand quadrant -- we began the conversion of our snacks to natural ingredients in response to one of the fastest-growing trends in food and beverage. In fact, the all-natural segment is growing three times faster than any other snacks category. So we converted our Lay's Kettle and all of our other Lay's products to natural ingredients in 2010 and will continue this rollout to our other Frito-Lay North America brands in 2011.

And what this initiative does is increases the permissibility of our products, similar to our past initiatives to remove trans fats, lower sodium and add whole grains. Results year-to-date for this conversion are impressive indeed. So even in our more developed markets, we're able to drive market growth and gain share.

But beyond this goal we are also going to drive growth through innovation and communication targeted key consumer cohorts. Three consumer cohorts we focused on are millennials, boomers and multicultural consumers. We've continued to deepen the engagement between our millennial consumers and their favorite brands, like Doritos, through a mix of new and traditional media. So the recent success of the Doritos Crash the Super Bowl program is a great example.

We are also innovating to increase consumption by boomers by developing products that deliver flavor, texture and health credentials that all of them are seeking through products like Tostitos Artisan. And we are making all of our products relevant to a broad array of ethnic consumers with products like Doritos Tapatio, which appeals to the large and fast-growing Hispanic community. And we will continue expanding into adjacencies, which is another developed market strategy, where we have already established a scalable business with great brands like Stacy's and Sabra, two of our best overall performers in 2010.

Following on a very successful 2010, we are expanding the Stacy's line from pita chips to now include pita crisps, crostinis and flat bread. And we will expand our Sabra line from a great line of hummus to now include fresh dips and spreads, including fresh salsa, guacamole and yogurt dips and spreads.

So that's a developed market example. Let me turn to an emerging market example. In emerging markets like China, just to pick an example, our strategy is to drive penetration and frequency to grow our business. So we drive penetration by expanding our distribution reach to address availability. We design products to achieve value price points to address affordability, and then we innovate on products, forms and flavors to appeal to local tastes.

We are doing all three in China, and this is largely what is driving our strong growth there and in other emerging markets. Net-net, we feel great about our macrosnacks business, the position that we have and the performance we have from our macrosnacks business.

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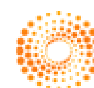


With that, let me move to the second flank, profitably growing our global beverage business. Beverages are definitely a more competitive category, and that's why we have adopted a very disciplined approach through a market segmentation which we introduced to you 10 years ago. And that's what we have been following all these years to deliver profitable growth in our beverage business.

The model balances investment with growth priorities, depending on both the markets' characteristics and our competitive position. So we invest in high-growth markets to get to leadership or parity. We deploy low-investment disruptive niche strategies in low-share, low-growth markets. And in low-growth markets where we are competitive, which is the bottom right, we invest judiciously to balance share and profitability. And where we have leadership, we invest to sustain that share leadership.

In 2010 we had solid results in our global beverage business. Emerging markets were a real bright spot. Eastern Europe as a region, led by Russia, grew volume 7%. In China, we had 10% growth. In fact, international overall had a good year. AMEA as a region was up 7%, and even in Europe we grew 5%.

Our business in the Americas was focused on integrating the bottlers, and we are pleased with the progress we made on this integration, which was completed ahead of schedule. We saw sequential improvement as the year progressed on volume and top-line growth, and we improved our profitability as well. So it was a year of significant transformation and progress.

From a financial standpoint we over delivered on our 2010 synergy commitments, and given the pace and success of the integration to date, raised our cumulative synergy target. And I'm also encouraged by the progress and performance trends we're seeing in the United States, so I would like to take a minute to give you my perspective on the North American beverage business. I want to start off by reminding everyone of you that we have a very good beverage business in the United States. I think there has been some noise around our position and our performance, so I want to set the record straight.

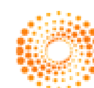
Let me say again, we have a big, highly profitable beverage business in North America with a very strong beverage portfolio. We have leadership in overall liquid refreshment beverages as measured by IRI, which is an objective third-party source. Clearly, IRI does not include food service, which is largely fountains, which is where our primary competitor is larger. But in measured channels, which is comprised entirely of packaged beverages, we have volume and value leadership. And we did gain volume share relative to our largest competitor in total LRB in 2010.

