Third Quarter 2020 Prepared Remarks for

Pre-Recorded Management Discussion

October 1, 2020

Company Participants

Ramon L. Laguarta, Chairman and Chief Executive Officer

Hugh F. Johnston, Vice Chairman and Chief Financial Officer

Ravi Pamnani, Senior Vice President, Investor Relations

Please view these remarks in conjunction with our Q3 2020 earnings release, Q3 2020 Form 10-Q and GAAP/non-GAAP reconciliations that can be found on our website at www.pepsico.com under the Investors section, or via the following link: https://investor.pepsico.com/investors/financial-information/quarterly-earnings/

Ravi Pamnani

Good morning everyone and welcome to this pre-recorded management discussion of PepsiCo's third quarter earnings results. My name is Ravi Pamnani, and I am the Senior Vice President of Investor Relations at PepsiCo. Joining me today are PepsiCo's Chairman and CEO Ramon Laguarta and PepsiCo's Vice Chairman and CFO Hugh Johnston.

Before we begin, please take note of our cautionary statement. We will make forward-looking statements on today's call, including about our business plans and 2020 guidance and the potential impact of the COVID-19 pandemic on our business. Forward-looking statements inherently involve risks and uncertainties and only reflect our view as of today, October 1st, and we are under no obligation to update. When discussing our results, we refer to non-GAAP measures, which exclude certain items from reported results.

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

As a reminder, our financial results in the United States and Canada, or North America, are reported on a 12-week basis while substantially all of our international operations report on a monthly calendar basis for which the months of June, July and August are reflected in our results for the 12 weeks ended September 5, 2020.

And now, it's my pleasure to introduce our Chairman and CEO, Ramon Laguarta.

Ramon Laguarta

Thank you, Ravi, and good morning everyone.

My agenda today will include a detailed discussion of our business performance and a reiteration of the guiding principles and priorities on becoming a Faster, Stronger and Better company. I will then turn it over to Hugh for additional perspectives on our financial results and 2020 outlook.

But before I start the business review, I would like to note that I am very pleased with how our people and business have performed in what continues to be a complex and volatile environment.

As this environment continues to evolve, we remain very focused on controlling what we can with an unwavering commitment to:

- Keeping our employees safe;
- Servicing our customers to the very best of our ability; and,

- Supporting our communities in both good and difficult times.

The dedication and resilience of our employees have been nothing short of exemplary during these times and I want to thank them for everything they do.

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Now, with respect to our business performance, our organic revenue growth accelerated in the third quarter. Our global snacks and food business remained resilient, while our global beverage business returned to growth.

Specifically:

- Our Q3 organic revenue growth accelerated to 4.2 percent, with both our North America and International businesses delivering mid-single digit growth;

- Our global snacks and food business delivered 6 percent organic revenue growth, while our global beverage business delivered 3 percent organic revenue growth. The global beverage business meaningfully improved versus the previous quarter with especially encouraging results in our PepsiCo Beverages North America division;

- Core constant currency operating profit increased 5 percent and reflected an increase in our advertising and marketing spend; and,

- Core constant currency EPS increased 9 percent.

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Now, starting with **North America** snacks and food, both **Frito-Lay** and **Quaker Foods** continued to deliver robust growth as at-home consumption trends have remained strong despite the measured reopening of economies and activities in certain areas since May.

Frito-Lay sustained its strength with 6 percent organic revenue growth and gained market share in the macro-snack category in the quarter.

These results were powered by strong net revenue growth across each of our billion-dollar brands including double-digit growth for Tostitos, high-single digit growth for Cheetos, and mid-single digit growth for Doritos and Ruffles.

We also saw continued strength in the e-commerce and large format channels, while trends in the convenience and gas channel meaningfully improved versus the previous quarter.

And finally, Frito's core constant currency operating profit increased 4 percent in the quarter which included a strong double-digit increase in advertising and marketing spend and additional COVID-19 related costs.

Quaker Foods delivered 6 percent organic revenue growth along with an improvement in household penetration rates in the quarter.

Quaker's revenue growth was in-line with what we had expected and consistent with where the business was trending after economies in certain areas began to reopen during the second quarter.

Quaker's third quarter performance included strong double-digit net revenue growth in lite snacks and side dishes such as pasta and macaroni and cheese. Pancake mixes and syrup sales increased at a high-single digit rate, while both hot and ready-to-eat cereal also delivered good growth.

Quaker's strong net revenue growth and cost management initiatives resulted in a 170-basis point increase in core operating margin and 14 percent increase in core constant currency operating profit.

