

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 7, 2019 (36 weeks)

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-1183



PepsiCo, Inc.

(Exact Name of Registrant as Specified in its Charter)

North Carolina  
(State or Other Jurisdiction of  
Incorporation or Organization)

13-1584302  
(I.R.S. Employer  
Identification No.)

700 Anderson Hill Road, Purchase, New York 10577

(Address of principal executive offices and Zip Code)

(914) 253-2000

Registrant's telephone number, including area code

N/A

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class	Trading Symbols	Name of each exchange on which registered
Common Stock, par value 1-2/3 cents per share	PEP	The Nasdaq Stock Market LLC
2.500% Senior Notes Due 2022	PEP22a	The Nasdaq Stock Market LLC
1.750% Senior Notes Due 2021	PEP21a	The Nasdaq Stock Market LLC
2.625% Senior Notes Due 2026	PEP26	The Nasdaq Stock Market LLC
0.875% Senior Notes Due 2028	PEP28	The Nasdaq Stock Market LLC
0.750% Senior Notes Due 2027	PEP27	The Nasdaq Stock Market LLC
1.125% Senior Notes Due 2031	PEP31	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Number of shares of Common Stock outstanding as of September 26, 2019 was 1,394,435,338.

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**PepsiCo, Inc. and Subsidiaries**

**Table of Contents**

	<u>Page No.</u>
Part I Financial Information	
Item 1. Condensed Consolidated Financial Statements	<u>3</u>
<u>Condensed Consolidated Statement of Income –</u> <u>12 and 36 Weeks Ended September 7, 2019 and September 8, 2018</u>	<u>3</u>
<u>Condensed Consolidated Statement of Comprehensive Income –</u> <u>12 and 36 Weeks Ended September 7, 2019 and September 8, 2018</u>	<u>4</u>
<u>Condensed Consolidated Statement of Cash Flows –</u> <u>36 Weeks Ended September 7, 2019 and September 8, 2018</u>	<u>5</u>
<u>Condensed Consolidated Balance Sheet –</u> <u>September 7, 2019 and December 29, 2018</u>	<u>6</u>
<u>Condensed Consolidated Statement of Equity –</u> <u>12 and 36 Weeks Ended September 7, 2019 and September 8, 2018</u>	<u>7</u>
<u>Notes to the Condensed Consolidated Financial Statements</u>	<u>8</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>28</u>
Report of Independent Registered Public Accounting Firm	<u>48</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>49</u>
Item 4. <u>Controls and Procedures</u>	<u>49</u>
Part II Other Information	
Item 1. <u>Legal Proceedings</u>	<u>50</u>
Item 1A. <u>Risk Factors</u>	<u>50</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>50</u>
Item 6. <u>Exhibits</u>	<u>50</u>

**PART I FINANCIAL INFORMATION****ITEM 1. Condensed Consolidated Financial Statements.****Condensed Consolidated Statement of Income**

PepsiCo, Inc. and Subsidiaries

(in millions except per share amounts, unaudited)

	12 Weeks Ended		36 Weeks Ended	
	9/7/2019	9/8/2018	9/7/2019	9/8/2018
<b>Net Revenue</b>	<b>\$ 17,188</b>	<b>\$ 16,485</b>	<b>\$ 46,521</b>	<b>\$ 45,137</b>
Cost of sales	7,694	7,527	20,786	20,445
Gross profit	9,494	8,958	25,735	24,692
Selling, general and administrative expenses	6,639	6,114	18,143	17,013
<b>Operating Profit</b>	<b>2,855</b>	<b>2,844</b>	<b>7,592</b>	<b>7,679</b>
Other pension and retiree medical benefits income	38	74	163	231
Interest expense	(262)	(302)	(790)	(904)
Interest income and other	38	81	139	248
Income before income taxes	2,669	2,697	7,104	7,254
Provision for income taxes	559	188	1,529	1,562
Net income	2,110	2,509	5,575	5,692
Less: Net income attributable to noncontrolling interests	10	11	27	31
<b>Net Income Attributable to PepsiCo</b>	<b>\$ 2,100</b>	<b>\$ 2,498</b>	<b>\$ 5,548</b>	<b>\$ 5,661</b>
<b>Net Income Attributable to PepsiCo per Common Share</b>				
<b>Basic</b>	<b>\$ 1.50</b>	<b>\$ 1.77</b>	<b>\$ 3.96</b>	<b>\$ 3.99</b>
<b>Diluted</b>	<b>\$ 1.49</b>	<b>\$ 1.75</b>	<b>\$ 3.94</b>	<b>\$ 3.97</b>
Weighted-average common shares outstanding				
Basic	1,397	1,414	1,401	1,417
Diluted	1,405	1,424	1,409	1,427

See accompanying notes to the condensed consolidated financial statements.

**Condensed Consolidated Statement of Comprehensive Income**

PepsiCo, Inc. and Subsidiaries

(in millions, unaudited)

	12 Weeks Ended		36 Weeks Ended	
	9/7/2019	9/8/2018	9/7/2019	9/8/2018
Net income	\$ 2,110	\$ 2,509	\$ 5,575	\$ 5,692
Other comprehensive (loss)/income, net of taxes:				
Net currency translation adjustment	(159)	(728)	(51)	(1,409)
Net change on cash flow hedges	(38)	(1)	(71)	75
Net pension and retiree medical adjustments	56	54	115	134
Net change on available-for-sale securities	(1)	2	—	4
	<u>(142)</u>	<u>(673)</u>	<u>(7)</u>	<u>(1,196)</u>
Comprehensive income	1,968	1,836	5,568	4,496
Comprehensive income attributable to noncontrolling interests	(10)	(11)	(27)	(31)
<b>Comprehensive Income Attributable to PepsiCo</b>	<b>\$ 1,958</b>	<b>\$ 1,825</b>	<b>\$ 5,541</b>	<b>\$ 4,465</b>

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See accompanying notes to the condensed consolidated financial statements.