Our share advantage and our 2010 share performance are driven by the strength of our total beverage portfolio across the full consumer need space that we discussed in March -- enjoyment, hydration, nourishment and transformation. We have phenomenal brands in each of these segments. We have leadership overall in three of these segments, and in transformation we are three times larger than our primary competitor in the US.

Our North American beverage business is in the midst of a restage that we started in 2009. We undertook this program in response to some interesting trends we were seeing in the North American beverage category. The overall category had been sluggish for some time, growing about 1%, and CSDs had been in decline. And in this category, if you go back and look at history, every five or eight years there's some sort of a refresh project that happens by one of the companies. If you recall, our primary competitor took a massive reset in 2004, and I think they've seen the benefit of the reset. We started our restage in 2009.

In addition to a general opportunity to restage, we also had some opportunities to address. Tropicana and Gatorade, which frankly, had been over-earning in the first part of the decade, was not getting the right treatment within our portfolio. We had been managing them as lifestyle brands and continued to pull them back to the nutrition space that they belong to.

So, going back to 2009, we restaged Gatorade with a complete redo on innovation, marketing and packaging. We launched SoBe Lifewater. We had major initiatives against Pepsi Max, the launch of Sierra Mist all-natural, and then we launched the Pepsi Refresh project, which is a great example of positive space branding and marketing.



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So we have done major work over the past two years to strengthen our brands in North America, and we are beginning to see traction on all of these initiatives. Volume performance trends showed steady improvement as we moved through 2010, and I think this is in large part due to the refreshes that we undertook. And consistent with the positive trends we saw in volume as 2010 for progressed we are seeing impressive improvements in brand health scores.

These are Millward Brown brand data on four key segments, showing the trends and brand scores across measures most relevant to driving sales of the respective brands for the past two years. In almost every instance we are seeing gains, and that gives us confidence that our brand efforts are beginning to pay off.

So what are we going to do in 2011? We are going to continue to move the business forward through innovation and brand building, consumer engagement and by capturing bottler synergies, especially top-line synergies. We will continue to increase our portfolio to consumer relevance and appeal with products geared to health-conscious consumers. We will have more appealing packaging and we will have a lot more differentiated products like all-natural Sierra Mist, Gatorade Fit, and we will continue to support brand Pepsi with the new innovation, more to follow. We will increase consumer appeal with products and messaging tailored to appeal to key consumer cohorts.

And our product innovation and brands will be supported by a broad array of consumer engagement linking new and traditional media. You know, the pace of change in new media is one of the five key trends I mentioned at the opening and it's a huge opportunity for us. I believe we have a great team leading our efforts, and we are really excited about all the programs we have in store for us this year.

Turning to acquisitions synergies, two of the most significant top-line synergies from the bottling acquisition are the move of small-format Gatorade to DSD and capturing the food service opportunity. We implemented the Gatorade to DSD move in January, and we are encouraged by the early results. You know what, this is a significant event as it removes a big competitive historical disadvantage and puts clearly the number one sports nutrition beverage into the powerful Pepsi DSD go-to-market system. The move not only supports Gatorade but provides a big boost to our small-format DSD system overall.

In food service we have integrated the entire PepsiCo North American food service organization, and we now have the benefit of being able to go to market with food service distributors with the beverage portfolio which will be of particular benefit in addressing the more profitable local food service account segment opportunity.

So let me wrap up beverages, emphasizing four key points. Point one -- we will continue to compete for profitable growth globally. Our North American beverage business is very profitable, generates tremendous cash flow. We'll continue to focus on judicious pricing to improve value realization, and we will continue to realize benefits from all of the brand restages. And finally, in 2011 and 2012 we have focused on capturing top-line synergies from the bottling deal.

There is yet another advantage we have in North America, and that's Power of One. Keep in mind, Power of One does three things for us. It accelerates our growth, it enhances our selling and service advantage and it makes us a lot more efficient as operators.

In large part because of the success we've had with the bottler integration, we are going to accelerate Power of One in 2011. We've started to align the field organizations between Frito-Lay and our beverage business. We're testing some very promising pilots on joint in-store merchandisers. And we have a very full agenda of top-line driving programs.