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Now, I will turn to our **North America beverages** business, where we delivered a strong improvement in results with 3 percent organic revenue growth and 12 percent core constant currency operating profit growth.

Many of our large brands performed well with double-digit net revenue growth for bubly, Lipton and Starbucks, high-single digit growth for Gatorade, mid-single digit growth for Mountain Dew and Tropicana, and low-single digit growth for Pepsi.

Innovation has continued to play an important role in the portfolio. For example, Gatorade Zero, bubly and Mountain Dew Zero Sugar, in aggregate, have delivered more than $1 billion in retail sales on a year-to-date basis. We also continue to invest in our successful Pepsi Zero Sugar product, which has grown its retail sales by more than 30 percent year-to-date.

From a channel performance perspective, both the large format and convenience and gas channels delivered strong growth, while the decline in the foodservice channel moderated.

Our market share trend within the liquid refreshment beverage category improved versus the previous quarter and we gained market share in the coffee, tea and juice categories. We also executed well on our net revenue management initiatives in larger categories such as carbonated soft drinks and sports drinks.

In addition, our expanded presence in the energy category contributed to our reported net revenue growth and reported operating profit in the quarter. We are very excited about our expanded presence in this highly profitable category with our recent acquisition of Rockstar and distribution agreement with Bang.

Our focus will remain on improving the performance and marketplace execution of these terrific brands while also effectively competing in the category with existing brands such as Mountain Dew.

Overall, I am very pleased with PBNA's performance during the third quarter and am encouraged by our North America energy integration process as it nears its completion.

Moving forward, I remain optimistic about the long-term potential of the North America beverage business and believe we have the right plans and portfolio in place to deliver sustainable growth and margin expansion over time.

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In summary, our North America businesses performed well in the quarter and we expect our snacks and foods businesses to remain resilient while our beverages business should sustain its momentum for the balance of this year.

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Now, I will turn to our **international businesses**, which improved meaningfully versus the previous quarter and delivered 4 percent organic revenue growth in the third quarter.

Our international snacks business remained very resilient and delivered 5 percent organic revenue growth, while our international beverage organic revenue increased nearly 2 percent as pandemic related closures and restrictions eased to a certain extent in some markets.

Within our international markets, developed market organic revenue growth increased 8 percent and outpaced developing and emerging markets which increased 2 percent.

Some notable highlights include double-digit organic revenue growth in France, Australia, and Brazil, high-single digit growth in India and mid-single digit growth in the U.K., China and Russia.

We gained savory share in many of our key snack markets, including Mexico, Brazil, China and Russia and for beverages, we gained share in the U.K., Russia, Turkey, France, Germany and Thailand.

And finally, we again delivered strong double-digit net revenue growth in our SodaStream business, as consumers continue to adopt this environmentally friendly, convenient, at-home beverage system.

Now, to touch on the outlook for our international businesses, we expect our snacks business to remain resilient while the recovery for our beverage business may take more time due to ongoing and reinstated pandemic related restrictions and closures as it relates to certain channels.

And from a geographical perspective, we continue to expect our performance to vary between developed and developing and emerging markets due to differences in:

- Pandemic related impacts and responses;
- Disposable income and affordability metrics;
- Foreign exchange dynamics; and,
- Fiscal and monetary policy support.

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To conclude, I believe our overall business is performing well and is benefiting from the diversity and breadth of our portfolio and strategic actions we have taken to complement our growth agenda.

We are content with the composition of our portfolio and are more focused now on maximizing the full potential of our existing and recently acquired assets to drive improved growth and returns over time as we aim to become an even Faster, Stronger and Better organization.

And I'd like to spend a few minutes on reinforcing this strategic framework that prioritizes our actions and behaviors within the company.

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When we say **Faster**, we mean that we must win in the marketplace and improve market share by being more consumer-centric and investing in both large, established brands and smaller, emerging brands to accelerate our growth.

Our key priorities to become Faster include:

- Sustaining or improving growth and market share in our high return snacks and food businesses in North America;
- Improving the profitability of our North America beverage business and capturing our fair share of category growth;
- Accelerating our growth and presence in international snacks and food while investing wisely in beverages to balance between growth and returns; and,

- Making the necessary investments in our manufacturing capacity, go-to-market systems and digital initiatives such as improving our presence and scale in our e-commerce business, which nearly doubled during the third quarter.

When we say **Stronger**, we mean that we must continue to transform our cost structure, capabilities, and culture.