**Condensed Consolidated Statement of Cash Flows**  
PepsiCo, Inc. and Subsidiaries  
(in millions, unaudited)

	<b>36 Weeks Ended</b>	
	<b>9/7/2019</b>	<b>9/8/2018</b>
<b>Operating Activities</b>		
Net income	\$ 5,575	\$ 5,692
Depreciation and amortization	1,634	1,636
Share-based compensation expense	169	203
Restructuring and impairment charges	282	79
Cash payments for restructuring charges	(248)	(179)
Pension and retiree medical plan expenses	165	147
Pension and retiree medical plan contributions	(391)	(1,664)
Deferred income taxes and other tax charges and credits	195	(609)
Tax (benefits)/net tax expense related to the Tax Cuts and Jobs Act (TCJ Act)	(29)	854
Tax payments related to the TCJ Act	(393)	(41)
Change in assets and liabilities:		
Accounts and notes receivable	(1,716)	(1,299)
Inventories	(573)	(362)
Prepaid expenses and other current assets	(264)	(158)
Accounts payable and other current liabilities	80	116
Income taxes payable	347	674
Other, net	230	(357)
<b>Net Cash Provided by Operating Activities</b>	<b>5,063</b>	<b>4,732</b>
<b>Investing Activities</b>		
Capital spending	(1,959)	(1,578)
Sales of property, plant and equipment	63	119
Acquisition of SodaStream International Ltd. (SodaStream)	(1,905)	—
Other acquisitions and investments in noncontrolled affiliates	(723)	(253)
Divestitures	253	294
Short-term investments, by original maturity:		
More than three months - purchases	—	(5,637)
More than three months - maturities	8	11,874
More than three months - sales	3	772
Three months or less, net	13	7
Other investing, net	(38)	—
<b>Net Cash (Used for)/Provided by Investing Activities</b>	<b>(4,285)</b>	<b>5,598</b>
<b>Financing Activities</b>		
Proceeds from issuances of long-term debt	3,098	—
Payments of long-term debt	(2,954)	(2,506)
Short-term borrowings, by original maturity:		
More than three months - proceeds	6	2
More than three months - payments	—	(17)
Three months or less, net	94	(1,384)
Cash dividends paid	(3,971)	(3,621)
Share repurchases - common	(2,268)	(1,442)
Share repurchases - preferred	—	(2)
Proceeds from exercises of stock options	282	215
Withholding tax payments on restricted stock units (RSUs), performance stock units (PSUs) and PepsiCo equity performance units (PEPunits) converted	(100)	(93)
Other financing	(16)	(23)
<b>Net Cash Used for Financing Activities</b>	<b>(5,829)</b>	<b>(8,871)</b>
Effect of exchange rate changes on cash and cash equivalents and restricted cash	(11)	(73)
<b>Net (Decrease)/Increase in Cash and Cash Equivalents and Restricted Cash</b>	<b>(5,062)</b>	<b>1,386</b>

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<b>Cash and Cash Equivalents and Restricted Cash, Beginning of Year</b>	<b>10,769</b>	10,657
<b>Cash and Cash Equivalents and Restricted Cash, End of Period</b>	<b>\$ 5,707</b>	<b>\$ 12,043</b>

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See accompanying notes to the condensed consolidated financial statements.

**Condensed Consolidated Balance Sheet**  
PepsiCo, Inc. and Subsidiaries  
(in millions except per share amounts)

	(Unaudited)	
	9/7/2019	12/29/2018
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 5,494	\$ 8,721
Short-term investments	287	272
Restricted cash	127	1,997
Accounts and notes receivable, less allowance: 9/19 - \$114 and 12/18 - \$101	8,735	7,142
Inventories:		
Raw materials and packaging	1,509	1,312
Work-in-process	316	178
Finished goods	1,842	1,638
	<u>3,667</u>	<u>3,128</u>
Prepaid expenses and other current assets	888	633
<b>Total Current Assets</b>	<b>19,198</b>	<b>21,893</b>
Property, plant and equipment	40,645	40,164
Accumulated depreciation	<u>(23,059)</u>	<u>(22,575)</u>
	17,586	17,589
<b>Amortizable Intangible Assets, net</b>	<b>1,437</b>	<b>1,644</b>
Goodwill	15,338	14,808
Other indefinite-lived intangible assets	<u>14,375</u>	<u>14,181</u>
<b>Indefinite-Lived Intangible Assets</b>	<b>29,713</b>	<b>28,989</b>
<b>Investments in Noncontrolled Affiliates</b>	<b>2,690</b>	<b>2,409</b>
<b>Deferred Income Taxes</b>	<b>4,340</b>	<b>4,364</b>
<b>Other Assets</b>	<b>2,480</b>	<b>760</b>
<b>Total Assets</b>	<b>\$ 77,444</b>	<b>\$ 77,648</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Short-term debt obligations	\$ 2,924	\$ 4,026
Accounts payable and other current liabilities	17,207	18,112
<b>Total Current Liabilities</b>	<b>20,131</b>	<b>22,138</b>
<b>Long-Term Debt Obligations</b>	<b>29,630</b>	<b>28,295</b>
<b>Deferred Income Taxes</b>	<b>3,643</b>	<b>3,499</b>
<b>Other Liabilities</b>	<b>9,816</b>	<b>9,114</b>
<b>Total Liabilities</b>	<b>63,220</b>	<b>63,046</b>
Commitments and contingencies		
<b>PepsiCo Common Shareholders' Equity</b>		
Common stock, par value 1 <sup>2</sup> / <sub>3</sub> ¢ per share (authorized 3,600 shares; issued, net of repurchased common stock at par value: 1,396 and 1,409 shares, respectively)	23	23
Capital in excess of par value	3,842	3,953
Retained earnings	61,514	59,947
Accumulated other comprehensive loss	(15,126)	(15,119)
Repurchased common stock, in excess of par value (471 and 458 shares, respectively)	<u>(36,124)</u>	<u>(34,286)</u>
<b>Total PepsiCo Common Shareholders' Equity</b>	<b>14,129</b>	<b>14,518</b>
Noncontrolling interests	95	84
<b>Total Equity</b>	<b>14,224</b>	<b>14,602</b>
<b>Total Liabilities and Equity</b>	<b>\$ 77,444</b>	<b>\$ 77,648</b>

See accompanying notes to the condensed consolidated financial statements.





