23-Apr-2024

PepsiCo, Inc. (PEP)

Q1 2024 Earnings Call

CORPORATE PARTICIPANTS

Ravi Pamnani
Senior Vice President, Investor Relations, PepsiCo, Inc.

Ramon L. Laguarta
Chairman & Chief Executive Officer, PepsiCo, Inc.

Jamie Caulfield
Executive Vice President & Chief Financial Officer, PepsiCo, Inc.

OTHER PARTICIPANTS

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Bonnie Herzog
Analyst, Goldman Sachs & Co. LLC

Bryan D. Spillane
Analyst, BofA Securities, Inc.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Peter Grom
Analyst, UBS Securities LLC

Filippo Falorni
Analyst, Citigroup Global Markets, Inc.

Kaumil Gajrawala
Analyst, Jefferies LLC

Robert Moskow
Analyst, TD Cowen

Robert Ottenstein
Analyst, Evercore ISI

Chris Carey
Analyst, Wells Fargo Securities LLC

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Brett John Cooper
Analyst, Consumer Edge Research LLC

Gerald Pascarelli
Analyst, Wedbush Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to PepsiCo's 2024 First Quarter Earnings Question-and-Answer Session. Your lines have been placed on listen-only until it's your turn to ask the question. Today's call is being recorded and will be archived at www.pepsico.com.

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

Ravi Pamnani

Senior Vice President, Investor Relations, PepsiCo, Inc.

Thank you, operator and good morning, everyone. I hope everyone has had a chance this morning to review our press release and prepared remarks, both of which are available on our website. Before we begin, please take note of our cautionary statement. We may make forward-looking statements on today's call, including about our business plans and 2024 guidance. Forward-looking statements inherently involve risks and uncertainties and only reflect our view as of today, April 23, 2024 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 our first quarter 2024 earnings release and first quarter 2024 Form 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.

Joining me today are PepsiCo's Chairman and CEO, Ramon Laguarta; and PepsiCo's Executive Vice President and CFO, Jamie Caulfield. We ask that you please limit yourself to one question.

And with that, I will turn it to the operator for the first question.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator instructions] Our first question comes from Dara Mohsenian with Morgan Stanley. Your line is open.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC Q

Hey, guys. Good morning.

Ramon L. Laguarta
Chairman & Chief Executive Officer, PepsiCo, Inc. A

Good morning, Dara.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC Q

So, really strong International profit results for the third quarter in a row year. Can you just take a step back, Ramon, and maybe give us some perspective on that International performance over the last few quarters, and A, just looking forward short-term, how confident are you in the sustainability of that in the balance of the year, but be also just long-term as you think about International development over the last few quarters, give us some perspective looking out over the next few years, both from a top line perspective and then the margin flow through? Thanks.

Ramon L. Laguarta
Chairman & Chief Executive Officer, PepsiCo, Inc. A

Great. Thank you, Dara. And yeah, we're very pleased with the performance of International businesses. In Q1, but also in the last few quarters, as you mentioned, and this has been an area of investment for us now for a few years, both in snacks and in beverages and trying to build scale businesses in most of the markets where the scale in terms of population and profitable growth. So, I feel very good about our ability to continue to outperform our categories in International and to keep our categories growing, both food and beverages in the future. Our innovation is strong, our ability to understand local rituals and local food and beverage occasions is better than ever. We are adopting our portfolio to that, our ability to attract the best talent in the markets where we participate and build really capable teams is better than ever.

We've been investing in capacity. We're – right now we're in the process of opening factories in Vietnam and in China and in India, and in Mexico and in – we just opened one in Poland. So, we keep expanding our manufacturing and our go-to-market capabilities in those market. So, we feel good and I think that it's going to continue to be a big source of growth for us. As we mentioned in CAGNY, I think our International business is already $36 billion and is growing at a very high single-digit level and with very good profitability. So, it is part of the future growth story for PepsiCo for sure.