We had one of the greatest successes of Power of One in February with our Crash the Super Bowl program. For those of you not familiar with it, you know, consumers wrote an ad and then we picked the best ad for Doritos and Max, and then we aired it on the Super Bowl. And the top vote getters have gotten the ads. And if the contestant's ad takes the top spot in the USA Ad Meter, the contestant wins $1 million.

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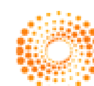


The original program was a Doritos brain child, and until this year Crash the Super Bowl was just one brand. But this year, Frito and Pepsi ran the program jointly, with ads submitted for both Doritos and Pepsi Max. And the response was simply remarkable, both the number of ads that they generated and the level of voting. But more importantly, the six finalists that aired on the Super Bowl, three for Doritos and three for Max, had fabulous results. Four of the six ads finished in the top seven on the Ad Meter. Keep in mind, this is out of 61 ads in total that aired on the Super Bowl. And one of our ads even took the number-one spot. Let's just watch.

(Plays video).

So Power of One is yet another powerful tool we've deployed.

With that, let me move on to the fourth plank in our growth framework, building and expanding our nutrition business. I know some of you are asking some tough questions. Why nutrition? Is this a distraction to PepsiCo? What is the global nutrition group all about? How much are you investing, why are you getting into dairy? My goal is to quickly answer all of these questions.

What we find very attractive about this nutrition space is the size, growth profile and potential for attractive margins. And this growth is driven by a number of factors, including rising awareness of health and nutrition, the aging population, consumers' desire for more convenience and taste in their nutrition consumption. And, even more importantly, the competitive landscape is so fragmented with no clear global leader in any category. And this is a market that is growing and evolving in very interesting ways.

The wonderful news is that we already have a good, balanced position and good-for-you products, and we have scaled businesses in all of the important sub-segments -- fruits and vegetables for Tropicana, whole grains with Quaker, dairy with Wimm-Bill-Dann and our joint venture with Almarai, and sports nutrition with Gatorade. And PepsiCo, if we look at the industry, has the broadest representation across the priorities segment with the nutrition, even when compared to those companies you would normally associate with nutrition.

So we believe the opportunity is compelling.

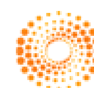
And then the question is, what is the link between savory snacks, social beverages and nutrition? You know what? We have a broad set of deep capabilities that are highly leverageable across all these businesses. In social snacks and beverages and in nutrition, making products affordable and available to consumers is the key, and this plays right into the strength of our go-to-market systems and product development capability, especially in the areas of taste and convenience.

Where social snacks and beverages differs from nutrition is its positioning and marketing. Social snacks and beverages appeal to the aspirations of consumers. Nutrition requires authenticity and functionality. And it's this difference that caused us to create a separate group focused on R&D and innovation.

But keep in mind, with the nutritional social snacks, great taste is a prerequisite. And this is where we can leverage the core skills of flavoring, sweeteners and product formulation.

The global nutrition groups that we have created is charged with building and leveraging the global R&D capabilities to develop new platforms and products, building alliances with external parties to further our innovation efforts, managing our nutrition brands globally to ensure we maintain discipline in those brands, lifting and shifting ideas across the globe, managing global sourcing in agro programs and then working with all the regional countries to implement these programs while insulating them so they can keep doing all that they are doing on social snacks and beverages.

And as we told you last year, our aspiration is to grow this segment to $30 billion in 10 years, which is really a compound growth rate of 9%. And our goal is to generate the lion's share of this growth organically and through low-capital joint ventures and alliances, supplemented by some tuck-ins in emerging markets.



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And in the near-term, over the next 12 months, our nutrition goals are to accelerate the growth of the existing nutrition business. And we have given this nutrition group $50 million of corporate funding in 2011. They're going to take that and plus it up with all the regional resources that already exist around the Company. We have told them that we would like to commercialize one or two profitable new platforms a year, beginning in 2012. And while they're doing that, they're going to go back and strengthen Tropicana, Quaker, Naked, all of these phenomenal nutrition brands that we have.