## Condensed Consolidated Statement of Equity

PepsiCo, Inc. and Subsidiaries

(in millions, unaudited)

	12 Weeks Ended				36 Weeks Ended			
	9/7/2019		9/8/2018		9/7/2019		9/8/2018	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
<b>Preferred Stock</b>								
Balance, beginning of period	—	\$ —	—	\$ —	—	\$ —	0.8	\$ 41
Conversion to common stock	—	—	—	—	—	—	(0.1)	(6)
Retirement of preferred stock	—	—	—	—	—	—	(0.7)	(35)
Balance, end of period	—	—	—	—	—	—	—	—
<b>Repurchased Preferred Stock</b>								
Balance, beginning of period	—	—	—	—	—	—	(0.7)	(197)
Redemptions	—	—	—	—	—	—	—	(2)
Retirement of preferred stock	—	—	—	—	—	—	0.7	199
Balance, end of period	—	—	—	—	—	—	—	—
<b>Common Stock</b>								
Balance, beginning of period	1,399	23	1,415	24	1,409	23	1,420	24
Shares issued in connection with preferred stock conversion to common stock	—	—	—	—	—	—	1	—
Change in repurchased common stock	(3)	—	(3)	—	(13)	—	(9)	—
Balance, end of period	1,396	23	1,412	24	1,396	23	1,412	24
<b>Capital in Excess of Par Value</b>								
Balance, beginning of period		3,796		3,915		3,953		3,996
Share-based compensation expense		51		56		170		204
Equity issued in connection with preferred stock conversion to common stock		—		—		—		6
Stock option exercises, RSUs, PSUs and PEPunits converted		(5)		(22)		(181)		(172)
Withholding tax on RSUs, PSUs and PEPunits converted		—		(11)		(100)		(93)
Other		—		1		—		(2)
Balance, end of period		3,842		3,939		3,842		3,939
<b>Retained Earnings</b>								
Balance, beginning of period		60,752		53,223		59,947		52,839
Cumulative effect of accounting changes		—		—		8		(145)
Net income attributable to PepsiCo		2,100		2,498		5,548		5,661
Cash dividends declared – common <sup>(a)</sup>		(1,338)		(1,317)		(3,989)		(3,787)
Retirement of preferred stock		—		—		—		(164)
Balance, end of period		61,514		54,404		61,514		54,404
<b>Accumulated Other Comprehensive Loss</b>								
Balance, beginning of period		(14,984)		(13,580)		(15,119)		(13,057)
Other comprehensive loss attributable to PepsiCo		(142)		(673)		(7)		(1,196)
Balance, end of period		(15,126)		(14,253)		(15,126)		(14,253)
<b>Repurchased Common Stock</b>								
Balance, beginning of period	(468)	(35,635)	(452)	(33,471)	(458)	(34,286)	(446)	(32,757)
Share repurchases	(4)	(551)	(4)	(449)	(19)	(2,301)	(14)	(1,453)
Stock option exercises, RSUs, PSUs and PEPunits converted	1	62	1	92	6	463	5	381
Other	—	—	—	—	—	—	—	1
Balance, end of period	(471)	(36,124)	(455)	(33,828)	(471)	(36,124)	(455)	(33,828)
<b>Total PepsiCo Common Shareholders' Equity</b>								
		14,129		10,286		14,129		10,286
<b>Noncontrolling Interests</b>								
Balance, beginning of period		85		110		84		92
Net income attributable to noncontrolling interests		10		11		27		31
Distributions to noncontrolling interests		—		(20)		(15)		(20)
Other, net		—		2		(1)		—

Balance, end of period	<u>95</u>	<u>103</u>	<u>95</u>	<u>103</u>
<b>Total Equity</b>	<b><u>\$ 14,224</u></b>	<b><u>\$ 10,389</u></b>	<b><u>\$ 14,224</u></b>	<b><u>\$ 10,389</u></b>

(a) Cash dividends declared per common share were \$0.955 and \$0.9275 for the 12 weeks ended September 7, 2019 and September 8, 2018, respectively, and \$2.8375 and \$2.66 for the 36 weeks ended September 7, 2019 and September 8, 2018, respectively.

See accompanying notes to the condensed consolidated financial statements.

## Notes to the Condensed Consolidated Financial Statements

### Note 1 - Basis of Presentation and Our Divisions

#### *Basis of Presentation*

When used in this report, the terms “we,” “us,” “our,” “PepsiCo” and the “Company” mean PepsiCo, Inc. and its consolidated subsidiaries, collectively.

Our Condensed Consolidated Balance Sheet as of September 7, 2019, Condensed Consolidated Statements of Income, Comprehensive Income and Equity for the 12 and 36 weeks ended September 7, 2019 and September 8, 2018 and the Condensed Consolidated Statement of Cash Flows for the 36 weeks ended September 7, 2019 and September 8, 2018 have not been audited. These statements have been prepared on a basis that is substantially consistent with the accounting principles applied in our Annual Report on Form 10-K for the fiscal year ended December 29, 2018 (2018 Form 10-K), as modified to reflect the adoption of those recently issued accounting pronouncements disclosed in Note 2 in this Form 10-Q. This report should be read in conjunction with our 2018 Form 10-K. In our opinion, these financial statements include all normal and recurring adjustments necessary for a fair presentation. The results for the 12 and 36 weeks ended September 7, 2019 are not necessarily indicative of the results expected for any future period or the full year.

While our financial results in the United States and Canada (North America) are reported on a 12-week basis, 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 7, 2019, and the months of January through August are reflected in our results for the 36 weeks ended September 7, 2019.