Operator: Thank you. One moment for our next question. Our next question comes from Bonnie Herzog of Goldman Sachs. Your line is open.

Bonnie Herzog
Analyst, Goldman Sachs & Co. LLC

Q

All right. Thank you. Good morning, everyone.

Ramon L. Laguarta
Chairman & Chief Executive Officer, PepsiCo, Inc.

A

Hi, Bonnie.

Bonnie Herzog
Analyst, Goldman Sachs & Co. LLC

Q

I had a question on Frito-Lay op margins which were a little soft in the quarter. So, hoping you could talk through some of the key puts and takes on your margins in the quarter and then moving forward? And then, is it realistic to assume Frito-Lay's op margins will expand in 2024 and I'm thinking about that in the context of commodity cost pressures easing a bit, or how do we think about your level of reinvestment as these cost savings maybe – or in an effort to drive faster top line growth? And then ultimately, curious to hear if Frito-Lay margins can ultimately return to the low 30% range, and if so, by when? How do we think about that? Thank you.

Jamie Caulfield
Executive Vice President & Chief Financial Officer, PepsiCo, Inc.

A

Hey, Bonnie. It's Jamie. How are you? Yeah, on Frito, when you look at the Q1 profit, the thing to keep in mind is, last year, we're lapping 24% growth in the first quarter of last year, I think we have 180 basis points of margin improvement last year. And we don't want to push the P&L that hard, the growth last year, growth this year, part of that has to do with investment timing, the flow of productivity, but I think you'll see margin improvement over time at Frito, but this is a business that has very healthy margins already, and we want to make sure that we're investing back in the business to sustain growth.

Ramon L. Laguarta
Chairman & Chief Executive Officer, PepsiCo, Inc.

A

Yeah, Bonnie, I think on top of what Jamie said, for the long-term, the key goal for Frito in the US is to continue to grow this salty/savory category at a very high rate and continue to get occasions from other parts of macro snacks into the savory and from meals into savory and continue to gain share of that category as it has been doing, including Q1. So, that is the ultimate goal, because if you think about the high margin that we have in that business and the impact it would have in the overall PepsiCo margins, that's the role that Frito-Lay has in the portfolio.

Operator: Thank you. One moment for our next question. Our next question comes from Bryan Spillane with BofA. Your line is open.

Bryan D. Spillane
Analyst, BofA Securities, Inc.

Q

Thanks, operator. Good morning, everybody. Ramon, I guess, a question on PBNA and specifically on Gatorade and Mountain Dew. The volumes are still weak – Gatorade noticeably weak in the quarter. And so, can you just talk about, one, how much in the quarter might have been affected by the weather? And then, second, I guess as we're thinking about volume recovery for the whole, for the enterprise at PBNA, just what's on tap for both Mountain Dew and Gatorade to stabilize the volume trend?

Ramon L. Laguarta
Chairman & Chief Executive Officer, PepsiCo, Inc.
A

That's good, Brian. Listen, actually, we feel good about those two brands. Those two brands actually gained share in Q1. So, Mountain Dew and Gatorade, in their own categories. So, that's a meaningful, good performance, I would say. Now, Gatorade, as you mentioned, a little bit of weather impact, so we're not concerned about Gatorade this year as the weather improves. I think we have the right investments, the right commercial programs.

Our G2DSD was impactful to us last year operationally. I think we've learned a lot on how to deal with a very high seasonality product and category and give the better service our customers and maintain the product in stock and available. So, we feel good about we have the platform to take Gatorade to higher market share in a faster growing category.

Now with regards to Dew, the launch of BAJA BLAST has been very good to the brand. We launched it as a permanent additional flavor to the portfolio early in the year. It's been, obviously, successful. We knew it was a successful LTO, and therefore, is a successful permanent product. And it's been bringing incremental consumers to the brand and help us gain share. Now, obviously, we will keep investing in the portfolio and the brand, and we have strong programs for this summer. Hopefully, that will deliver as we expect, and we'll continue to build Mountain Dew in the category. So, feeling good about those two brands.