So those are the four planks. So I would like to now wrap up with a few comments on the fifth plank of our growth framework, prudent, responsible financial management. I will quickly reiterate what Hugh opened with. We want to grow revenues, in aggregate, faster than our categories' growth. We want to grow EBIT ahead of net revenue. We want to deliver on our EPS commitments and absolutely hold cash returns to shareholders as a priority.

So, after our talk today, I hope you will take away that PepsiCo has evolved into a global powerful snack and beverage company with an attractive position in nutrition. We have delivered top-tier operating and financial performance. Our cash returns to shareholders have been strong and they are accelerating, and our portfolio is poised for continued top-tier operating and financial performance and excellent cash returns.

Thank you for your attention. Hugh, John, Zein, Eric and I will be glad to take all your questions now. Thank you.

QUESTIONS AND ANSWERS

Unidentified Audience Member

I'm hoping to just get a little bit of a better understanding of your assessment of your core brands, particularly in the US beverages. You put up some of the brands' scores. And, obviously, historically the advantage that you had was having exposure to faster-growing categories. But if you look at the individual categories, it seems like you're losing market share. So how do you reconcile the brand health score that you put up against some of the market share metrics that we are looking at in measure or all channels?

Indra Nooyi - *PepsiCo - Chairman and CEO*

So, let's -- I'll make some opening comments, Judy, and then I'm going to toss it over to Eric to give you a fuller picture. Let me start off by saying, in the overall LRB market, we play a portfolio game. Okay? We are an LRB player. We are not playing in any one category; that's why we talked about the entire North American beverage portfolio. And across that portfolio all of the brand restages we started in 2009 are beginning to pay off. Without exception, every brand restage is beginning to pay off.

We went from a business where volume was declining. Sequentially, we are seeing volume growth. So within 18 months of the brand restage we're seeing volume growth pick up, and we have maintained our number one volume and value share in the North American LRB business. And we feel very good about the prospects of this business going forward.

And we have done this without any extraordinary charge in the North American beverage business, without any impairment or write-off charges. But that's just part of the story. Let me turn it to Eric now to give you a fuller picture of the whole portfolio. Eric?

Eric Foss - *PepsiCo - CEO, Pepsi Beverages Company*

I think one of the things that at times gets lost or forgotten or maybe, at times, manipulated a bit is really the fact that we do have share leadership across LRB, and we have share leadership in three of the four most important segments of LRB. I think we just have to keep reminding you of that because I do think, to a certain extent, at times that gets lost or forgotten.

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I think the reality is that it's not new news, that our competitor has brand preference or leadership within the cola segment; that's not new news. What, again, might be forgotten is the fact that we have even stronger share leadership and brand preferences in the CSD flavor segment. And then again, as you dig into some of the other areas, particularly tea, where we have four-to-one share leadership, I just think, as you really tear this apart, it's really easy sometimes to maybe distort and sometimes look at the trees and not see the picture if you look at the total forest, which is we do have share leadership and have had and continue to have.

Judy Hong - *Goldman Sachs - Analyst*

But is there a risk that that share leadership is diminished as the competitors are gaining market share within those categories where you actually do have leadership positions?

Indra Nooyi - *PepsiCo - Chairman and CEO*

Judy, let me just take that. As I said to you already, we are in different time frames on the restage of the brands. They took an entire restage in 2004 and 2005, as you recall. We didn't do it at that point; we did it in 2009. It takes a couple years for these restage efforts to begin to pay off.

What surprised us is how quickly the restage is beginning to pay off. We are already beginning to see results. The tremendous improvement in the brand equity scores that we are beginning to see, is a wonderful trend that we are observing in the marketplace. So you've got to be mindful of the different times in which we have taken a restage effort. We took it in 2009, they took it in 2004. Their efforts started to pay off some. Our efforts are beginning to pay off some.

The challenge is the following. In an overall category that's still growing at very low levels, I don't think any company should adopt a scorched-earth strategy to go for volume at all costs. That is a formula for disaster. Especially now that we own our bottling systems, there is an urge to do that. And the minute we get into that slippery slope, that is a formula for disaster.