Our significant interim accounting policies include the recognition of a pro rata share of certain estimated annual sales incentives and certain advertising and marketing costs in proportion to revenue or volume, as applicable, and the recognition of income taxes using an estimated annual effective tax rate. Raw materials, direct labor and plant overhead, as well as purchasing and receiving costs, costs directly related to production planning, inspection costs and raw materials handling facilities, are included in cost of sales. The costs of moving, storing and delivering finished product, including merchandising activities, are included in selling, general and administrative expenses.

The following information is unaudited. Unless otherwise noted, tabular dollars are in millions, except per share amounts. All per share amounts reflect common per share amounts, assume dilution unless otherwise noted, and are based on unrounded amounts. Certain reclassifications were made to the prior year’s financial statements to conform to the current year presentation.

#### *Our Divisions*

We are organized into six reportable segments (also referred to as divisions), as follows:

- 1) Frito-Lay North America (FLNA), which includes our branded food and snack businesses in the United States and Canada;
- 2) Quaker Foods North America (QFNA), which includes our cereal, rice, pasta and other branded food businesses in the United States and Canada;
- 3) PepsiCo Beverages North America (PBNA), which includes our beverage businesses in the United States and Canada. PBNA was formerly named North America Beverages; this change did not impact the results of PBNA or our other reportable segments;
- 4) Latin America (LatAm), which includes all of our beverage, food and snack businesses in Latin America;
- 5) Europe Sub-Saharan Africa (ESSA), which includes all of our beverage, food and snack businesses in Europe and Sub-Saharan Africa; and

- 6) Asia, Middle East and North Africa (AMENA), which includes all of our beverage, food and snack businesses in Asia, the Middle East and North Africa.

Net revenue and operating profit of each division are as follows:

Net Revenue <sup>(a)</sup>	12 Weeks Ended		36 Weeks Ended	
	9/7/2019	9/8/2018	9/7/2019	9/8/2018
FLNA	\$ 4,105	\$ 3,891	\$ 11,930	\$ 11,345
QFNA	576	567	1,710	1,695
PBNA	5,643	5,456	15,475	15,064
LatAm	1,904	1,868	5,031	4,935
ESSA	3,347	3,161	8,173	7,945
AMENA	1,613	1,542	4,202	4,153
Total	\$ 17,188	\$ 16,485	\$ 46,521	\$ 45,137

- (a) Our primary performance obligation is the distribution and sales of beverage products and food and snack products to our customers, each comprising approximately 50% of our consolidated net revenue. Internationally, our LatAm segment is predominantly a food and snack business, ESSA's beverage business and food and snack business are each approximately 50% of the segment's net revenue and AMENA's beverage business and food and snack business are approximately 35% and 65%, respectively, of the segment's net revenue. Beverage revenue from company-owned bottlers, which primarily includes our consolidated bottling operations in our PBNA and ESSA segments, is approximately 40% of our consolidated net revenue. Generally, our finished goods beverage operations produce higher net revenue, but lower operating margins as compared to concentrate sold to authorized bottling partners for the manufacture of finished goods beverages.

Operating Profit	12 Weeks Ended		36 Weeks Ended	
	9/7/2019	9/8/2018	9/7/2019	9/8/2018
FLNA	\$ 1,286	\$ 1,241	\$ 3,694	\$ 3,491
QFNA	126	143	391	443
PBNA	640	703	1,719	1,838
LatAm	277	284	785	742
ESSA	474	439	965	995
AMENA <sup>(a)</sup>	357	311	883	994
Total division	\$ 3,160	\$ 3,121	\$ 8,437	\$ 8,503
Corporate unallocated expenses	(305)	(277)	(845)	(824)
Total	\$ 2,855	\$ 2,844	\$ 7,592	\$ 7,679

- (a) Operating profit for AMENA for the 36 weeks ended September 8, 2018 includes a gain of \$144 million associated with refranchising a portion of our beverage business in Thailand.

## Note 2 - Recently Issued Accounting Pronouncements

### Adopted

In 2018, the Financial Accounting Standards Board (FASB) issued guidance related to the TCJ Act for the optional reclassification of the residual tax effects, arising from the change in corporate tax rate, in accumulated other comprehensive loss to retained earnings. The reclassification is the difference between the amount previously recorded in other comprehensive income at the historical U.S. federal tax rate that remains in accumulated other comprehensive loss at the time the TCJ Act was effective and the amount that would have been recorded using the newly enacted rate. This guidance became effective during the first quarter of 2019; however, we did not elect to make the optional reclassification.

In 2017, the FASB issued guidance to amend and simplify the application of hedge accounting guidance to better portray the economic results of risk management activities in the financial statements. The guidance expands the ability to hedge nonfinancial and financial risk components, reduces complexity in fair value hedges of interest rate risk, eliminates the requirement to separately measure and report hedge ineffectiveness, as well as eases certain hedge effectiveness assessment requirements. Under this guidance, certain of our

derivatives used to hedge commodity price risk that did not previously qualify for hedge accounting treatment can now qualify prospectively. We adopted this guidance during the first quarter of 2019; the adoption did not have a material impact on our financial statements or disclosures. See Note 9 for further information.

In 2016, the FASB issued guidance on leases, with amendments issued in 2018. The guidance requires lessees to recognize most leases on the balance sheet but does not change the manner in which expenses are recorded in the income statement. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. The two permitted transition methods under the guidance are the modified retrospective transition approach, which requires application of the guidance for all comparative periods presented, and the cumulative effect adjustment approach, which requires prospective application at the adoption date.

We utilized a comprehensive approach to assess the impact of this guidance on our financial statements and related disclosures, including the increase in the assets and liabilities on our balance sheet and the impact on our current lease portfolio from both a lessor and lessee perspective. We completed our comprehensive review of our lease portfolio, including significant leases by geography and by asset type that were impacted by the new guidance, and enhanced our controls. In addition, we implemented a new software platform, and corresponding controls, for administering our leases and facilitating compliance with the new guidance.