Operator: Thank you. One moment for our next question. Our next question comes from Lauren Lieberman with Barclays. Your line is open.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.
Q

Great. Thanks. Good morning. In the prepared remarks, I noticed in the discussion of PBNA and plans to improve profitability there, there were two new bullets. The first two talking about de-emphasizing certain product and package combinations and the second around revenue management and increasingly precise consumer value proposition. So, I was curious if you could just – I know there's new management for that business as well, so would love to get a little bit more color maybe around those two points, I thought would be helpful? Thanks.

Ramon L. Laguarta
Chairman & Chief Executive Officer, PepsiCo, Inc.
A

Yeah. Lauren, I think the – I don't know, maybe we have put a bit more detail, but the intentionality was always there. And I mentioned last time or in the last couple of calls that we're making choices in PBNA in terms of making sure that we deliver profitable growth and we'll continue to make those choices, emphasizing the parts of the portfolio where there is a better return on the investments for us and eliminating those parts of the portfolio where the margins are not that attractive and they're going to get probably not that better over time.

So – and we've been referring to categories like pack water or some of the less profitable take-home formats where we will be making choices. We feel good about both the productivity at PBNA and the margin expansion of PBNA and we feel that that will continue based on the ideas that we have and the organizational focus that the team has been putting under the new management, but also the old management in PBNA. There's much more focus on becoming a better operating machine in the supply chain and sales and expanding the margins. So, we feel good about PBNA margin expansion and profitable growth delivery this year.

Operator: Thank you. One moment for our next question. Our next question comes from Andrea Teixeira with JPMorgan. Your line is open.

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Q

Hi. Good morning. Thank you. So, Ramon, if you can please comment on the overall consumption and in particular for your snacks and how consumer behavior evolved in the context of your comments about normalization? And then, a clarification for Jamie on the margin outlook. On the prepared remarks you mentioned a more benign commodities environment, but that has recently changed in particular for oil and looking at DSD, hoping to get some clarification on the diesel impact, or this is going to be more further down and perhaps not even impacting 2024? Thank you.

Ramon L. Laguarta
Chairman & Chief Executive Officer, PepsiCo, Inc.

A

Yeah. So, listen – Andrea, hi. I would say that the consumer globally, we think it's very resilient and we see it in – as you saw from our International business performance, and it's basically supported by two facts, very low unemployment or quite low unemployment globally and wages growing at a good pace in majority of the countries where we participate. So, those two things make us feel quite good about the consumer.

Now, when you double click, there is probably two areas that were – that probably surface, one is, Chinese consumers. I think Chinese consumers are being very cautious and we're seeing the savings rate really going very high in China. Our category is still resilient in China, but especially we're delivering growth through share of market gains in China. So, that's a good performance by the team, but an area of watch out for us.

The other double click is in, I would say, the lower income consumer in the US. The lower income consumer in the US is stretched, is making a lot of a – is strategizing a lot to make their budgets get to the end of the month. And that's a consumer that is choosing what to buy, where to buy, and making a lot of choices. That's a consumer that we are emphasizing in our commercial programs. I think we're learning how best to keep that consumer in our categories at the frequency that we want that consumer, and we are pivoting our commercial plans, our innovation, giving that consumer the right innovation, the right value in different parts of the month through different channels, digital and physical, making sure that the ROIs on the investments are the best ROIs.

So, those two are the consumers that I would say, we are paying more attention in terms of specific commercial programs. But I would say, the consumer is very resilient everywhere else and our teams, I think, are pivoting to maintain our brands top-of-mind in their baskets at the frequency that we'd want, and continue to gain market share. So, [ph] this (00:15:35) applies to beverages and to snacks. Your question was more on snacks, but I think it applies to both categories. So, now, Jamie, on...

Jamie Caulfield
Executive Vice President & Chief Financial Officer, PepsiCo, Inc.