Our decision has been to play a very judicious gain in this marketplace to balance top-line growth and profitability. We want to play the portfolio. And I urge all of you, don't take each category and say, why don't you drive share in it? Why don't you drive share in this? Because you know what will happen? In a category that is growing 1% or 2%, just imagine all of us throwing tons of money into this. It will just take down the profitability of the category and accomplish nothing. So how you play the game in a low-growth category is more difficult than what you do in a category that's growing.

Unidentified Audience Member

Indra and Eric, I guess a follow-up on Judy's question and then over to Frito-Lay, if I could, John. To your point, within carbonated soft drinks it seems that Coke is proving more innovative in package mix. Can you update us a little bit on what you're doing to accelerate some of your own efforts to imitate what has been successful on Coke's part, and the part of package mix, and perhaps outflank them, so to speak, in package mix, in your own -- particularly in CSDs?

Indra Nooyi - *PepsiCo - Chairman and CEO*

Eric, go ahead.

Eric Foss - *PepsiCo - CEO, Pepsi Beverages Company*

Sure. Well, [Mark], when you talk about pricing strategy, price pack architecture, package innovation, it's a fairly complex topic. Let me state the following.

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I think, first of all, our pricing strategy, as I've said all along, starts and ends with the consumer. It also incorporates the competitive landscape and, in the current environment, needs to incorporate the commodity landscape. But the reality is that our price pack architecture, if you look at it, is intended for consumers to make sure they have the right value. It's intended for customers to make sure it helps build traffic and transaction size. And from a company or a shareholder standpoint it is intended to make sure we get improved returns.

The reality is, is the success measures that matter most to me are, first of all, are you seeing price appreciation. So to me, a great sign of a price pack architecture that works or a package strategy that works is, are you seeing price appreciation. Our competitor didn't do that in 2010, either in Q4 or on a full-year basis. We did, on both fronts.

And so I think that metric needs to be front and center as we evaluate what the pricing strategy and price pack architecture is.

Second, I think a successful price pack architecture delivers balanced top line. Again, if you look at Q4 we delivered a point of volume, a point of price. Our competitor delivered three points of volume. With the extra trading day, that actually translated to only one point of volume and no pricing. So, a balanced top line is another key success metric that I'd use to evaluate price pack strategy.

Third is share. We had positive volume share swing in 2010. And I think, finally, is the development of your PET mix. The PET, both single-serve and take-home, is far more profitable than the can mix. And on both of those fronts, on single-serve, our total mix, we have about a 2- to 3-point advantage versus our competitor, and on the take-home front we have about a 3- to 4-point mix advantage. So I think you know me well, even prior to the PepsiCo days, of how disciplined and focused we have been on this. And I'm very pleased with our progress on this front. I think our track record speaks for itself. And we have a tremendous degree of confidence in our capability on this topic.

Unidentified Participant

You had a question for Frito-Lay?

Unidentified Audience Member

Yes. Can you update us on private-label and some of the trends you are seeing in some of the key segments there, potato chips, of course, being one of them, and how you think that might play out over the next 12 to 24 months, given the consumer environment?

John Compton - *PepsiCo - CEO, Americas Foods*

As you know, in snacks private-label is, in aggregate, 4% to 5% of the volume, maybe a 6% market share in certain parts of the country. In any given year, a retailer may choose to emphasize private-label. That tends to work itself out, and they come back to the higher-margin, higher-dollar ring Frito-Lay products. We've seen that last year in 2010, I saw it again in 2009. It tends to cycle back to come back to us because our market share, as you know, can be as high as 75% at one retailer to a low of 60% in another. So it's hard to make the math work for a retailer when you are trading down the category.

Frito-Lay, as you know, we have consistently been, the last four years, when you go back and look at the IRI data, grocery, drug, mass, it includes CNG, you would find us in the top one, two, three or four growth rates of all consumer packaged goods companies. That includes the growth of private-label that's out there. So it hasn't had a major impact on the category overall. It certainly hasn't had a big impact on our business.

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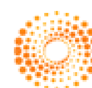

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Unidentified Audience Member

As I was listening and trying to take notes as best as I could, what struck me is you are doing a lot. There's a lot of change going on with, whether it be change in distribution in the US, whether it be change in marketing, whether it be new segmentations, whether it be new portfolios, new geographies, etc.