We adopted the guidance prospectively during the first quarter of 2019. As part of our adoption, we elected not to reassess historical lease classification, recognize short-term leases on our balance sheet, nor separate lease and non-lease components for our real estate leases. In addition, we utilized the portfolio approach to group leases with similar characteristics and did not use hindsight to determine lease term. The adoption did not have a material impact on our financial statements, resulting in an increase of 2% to each of our total assets and total liabilities on our balance sheet, and had an immaterial increase to retained earnings as of the beginning of 2019. See Note 13 for further information.

#### ***Not Yet Adopted***

In 2016, the FASB issued guidance that changes the impairment model used to measure credit losses for most financial assets. For our trade, certain other receivables and certain other financial instruments, we will be required to use a new forward-looking expected credit loss model that will replace the existing incurred credit loss model, which would generally result in earlier recognition of allowances for credit losses. We will adopt the guidance when it becomes effective in the first quarter of 2020. We are currently evaluating the impact of this guidance and do not expect it will have a material impact on our financial statements or disclosures.

### **Note 3 - Restructuring and Impairment Charges**

#### ***2019 Multi-Year Productivity Plan***

We publicly announced a multi-year productivity plan on February 15, 2019 (2019 Productivity Plan) that will leverage new technology and business models to further simplify, harmonize and automate processes; re-engineer our go-to-market and information systems, including deploying the right automation for each market; and simplify our organization and optimize our manufacturing and supply chain footprint.

A summary of our 2019 Productivity Plan charges is as follows:

	9/7/2019	
	12 Weeks Ended	36 Weeks Ended
Cost of sales	\$ 10	\$ 100
Selling, general and administrative expenses	83	182
Other pension and retiree medical benefits expense	5	—
Total restructuring and impairment charges	\$ 98	\$ 282
After-tax amount	\$ 82	\$ 225
Net income attributable to PepsiCo per common share	\$ 0.06	\$ 0.16

	9/7/2019		
	12 Weeks Ended	36 Weeks Ended	Plan to Date
FLNA	\$ 16	\$ 22	\$ 53
QFNA	2	2	7
PBNA	26	42	82
LatAm	22	43	52
ESSA	14	73	81
AMENA	10	63	66
Corporate	3	37	44
	93	282	385
Other pension and retiree medical benefits expense	5	—	35
	\$ 98	\$ 282	\$ 420

	9/7/2019		
	12 Weeks Ended	36 Weeks Ended	Plan to Date
Severance and other employee costs	\$ 65	\$ 105	\$ 242
Asset impairments	3	87	87
Other costs <sup>(a)</sup>	30	90	91
	\$ 98	\$ 282	\$ 420

(a) Includes other costs associated with the implementation of our initiatives, including contract termination costs, consulting and other professional fees.

A summary of our 2019 Productivity Plan activity for the 36 weeks ended September 7, 2019 is as follows:

	Severance and Other Employee Costs	Asset Impairments	Other Costs	Total
Liability as of December 29, 2018	\$ 105	\$ —	\$ 1	\$ 106
2019 restructuring charges	105	87	90	282
Cash payments <sup>(a)</sup>	(88)	—	(45)	(133)
Non-cash charges and translation	(5)	(87)	1	(91)
Liability as of September 7, 2019	\$ 117	\$ —	\$ 47	\$ 164

(a) Excludes cash expenditures of \$3 million reported in the cash flow statement in pension and retiree medical contributions.

The majority of the restructuring accrual at September 7, 2019 is expected to be paid by the end of 2019.

### 2014 Multi-Year Productivity Plan

We publicly announced a multi-year productivity plan on February 13, 2014 (2014 Productivity Plan) that includes the next generation of productivity initiatives that we believe will strengthen our beverage, food and snack businesses by: accelerating our investment in manufacturing automation; further optimizing our global manufacturing footprint, including closing certain manufacturing facilities; re-engineering our go-to-

market systems in developed markets; expanding shared services; and implementing simplified organization structures to drive efficiency. To build on the 2014 Productivity Plan, in the fourth quarter of 2017, we expanded and extended the plan through the end of 2019 to take advantage of additional opportunities within the initiatives described above to further strengthen our beverage, food and snack businesses.

We have substantially completed our 2014 Productivity Plan and do not expect to incur material charges in 2019 associated with this plan. The pre-tax charges and cash expenditures approximate the original total plan estimates of \$1.3 billion and \$960 million, respectively.

For the 12 and 36 weeks ended September 7, 2019, there were no material charges related to this plan. Cash payments for the 36 weeks ended September 7, 2019 were \$115 million. The accrual related to this plan as of September 7, 2019 is not material and the majority is expected to be paid by the end of 2019.

For further information, refer to Note 3 to our consolidated financial statements in our 2018 Form 10-K.

A summary of our 2014 Productivity Plan charges is as follows:

	9/8/2018	
	12 Weeks Ended	36 Weeks Ended
Selling, general and administrative expenses	\$ 35	\$ 75
Other pension and retiree medical benefits expense	—	4
Total restructuring and impairment charges	\$ 35	\$ 79
After-tax amount	\$ 31	\$ 66
Net income attributable to PepsiCo per common share	\$ 0.02	\$ 0.05

	9/8/2018	
	12 Weeks Ended	36 Weeks Ended
FLNA <sup>(a)</sup>	\$ (3)	\$ 6
QFNA	—	1
PBNA	13	25
LatAm	6	18
ESSA	17	25
AMENA	2	6
Corporate <sup>(a)</sup>	—	(2)
	\$ 35	\$ 79

(a) Income amounts represent adjustments for changes in estimates of previously recorded amounts.

	9/8/2018	
	12 Weeks Ended	36 Weeks Ended
Severance and other employee costs	\$ 24	\$ 48
Asset impairments	3	11
Other costs	8	20
	\$ 35	\$ 79

### ***Other Productivity Initiatives***

There were no material charges related to other productivity and efficiency initiatives outside the scope of the 2019 and 2014 Productivity Plans.