A

Yeah. Andrea, on commodities, really no change in the outlook. A couple of points I just want to emphasize. One is the diversity of the inputs in the basket, so no simple commodity accounts for more than 10% of the total. So, that diversification kind of smooth things out. And the other point I'd make is, we do tend to forward buy and hedge so that we've got good visibility for the year. That helps us with planning business overall. And so, outlook, Q2 through Q4 still relatively benign inflation and not a lot of volatility in the rate of inflation quarter-to-quarter.

Operator: Thank you. One moment for our next question. Our next question comes from Peter Grom with UBS. Your line is open.

Peter Grom
Analyst, UBS Securities LLC

Q

Thanks, operator, and good morning, everyone.

Ramon L. Laguarta
Chairman & Chief Executive Officer, PepsiCo, Inc.

A

Good morning.

Peter Grom
Analyst, UBS Securities LLC

Q

So, Ramon, I was hoping to get an update on the Celsius agreement and kind of just your broader energy drinks strategy at this point. In the release you spoke positively about the partnership, but I think there were some changes to the incentive structure a few weeks back. So, maybe first just any thoughts on how the brand is performing as part of your energy drink portfolio? And then just, like, anything you can share in terms of what changed with the agreement, but maybe specifically how does it really help Pepsi? And maybe what benefit does it provide for Celsius, if anything? Thanks.

Ramon L. Laguarta
Chairman & Chief Executive Officer, PepsiCo, Inc.

A

Yeah. Thank you, Peter. I will not talk too much about the agreement other than saying that it's a good alignment of the long-term interest of both companies, and it's great for PepsiCo shareholders. The partnership with Celsius is strong, and it's helping us to gain scale in our go-to-market, specifically in some channels where we need volume to justify some of the economics of the call, so that role continues. We're pleased with the partnership. Energy is a fast-growing category, profitable. That is great for our portfolio. So, that's what I would say and we remain pleased with the partnership and we'll continue to build the partnership going forward.

Operator: Thank you. One moment for our next question. Our next question comes from Filippo Falorni with Citi. Your line is open.

Filippo Falorni
Analyst, Citigroup Global Markets, Inc.

Q

Hey. Good morning, everyone. So, I wanted to go back to Frito, but on the top line trends. Clearly, you guys were expecting the toughest comp of the year in Frito-Lay. You mentioned you expect some sequential improvements. So, maybe you could talk about volume trajectory, particularly for the business. And, Ramon, you spoke in the past about the cycling of the shift toward smaller pack sizes, so maybe if you can give us an update on that? And also, any potential impact from cycling the reduction in SNAP benefits from last year? Thank you.

Ramon L. Laguarta
Chairman & Chief Executive Officer, PepsiCo, Inc.

A

Yeah. I would say, Frito-Lay continues to outperform the category and as I said earlier, the big opportunity for Frito-Lay is continue to create occasions for our savory category, bringing them from broader macro snacks or snacks and meals overlap, how do we bring more category stores, more occasions stores [ph] in snacking (00:19:23). So, those are the two big specific objectives of Frito-Lay. And all our innovation and pricing and channel mix and everything else is against that large objective, and do it faster than others, so that we continue to gain share.

As we look at the business performance, as you said, this is the toughest lap. I think last year we grew 16% in Q1, and that lap is still high in Q2, but then it gets much better in half two. So, we should expect a gradual, sequential improvement of our volume for Frito-Lay, especially in the second half of the year, and we'll continue to be the guardians of the savory category, make sure it's valued appropriately and it generates growth for our customers ahead of what food generates for our customers, and we continue to capture this proportionate share of that very fast-growing and profitable business.

Operator: Thank you. One moment for our next question. Our next question comes from Kaumil Gajrawala with Jefferies. Your line is open.

Kaumil Gajrawala
Analyst, Jefferies LLC

Q

Thanks. Good morning, everyone. Just, you mentioned multiple times on gaining share within the category, could you just give us some – in multiple regions. Could you just give us some context on what the categories are growing or at least maybe what they're expected to grow as you think about the next year or so?