And understanding that you're a complex company, it just feels like a lot. I was wondering if you could help us gain confidence. All those things make sense. They are somewhat, sometimes even elegant in terms of going after areas. But how can you give us confidence that the organization is ready for such big change, so fast, from just an organizational capability perspective, number one? And number two, from a financial flexibility perspective, able to invest enough to get those things done?

Indra Nooyi - *PepsiCo - Chairman and CEO*

The region that has probably gone through the most change is our Europe region because they had the bottle integration, Wimm-Bill-Dann, all of that stuff. And Zein Abdalla is here. So I'm going to let Zein give you a peek into how we handle change management and what's the impact on the organization, positive and what challenges we have. Zein, go for it.

Zein Abdalla - *PepsiCo - CEO, Europe*

So clearly this kind of strategic change produces challenges. But I'd have to say that, and Indra referenced it, the strength of our management teams, the local ownership culture -- it starts with each route salesman actually owning his business. So you can run the core business and you can transform around it, based on the hundreds of thousands of our associates who go out and the champion and own PepsiCo each day.

The other thing I would say is that we are making very conscious choices about which strategic avenues we push across in which geography. So what you are seeing there is a lot. But don't forget, it's prioritized by geography and by each category in which we operate.

And then we have this wonderful Power of One overlay that then allows us to make one plus one equals three, in most of the occasions. So I would say really, the heart of it, though, is the strength of our management teams and our local management teams and our local operations.

Indra Nooyi - *PepsiCo - Chairman and CEO*

I'll just add one other thing. The changes that we talked to you about is over a 10-year period. And for the size of the company that we are, not to go through the change is more difficult than going through change. The great thing is that, as I look across the Company, organization health scores on the highest they have ever been. Turnover levels are the lowest that they have ever been in the Company. And the third metric that we look at constantly -- there isn't a person that we've tried to hire who doesn't want to come to PepsiCo. And the number of people who are calling to say they want to come to PepsiCo is the highest it's ever been. I'm talking of people of all different levels. It has been truly gratifying to see that people want to be part of the PepsiCo journey.

So we feel, actually, pretty good about what's going on in the Company. Caroline?

Caroline Levy - *CLSA Limited - Analyst*

A question for John -- Frito, I think, is at peak operating margins, 26.5%, I think, is an all-time high. It's a spectacular business. But the average food company has about a 15% margin. I know you are not the average food company; you have amazing distribution.

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Eric Foss - *PepsiCo - CEO, Pepsi Beverages Company*

Best in the world.

Caroline Levy - *CLSA Limited - Analyst*

Yes, (multiple speakers) [but], the commodity cycle may not be a short-term thing. What are the plans to get pricing -- is it weight-out? What is the opportunity to take that margin higher or even hold it stable in this environment?

John Compton - *PepsiCo - CEO, Americas Foods*

As you know, in the last -- I may get this wrong. But the last four years our margins were essentially flat; it's really North America. It's up and down 0.10 points. In 2010 the margins did go up almost a full point because we did have deflation into the business and we had 8% profit growth, which was the highest in a decade.

Many other companies had deflation, too, and I don't think too many people reported 8% profit growth.

Going forward, at least in the first six to nine months of 2011, back to Hugh's point, we know our commodity positions. We know that accelerated productivity agenda that we have underway at Frito-Lay, and we are comfortable with the current level of pricing we have in the marketplace. As we close out positions in the back half of 2011 and we look forward to 2012, today's Wall Street, today's Financial Times -- of course, it's going to be inflationary. But I think, consistent with Eric's point, we have enough levers to pull, price pack management, trade spending management, some visual pricing. Yes, maybe some minor weight-outs would continue that we would price to cover the inflation costs. And I think on the snack business we're going to be able to do that.

Indra Nooyi - *PepsiCo - Chairman and CEO*

Caroline, If I may add, I think the way we do innovation is also going to be take the margin because with adjacencies we are also going into premium products, like Stacy's and Sabra. And that helps the overall margin mix, too.

Question from this side of the room?