We regularly evaluate different productivity initiatives beyond the productivity plans and other initiatives described above.



#### Note 4 - Intangible Assets

A summary of our amortizable intangible assets is as follows:

	9/7/2019			12/29/2018		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Acquired franchise rights	\$ 844	\$ (152)	\$ 692	\$ 838	\$ (140)	\$ 698
Reacquired franchise rights	106	(105)	1	106	(105)	1
Brands	1,300	(1,047)	253	1,306	(1,032)	274
Other identifiable intangibles <sup>(a)</sup>	800	(309)	491	959	(288)	671
	<u>\$ 3,050</u>	<u>\$ (1,613)</u>	<u>\$ 1,437</u>	<u>\$ 3,209</u>	<u>\$ (1,565)</u>	<u>\$ 1,644</u>

(a) The change from December 29, 2018 to September 7, 2019 primarily reflects revisions to the purchase price allocation for our acquisition of SodaStream.

The change in the book value of indefinite-lived intangible assets is as follows:

	Balance 12/29/2018	Acquisitions/ (Divestitures)	Translation and Other	Balance 9/7/2019
<b><i>FLNA</i></b>				
Goodwill	\$ 297	\$ (3)	\$ 4	\$ 298
Brands	161	—	1	162
	458	(3)	5	460
<b><i>QFNA</i></b>				
Goodwill	184	10	—	194
Brands	25	(14)	—	11
	209	(4)	—	205
<b><i>PBNA <sup>(a)</sup></i></b>				
Goodwill	9,813	134	14	9,961
Reacquired franchise rights	7,058	—	24	7,082
Acquired franchise rights	1,510	—	5	1,515
Brands	353	322	(7)	668
	18,734	456	36	19,226
<b><i>LatAm</i></b>				
Goodwill	509	—	(17)	492
Brands	127	—	(6)	121
	636	—	(23)	613
<b><i>ESSA <sup>(b)</sup></i></b>				
Goodwill	3,611	395	16	4,022
Reacquired franchise rights	497	—	(11)	486
Acquired franchise rights	161	—	(6)	155
Brands	4,188	(149)	40	4,079
	8,457	246	39	8,742
<b><i>AMENA</i></b>				
Goodwill	394	(4)	(19)	371
Brands	101	—	(5)	96
	495	(4)	(24)	467
Total goodwill	14,808	532	(2)	15,338
Total reacquired franchise rights	7,555	—	13	7,568
Total acquired franchise rights	1,671	—	(1)	1,670
Total brands	4,955	159	23	5,137
	\$ 28,989	\$ 691	\$ 33	\$ 29,713

(a) The change from December 29, 2018 to September 7, 2019 primarily reflects our acquisition of CytoSport Inc.

(b) The change from December 29, 2018 to September 7, 2019 primarily reflects revisions to the purchase price allocation for our acquisition of SodaStream.

## Note 5 - Income Taxes

### Tax Cuts and Jobs Act

During the fourth quarter of 2017, the TCJ Act was enacted in the United States. Among its many provisions, the TCJ Act imposed a mandatory one-time transition tax on undistributed international earnings and reduced the U.S. corporate income tax rate from 35% to 21%, effective January 1, 2018.

The U.S. Securities and Exchange Commission previously issued guidance related to the TCJ Act which allowed recording of provisional tax expense using a measurement period, not to exceed one year, when information necessary to complete the accounting for the effects of the TCJ Act was not available. We elected to apply the measurement period provisions of this guidance to certain income tax effects of the TCJ Act when it became effective in the fourth quarter of 2017. The provisional measurement period ended in the fourth quarter of 2018. As a result, we recognized a net tax benefit of \$28 million (\$0.02 per share) for the fiscal year ended December 29, 2018. We recognized provisional transition tax expense of \$76 million (\$0.05 per share) recorded in the 12 weeks ended September 8, 2018 and \$854 million (\$0.60 per share) recorded in the 36 weeks ended September 8, 2018.

While our accounting for the recorded impact of the TCJ Act as of December 29, 2018 was deemed to be complete, this amount was based on prevailing regulations and available information as of December 29, 2018, and additional guidance issued by the Internal Revenue Service (IRS) impacted, and may continue to impact, our recorded amounts after December 29, 2018.

In the 36 weeks ended September 7, 2019, we recognized tax benefits totaling \$29 million (\$0.02 per share) in connection with the TCJ Act, including the impact of additional guidance issued by the IRS in the first quarter of 2019.

For further information and discussion of the impact of the TCJ Act, refer to Note 5 to our consolidated financial statements in our 2018 Form 10-K.

#### ***Other Tax Matters***

On May 19, 2019, a public referendum held in Switzerland passed the Federal Act on Tax Reform and AHV Financing ( TRAF), effective January 1, 2020. Certain provisions of the TRAF were enacted in the third quarter of 2019, resulting in adjustments to our deferred taxes. In the 12 and 36 weeks ended September 7, 2019, we recorded net tax benefits of \$45 million and \$33 million, respectively, related to the impact of the TRAF. Enactment of the TRAF provisions subsequent to our third quarter of 2019 is expected to result in adjustments to our financial statements and related disclosures in future periods. The future impact of the TRAF cannot currently be reasonably estimated; we will continue to monitor and assess the impact the TRAF may have on our business and financial results.

In the 12 weeks ended September 8, 2018, we recognized a non-cash tax benefit of \$364 million (\$0.26 per share) resulting from the conclusion of certain international tax audits. In the second quarter of 2018, we reached an agreement with the IRS resolving all open matters related to the audits of taxable years 2012 and 2013. The conclusion of certain international tax audits and the resolution with the IRS, collectively, resulted in non-cash tax benefits totaling \$678 million (\$0.48 per share) in the 36 weeks ended September 8, 2018.