Ramon L. Laguarta
Chairman & Chief Executive Officer, PepsiCo, Inc.

A

Yeah. I mean, like, what I said is that our goal is always for our categories to grow faster than overall food and beverages. I think that makes us a very attractive partner with our retail partners and we deliver growth for them, and our categories are profitable. So, it's a good combination of growth and profitability for our customers, so that's what we're trying to do. I think our categories will continue to grow faster than food and beverages in the majority of the countries around the world, given the trends on the urbanization and the secular trends that we've been talking about both for us and convenient foods and beverages.

So, we feel good about that and our commercial programs, innovation and investments are in, to deliver that for our partners. Obviously, there are countries around the world where we do better, others where we do less well, and our goal is to keep emphasizing the ones we do better and improve the ones that we don't do so well and that's how we are managing the company.

Operator: Thank you. One moment for our next question. Our next question comes from Robert Moskow with TD Cowen. Your line is open.

Robert Moskow
Analyst, TD Cowen

Q

Hi. Thanks for the question. The 4% price/mix benefit in Frito-Lay North America is pretty impressive in a food industry where there's just not a lot of pricing left. And I imagine a lot of it is from price pack architecture, or maybe even consumers shifting to different pack sizes. Can you help delineate a little bit more, like, which of those is driving it more than the other, or if it's about the same, and how do you expect it to evolve for the rest of the year, do you expect it to be pretty constant?

Jamie Caulfield
Executive Vice President & Chief Financial Officer, PepsiCo, Inc.

A

Yeah. Hey, Robert. It's Jamie and it's – majority is price, but there's an element of mix in there, I'd put it that probably two-thirds price and one-third mix. And yeah, the comment earlier on our inflationary trends, we expect them to be fairly moderate for the balance of the year, fairly smooth for the balance of the year, so I wouldn't expect a lot of volatility in that volume and revenue relationship.

Operator: Thank you. One moment for our next question. Our next question comes from Robert Ottenstein with Evercore ISI. Your line is open.

Robert Ottenstein
Analyst, Evercore ISI

Q

Great. Thank you very much. Two kind of follow ups, if I may. Can you please talk about the spring shelf sets, is it pretty much done, and how do you feel good about what you're seeing both on the Frito-Lay side and on the beverage side, and I understand on the beverage side, you're discontinuing some SKUs, so are you gaining shelf space where you want to? And then just a follow up to an earlier question on Celsius, maybe if you give us an idea of how your energy drink strategy overall is evolving and what's going on with Rockstar, Starbucks, Mountain Dew in terms of the overall energy drink strategy? Thank you.

Ramon L. Laguarta
Chairman & Chief Executive Officer, PepsiCo, Inc.

A

Yeah. Listen, I'll step back a little bit. I would say, our customer negotiations have been good and completed all over the world and especially Europe took a bit longer, but very positive impact to our, overall, let's say, European business and other parts of the world are less impacted by this type of negotiations. We feel good, including the US. To your specific question on space gains, I think it's going to be a good reset time for us across snacks and beverages. It's not completed yet. It's in its way. Normally, I would say, probably another six weeks or so. We're feeling good about where we've seen already resets the performance improvement in the business, so that's good, well done by the by the commercial teams. So, yeah, we feel good overall and that's why we are reaffirming our guidance to grow at least over 4% in our net revenue for this year.

Operator: Thank you. One moment for our next question. Our next question comes from Chris Carey with Wells Fargo Securities.

Chris Carey
Analyst, Wells Fargo Securities LLC

Q

Hi, everyone. So, one question on APAC's division. Ramon, I think you were a bit more cautious or balanced on the Chinese consumer and yet double-digit growth in the quarter in China. I just wonder how APAC came in relative to your own expectations and whether there's any timing dynamic here, or whether you see these results as perhaps a bit more durable going forward? And if I could just sneak in from the at home versus away from home consumption globally. As you see some of the weaker trends from the lower income consumer, are you seeing any acceleration in that shift which might be helping your business on a global basis as well? Thanks.