Unidentified Audience Member

Indra, the one thing, following on [Ali's] question, one thing that I don't think gets a lot of attention is what's happening to mix across the Company, not so much from the individual units but in looking in total. As you get into some of these new areas it seems like mix shift is a negative to the top line. And so, if that's true, is there productivity? How does SAP work into it that investors can be comfortable that EBIT is not impacted by that?

Indra Nooyi - *PepsiCo - Chairman and CEO*

It was a great question. Hugh, do you want to take that question?

Hugh Johnston - *PepsiCo - CFO*

Yes, I'd be happy to. As I mentioned, when we are really trying to plan out not just single-year guidance but plan out multi-year guidance, that's certainly one of the factors that we are weighing in as we do the scenarios and do the modeling.

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You're absolutely right; in emerging markets, naturally, the margins are lower. I don't think we are much different than most other companies in that regard. But we do have two things going for us, number one, a strong productivity program. We've been doing that for a long time, and we really are looking to step that up.

And then, number two, as we become more innovative and identify premium products that we can play into our more developed markets, those premium products typically do come with premium margins as well. So when we put the entirety of the scenarios together, we are balancing margin mix, we're balancing premium mix, we are balancing productivity. And that's how we evolved and got to the guidance that we provided to.

But your point is absolutely correct. In terms of emerging markets, like everyone else, they are lower. That said, you've seen the growth that we've had in emerging markets over the last 10 years. That's not a new trend, by any stretch of the imagination.

Unidentified Audience Member

A question on Wimm-Bill-Dann, if I could. This was a big acquisition to boost nutrition [co] and it was done in emerging markets specifically, also boosting your single-country risk. I'm just curious how comfortable you are or, in your plans, how you can leverage those brands. You've always talked about looking at dairy, how that could be used more broadly, even here in North America, where the acceptance might be quick and the demographics might be favorable. I'm just curious how you leverage that across your global platform.

Indra Nooyi - *PepsiCo - Chairman and CEO*

Wimm-Bill-Dann is, I think, one of the best acquisitions we've made in a while. But I want to let Zein talk about it because he's been shepherding this through the whole process.

Zein Abdalla - *PepsiCo - CEO, Europe*

Okay. Maybe, because we talked about it quite extensively in our December call when we were making the acquisition. If I could reprise perhaps just four points. First of all, dairy is a tremendous category in terms of its global growth -- high-single digit. And if you narrow that in on value-added dairy, dairy, that is convergent with grains and fruit and veg, which we bring a capability to, you are into double digits, double-digit growth.

The second is, Russia is clearly an emerging market with very high growth potential across it, but it's also a gateway, a platform to a broader geography around it. We tend to think of Russia as 140 million consumers, and that is what we justified this acquisition against. But Russia is a gateway to 400 million consumers when you look at the old CIS republics around it and the broader central European countries.

And I think the other two things that I would highlight, and we've certainly got more conviction as we've gone deeper into Wimm-Bill-Dann and as we have taken over operating management, is this is a tremendous business asset in its own right -- wonderful brands, fantastic manufacturing facilities and a tremendous innovation pipeline and wonderful business processes. Typically, you think of emerging market acquisitions is you're going to have to come in and upgrade and do things. We are going to learn a hell of a lot from this business in terms of the way it runs.

And then the fourth that we've built a lot of conviction around, is our ability to add value because we bring a knowledge of taste, convenience, dayparts in occasion marketing, and how we can take these nutritious products and make them more conveniently available by bringing them through our very large cooler base.

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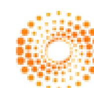

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So you're absolutely right; it does provide us with a center of excellence. It gives us an opportunity to build and R&D hub in this region, the largest food and beverage R&D center to leverage much more broadly across these 400 million consumers, plus, clearly, an innovation pipeline that we can take much more broadly into developing in emerging markets.

Now, normally, you would feel excited about an acquisition if you would take two out of those four. Taking all for is when -- you know the phrases like home run, sweet spot, slam dunk I think you use here in the US -- that's when all those phrases kick in. So, yes, we are very excited about it.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

I think that's all the time we have in the webcast. I wanted to take this opportunity to thank PepsiCo for their leadership in supporting CAGNY over the years and continuing now with (audio ends).

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