#### **Note 6 - Share-Based Compensation**

The following table summarizes our total share-based compensation expense:

	<b>12 Weeks Ended</b>		<b>36 Weeks Ended</b>	
	<b>9/7/2019</b>	9/8/2018	<b>9/7/2019</b>	9/8/2018
Share-based compensation expense - equity awards	\$ 51	\$ 57	\$ 169	\$ 203
Share-based compensation expense - liability awards	3	2	7	4
Restructuring charges	—	(1)	1	1
Total	\$ 54	\$ 58	\$ 177	\$ 208

For the 12 weeks ended September 7, 2019 and September 8, 2018, our grants of stock options, RSUs, PSUs and long-term cash awards were nominal.

The following table summarizes share-based awards granted under the terms of the PepsiCo, Inc. Long-Term Incentive Plan:

	36 Weeks Ended			
	9/7/2019		9/8/2018	
	Granted <sup>(a)</sup>	Weighted-Average Grant Price	Granted <sup>(a)</sup>	Weighted-Average Grant Price
Stock options	1.2	\$ 117.21	1.4	\$ 108.75
RSUs and PSUs	2.8	\$ 116.05	2.6	\$ 108.70

(a) In millions. All grant activity is disclosed at target.

We granted long-term cash awards to certain executive officers and other senior executives with an aggregate target value of \$16 million and \$21 million during the 36 weeks ended September 7, 2019 and September 8, 2018, respectively.

Our weighted-average Black-Scholes fair value assumptions are as follows:

	36 Weeks Ended	
	9/7/2019	9/8/2018
Expected life	5 years	5 years
Risk-free interest rate	2.5%	2.6%
Expected volatility	14%	12%
Expected dividend yield	3.1%	2.7%

#### Note 7 - Pension and Retiree Medical Benefits

The components of net periodic benefit cost for pension and retiree medical plans are as follows:

	12 Weeks Ended							
	Pension			Retiree Medical				
	9/7/2019		9/8/2018		9/7/2019		9/8/2018	
	U.S.		International					
Service cost	\$ 87	\$ 99	\$ 18	\$ 23	\$ 5	\$ 7		
Interest cost	125	111	24	23	9	8		
Expected return on plan assets	(205)	(218)	(46)	(50)	(4)	(4)		
Amortization of prior service cost/(credits)	2	1	—	—	(4)	(5)		
Amortization of net losses/(gains)	37	41	8	12	(7)	(2)		
	46	34	4	8	(1)	4		
Settlement losses	15	7	3	2	—	—		
Special termination benefits	5	—	—	—	—	—		
Total	\$ 66	\$ 41	\$ 7	\$ 10	\$ (1)	\$ 4		

	36 Weeks Ended							
	Pension				Retiree Medical			
	9/7/2019		9/8/2018		9/7/2019		9/8/2018	
	U.S.		International					
Service cost	\$ 263	\$ 298	\$ 49	\$ 63	\$ 16	\$ 22		
Interest cost	376	333	64	63	25	24		
Expected return on plan assets	(617)	(653)	(124)	(134)	(12)	(13)		
Amortization of prior service cost/(credits)	7	2	—	—	(13)	(14)		
Amortization of net losses/(gains)	111	124	21	31	(19)	(7)		
	140	104	10	23	(3)	12		
Settlement losses	15	7	3	2	—	—		
Special termination benefits	—	3	—	1	—	—		
<b>Total</b>	<b>\$ 155</b>	<b>\$ 114</b>	<b>\$ 13</b>	<b>\$ 26</b>	<b>\$ (3)</b>	<b>\$ 12</b>		

We regularly evaluate opportunities to reduce risk and volatility associated with our pension and retiree medical plans, including the offer of an optional lump sum distribution to certain participants, which may result in settlement charges that would be reflected as an item affecting comparability in future periods. During the 36 weeks ended September 7, 2019, we made discretionary contributions of \$150 million to the PepsiCo Employees Retirement Plan A (Plan A) in the United States and \$17 million to our international plans. During the 36 weeks ended September 8, 2018, we made discretionary contributions of \$1.4 billion to Plan A in the United States, \$17 million to our international pension plans and \$37 million to fund U.S. retiree medical plan benefits.

#### Note 8 - Debt Obligations

In the 36 weeks ended September 7, 2019, we issued the following senior notes:

Interest Rate	Maturity Date	Amount <sup>(a)</sup>
0.750%	March 2027	€ 500 <sup>(b)</sup>
1.125%	March 2031	€ 500 <sup>(b)</sup>
2.625%	July 2029	\$ 1,000
3.375%	July 2049	\$ 1,000

(a) Represents gross proceeds from issuances of long-term debt excluding debt issuance costs, discounts and premiums.

(b) These notes, issued in euros, were designated as net investment hedges to partially offset the effects of foreign currency on our investments in certain of our foreign subsidiaries.

The net proceeds from the issuances of the above notes were used for general corporate purposes, including the repayment of commercial paper.

In the 36 weeks ended September 7, 2019, \$3.0 billion of senior notes matured and were paid.

As of September 7, 2019, we had no commercial paper outstanding.

In the second quarter of 2019, we entered into a new five-year unsecured revolving credit agreement (Five-Year Credit Agreement) which expires on June 3, 2024. The Five-Year Credit Agreement enables us and our borrowing subsidiaries to borrow up to \$3.75 billion in U.S. dollars and/or euros, including a \$0.75 billion swing line subfacility for euro-denominated borrowings permitted to be borrowed on a same-day basis, subject to customary terms and conditions. We may request that commitments under this agreement be increased up to \$4.5 billion (or the equivalent amount in euros). Additionally, we may, once a year, request renewal of the agreement for an additional one-year period.