Ramon L. Laguarta
Chairman & Chief Executive Officer, PepsiCo, Inc.

A

Two things. Thanks. Good questions. I think the APAC performance is a little bit impacted by the timing of Chinese New Year. So, there is a bit of benefit in our Q1 numbers versus Q2. It was a bit earlier this year. But the reality is that the APAC region is improving, I would say, outside of China. China still, as I mentioned earlier, I think the consumer is cautious and the consumer is saving a lot and it might not impact so much the low price, let's say, products as ours. It might probably impact some other categories a bit harder than ours. The truth is that in China, as I said earlier, our team is not only this year, but already consistently for the last four, five years, been gaining share and creating a very capable and profitable business in China we are very proud of.

Now, to your other question on away-from-home, in-home, we're are seeing mobility obviously going back to pre-pandemic times. I think we all forgot COVID anymore. And we're seeing, obviously, that impact in the consumption of food between home and away-from-home. Especially in the US, I would say, it's probably the country that is having more impact. So, yes, away-from-home is growing faster than in-home for us and/or pivoting resources to away-from-home both in our food business and our beverage business and we're trying to capture as much as possible that consumption that is moving to away-from-home.

Internationally, as well, I would say, that is a huge white space for growth for our business, both in trying to improve the availability of our current products and also creating new solutions that are more targeting meals and meal replacement, as consumers buy more food away-from-home. And I think our brands belong in some of those occasions and as I mentioned at CAGNY, we're building both innovation and business models that can help us capture this meal occasion away-from-home with some of our large brands like Lays, Doritos, Tostitos, some of our well-known global brands.

Operator: Thank you. One moment for our next question. Our next question comes from Steve Powers with Deutsche Bank. Your line is open.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Hey, thanks, and good morning. Ramon, maybe [ph] it ties to (00:29:33) the pressures you mentioned earlier on the lower income consumers in the US or maybe even your comments just now on at-home versus away-from-home, but if I think back over the last six-plus months, we've seen arguably unexpected slowing across many categories, but really, many immediate-consumption categories where I think it was most unexpected, across savory snacks, sweet snacks, arguably a number of beverage categories as well.

Do you agree with that kind of unexpected slowing comments? And if so, how do you see the drivers, how do you stack up the drivers, where you think we are in that cycle, and how does that factor into your expectations on momentum recovery across your North American businesses? I think the easing comps are obvious. I'm just – I'm curious about sort of the – your expectations on demand itself sequentially improving?

Ramon L. Laguarta
Chairman & Chief Executive Officer, PepsiCo, Inc.

A

That's great. Now, listen, it's a great question and I think we need to step back and look at the bigger numbers. Obviously, there was huge inflation in our categories driven by input inflation over the last couple of years and operating cost inflation. Now, what makes us feel optimistic is a couple of data. Number one, I think wages are growing above inflation and we see that not only in the US, but across the world. And we see our consumer packaged food inflation below, I would say, total CPI. So, those two numbers make us feel comfortable that consumers will start coming back to our categories at the frequency and with the same level of higher frequency than in the past. So, those are two big numbers.

Obviously, each one of us with our commercial programs, our innovation, our channel strategies is trying to accelerate that pivot back, but we feel good about the price/volume mix that we see in our business and that's how we've seen that we'll continue to sequentially improve over the balance of the year and to further years.

Our North Star remains the same, is to make sure that, as I said earlier, we have innovation and consumer program and channel programs that continue to drive savory snacks ahead of macro snacks, ahead of food and the same with LRB ahead of overall liquid consumption and ahead of food and beverages. So, that drives value for our business and that drives value for our customers, and that's how we think about driving the company long-term.

Operator: Thank you. One moment for our next question. Our next question comes from Brett Cooper with Consumer Edge Research. Your line is open.