Our priorities here include a renewed focus on driving holistic cost management throughout our organization to support our investments in advantaged capabilities such as:

- A highly agile and flexible end-to-end value chain;
- More precision around revenue management;
- Investing in data analytics that can provide more granularity around consumer insights; and,
- We continue to invest to further expand global business services into new capabilities, which will enable better insight and support for our businesses at a much lower cost.

With respect to transforming our culture, we are committed to diversifying our workforce, balancing internal views with more outside-in thinking, and reinforcing The PepsiCo Way, where we emphasize that employees act like owners to get things done quickly.

And when we say **Better**, we're focused on further integrating purpose into our business strategy and brands by becoming planet positive, strengthening our roots in our communities, and advancing social justice.

For example, we are committed to becoming planet positive by supporting practices and technologies that improve farmer livelihoods and agricultural resiliency.

We are also focused on using precious resources such as water more efficiently, accelerating our efforts to reduce greenhouse gas emissions throughout our value chain and driving progress toward a world where plastics need never become waste by focusing on reducing, recycling, and reinventing packaging.

And when it comes to our people across the value chain, PepsiCo remains committed to advancing respect for human rights, building diverse and inclusive workplaces, and investing to promote shared prosperity in local communities where we live and work.

In summary, I believe we are executing well against our strategic framework and remain well-positioned for future success with our:

- Portfolio of large, trusted brands that participate in attractive and growing categories;
- A team of trusted and highly seasoned business leaders;
- A very powerful go-to-market distribution system; and,
- An agile, end-to-end supply chain network.

Before I conclude my portion of this discussion today and turn it over to Hugh, I want to reiterate that I am incredibly proud of the way our organization has executed and performed in what has been an incredibly complex and dynamic environment. And I want to thank everyone again for their dedication and efforts.

With that, I'll turn it over to Hugh.

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<u>Hugh Johnston</u>

Thank you, Ramon. And good morning, everyone.

As Ramon covered in detail, our business performance improved in the third quarter and we delivered 4.2 percent organic revenue growth. I'll focus my commentary on our profit performance and financial outlook for 2020.

From a margin perspective, our core gross margin declined (60) basis points in the quarter. The year-over-year decline is driven by our recently completed acquisitions of Pioneer Foods and Be & Cheery and certain COVID-19 related costs included in our cost of goods sold.

Our core operating margin decline moderated and was down (40) basis points in the quarter as we increased our advertising and marketing spend and experienced $147 million of higher labor, personal protective equipment, and logistics and service costs associated with COVID-19.

When excluding the incremental COVID-19 related costs, our core operating margin increased 40 basis points.

We expect some of the COVID-19 related costs to persist and remain committed to making the necessary long-term investments to support our employees and customers, while also investing in capabilities that drive competitive advantages for our business.

To mitigate some of these challenges, we have continued our efforts to control what we can. This includes tightly managing our discretionary expenses, reducing non-essential advertising and marketing spend to reflect the realities of the current environment and sharpening our revenue management capabilities across brands and packages.

Now as we look forward, and consistent with Ramon's earlier comments, we do expect our North America businesses to remain resilient for the balance of this year, while the recoveries across international markets will likely remain uneven across both developed and developing and emerging markets.

So, based on what we can reasonably predict for the balance of this year, we are updating our full year guidance and now expect:

- Organic revenue growth of approximately 4 percent; and,
- Core earnings per share of approximately $5.50.
- And we continue to expect a core annual effective tax rate of approximately 21 percent.

Based on current market consensus rates, we now expect foreign exchange translation headwinds to negatively impact our net revenue and core earnings per share performance by negative (2) percentage points and this expectation is reflected in our core EPS guidance.

With respect to cash flow, we now expect full year free cash flow of approximately $6 billion, which reflects net capital spending of approximately $4 billion and continue to expect total cash returns to shareholders of approximately $7.5 billion, comprised of dividends of $5.5 billion and share repurchases of $2 billion.

Our expected cash returns reflect a 7 percent increase in the annualized dividend per share that began in June. This represented the Company's 48th consecutive annual dividend per share increase.

With respect to our liquidity and balance sheet, we continue to believe that we have ample flexibility to meet the reinvestment needs of the business and return cash to shareholders.

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With that, we conclude our prepared remarks for today. We thank you for your time and the confidence you've placed in us with your investment. We invite you to listen to our live question and answer webcast, which will begin today at 8:15 a.m. Eastern Time and will be available on pepsico.com.