Brett John Cooper
Analyst, Consumer Edge Research LLC

Q

Thank you. Good morning. A question on the International business. On these calls over the years PepsiCo has spoken about managing International profit delivery to provide affordability to consumers and support recruitment. And if we look at margins in the International business, they're up versus pre-COVID level. So, can you help us understand beyond the headline financial results that we can see, I guess, evidence of what you look at to ensure you're providing proper levels of affordability for category development to support the very long-term for that business? Thanks.

Ramon L. Laguarta
Chairman & Chief Executive Officer, PepsiCo, Inc.

A

Yeah. We're always very conscious of the relative value of our product versus other potential substitute products in the categories that we participate. So, if you think about snacks, the big opportunities to transform and package snacks into package snacks or other macro snacks into savory snacks. And we always look at that value ratio in every market, in every geography for different types of consumers. Now, the same with beverages, right. Moving from non-commercial beverages to commercial beverages, that is always the opportunity for us as an industry. We look at that very carefully.

Now, why are our margins expanding internationally? Because as we gain scale, and obviously, our fixed cost leverage is much better, and that's how we are getting to more profitable businesses in International markets, especially the large markets, whilst we keep affordability at the center of our strategy because that's long-term, including other things that we do, obviously, with availability. And with innovation, we make our categories continue to grow at a very fast pace. But as you mentioned, affordability and relative value of our categories is a key KPI that we measure all the time in every market, because it's the key source of continuous growth for our categories.

Operator: Thank you. One moment for our next question. Our next question comes from Gerald Pascarelli with Wedbush Securities. Your line is open.

Gerald Pascarelli
Analyst, Wedbush Securities, Inc.

Q

Great. Thanks very much. A question on Europe. Another really strong quarter here, like, the seventh consecutive quarter of double-digit revenue growth. Looks like it accelerated on an underlying two-year basis. So, maybe if you could provide some color on the driver markets, ones that maybe came in better than your expectations? And then, how you would compare how developed markets in Europe are performing relative to what we're seeing in the US? Thanks.

Ramon L. Laguarta
Chairman & Chief Executive Officer, PepsiCo, Inc.

A

Yeah. Thank you. And a good observation. I think our team in Europe is doing fantastic work. It started with strong productivity, simplifying the business and driving cost control, eliminating duplication and then reinvesting that money back into our brands and becoming more competitive and also driving our availability and driving our brand preference. And that is a flywheel that is working for us across both developing and developed markets in Europe.

Obviously, developing markets a bit more. So, if you think about kind of Eastern Europe markets are growing a little bit faster than Western Europe markets. Western Europe markets have been impacted a little in this first quarter by some of the negotiations, and that's not atypical in Europe. But I think we have a good flywheel in Europe and Europe will be expanding its portfolio along the lines of what the US has been doing, which will give us additional consumers and additional penetration in households across developed and developing markets. So, we feel good about the flywheel in Europe.

But at the center of that is a very strong productivity, cost discipline and reinvestment strategy that is in a way what we are trying to do across the full company, elevating our productivity and driving the investments both into affordability, availability, better brand equity and then reinvesting back into our future, digitalization and sustainability at the center of that reinvestment. So, it's a flywheel that we are trying to do for all of the world. Clearly, Europe is doing a good job at implementing it.

Operator: Thank you. Ladies and gentlemen, this does conclude the question-and-answer session. I would like to turn the call back to Ramon Laguarta for any closing remarks.

Ramon L. Laguarta
Chairman & Chief Executive Officer, PepsiCo, Inc.

Yeah. Thank you, everyone, for joining us this morning and for the confidence that you've placed in us and in our stock. We hope that you all stay healthy and safe. Thank you.

Operator: Ladies and gentlemen, this does conclude today's presentation. You may now disconnect and have a wonderful day.

Ravi Pamnani
Senior Vice President, Investor Relations, PepsiCo, Inc.

Thank you, gentlemen. Appreciate your help.

Operator: You're welcome.