Also in the second quarter of 2019, we entered into a new 364-day unsecured revolving credit agreement (364-Day Credit Agreement) which expires on June 1, 2020. The 364-Day Credit Agreement enables us and our borrowing subsidiaries to borrow up to \$3.75 billion in U.S. dollars and/or euros, subject to customary terms and conditions. We may request that commitments under this agreement be increased up to \$4.5 billion (or the equivalent amount in euros). We may request renewal of this facility for an additional 364-day period or convert any amounts outstanding into a term loan for a period of up to one year, which would mature no later than the anniversary of the then effective termination date. The Five-Year Credit Agreement and the 364-Day Credit Agreement together replaced our \$3.75 billion five-year credit agreement and our \$3.75 billion 364-day credit agreement, both dated as of June 4, 2018. Funds borrowed under the Five-Year Credit Agreement and the 364-Day Credit Agreement may be used for general corporate purposes. Subject to certain conditions, we may borrow, prepay and reborrow amounts under these agreements. As of September 7, 2019, there were no outstanding borrowings under the Five-Year Credit Agreement or the 364-Day Credit Agreement.

In the fourth quarter of 2019, we paid \$1.0 billion to redeem all \$1.0 billion outstanding principal amount of our 4.50% senior notes due 2020.

### Note 9 - Financial Instruments

We are exposed to market risks arising from adverse changes in:

- commodity prices, affecting the cost of our raw materials and energy;
- foreign exchange rates and currency restrictions; and
- interest rates.

There have been no material changes during the 36 weeks ended September 7, 2019 with respect to our risk management policies or strategies and valuation techniques used in measuring the fair value of the financial assets or liabilities disclosed in Note 9 to our consolidated financial statements in our 2018 Form 10-K.

The notional amounts of our financial instruments used to hedge the above risks as of September 7, 2019 and December 29, 2018 are as follows:

	Notional Amounts <sup>(a)</sup>	
	9/7/2019	12/29/2018
Commodity	\$ 1.0	\$ 1.1
Foreign exchange	\$ 2.0	\$ 2.0
Interest rate <sup>(b)</sup>	\$ 5.7	\$ 10.5
Net investment <sup>(c)</sup>	\$ 1.9	\$ 0.9

(a) In billions.

(b) The decrease is due to interest rate swap terminations and maturities.

(c) The total notional of our net investment hedge consists of non-derivative debt instruments.

As of September 7, 2019, approximately 12% of total debt, after the impact of the related interest rate derivative instruments, was subject to variable rates, compared to approximately 29% as of December 29, 2018.

**Fair Value Measurements**

The fair values of our financial assets and liabilities as of September 7, 2019 and December 29, 2018 are categorized as follows:

	Fair Value Hierarchy Levels	9/7/2019		12/29/2018	
		Assets <sup>(a)</sup>	Liabilities <sup>(a)</sup>	Assets <sup>(a)</sup>	Liabilities <sup>(a)</sup>
Available-for-sale debt securities <sup>(b)</sup>	2	\$ 67	\$ —	\$ 3,658	\$ —
Short-term investments <sup>(c)</sup>	1	\$ 220	\$ —	\$ 196	\$ —
Prepaid forward contracts <sup>(d)</sup>	2	\$ 17	\$ —	\$ 22	\$ —
Deferred compensation <sup>(e)</sup>	2	\$ —	\$ 460	\$ —	\$ 450
<b>Derivatives designated as fair value hedging instruments:</b>					
Interest rate <sup>(f)</sup>	2	\$ —	\$ 7	\$ 1	\$ 108
<b>Derivatives designated as cash flow hedging instruments:</b>					
Foreign exchange <sup>(g)</sup>	2	\$ 26	\$ 7	\$ 44	\$ 14
Interest rate <sup>(g)</sup>	2	—	440	—	323
Commodity <sup>(h)</sup>	1	—	15	—	1
Commodity <sup>(i)</sup>	2	—	7	—	3
		\$ 26	\$ 469	\$ 44	\$ 341
<b>Derivatives not designated as hedging instruments:</b>					
Foreign exchange <sup>(g)</sup>	2	\$ 2	\$ 9	\$ 3	\$ 10
Commodity <sup>(h)</sup>	1	1	20	2	17
Commodity <sup>(i)</sup>	2	1	38	5	92
		\$ 4	\$ 67	\$ 10	\$ 119
Total derivatives at fair value <sup>(j)</sup>		\$ 30	\$ 543	\$ 55	\$ 568
<b>Total</b>		\$ 334	\$ 1,003	\$ 3,931	\$ 1,018

(a) Unless otherwise noted, financial assets are classified on our balance sheet within prepaid expenses and other current assets and other assets. Financial liabilities are classified on our balance sheet within accounts payable and other current liabilities and other liabilities.

(b) Based on quoted broker prices or other significant inputs derived from or corroborated by observable market data. As of September 7, 2019, these debt securities were classified as short-term investments. As of December 29, 2018, these debt securities were primarily classified as cash equivalents. Unrealized gains and losses on our investments in debt securities as of September 7, 2019 and December 29, 2018 were not material. The decrease in available-for-sale debt securities was due to maturities during the current year.

(c) Based on the price of index funds. These investments are classified as short-term investments and are used to manage a portion of market risk arising from our deferred compensation liability.

(d) Based primarily on the price of our common stock.

(e) Based on the fair value of investments corresponding to employees' investment elections.

(f) Based on LIBOR forward rates. As of September 7, 2019 and December 29, 2018, the carrying amount of the hedged fixed-rate debt was \$3.0 billion and \$7.7 billion, respectively, and classified on our balance sheet within short-term and long-term debt obligations. As of September 7, 2019, the cumulative amount of fair value hedging adjustments on discontinued hedges was a \$63 million loss, which is being amortized over the remaining life of the related debt obligations.

(g) Based on recently reported market transactions of spot and forward rates.

(h) Based on quoted contract prices on futures exchange markets.

(i) Based on recently reported market transactions of swap arrangements.

(j) Derivative assets and liabilities are presented on a gross basis on our balance sheet. Amounts subject to enforceable master netting arrangements or similar agreements which are not offset on the balance sheet as of September 7, 2019 and December 29, 2018 were not material. Collateral received or posted against our asset or liability positions is classified as restricted cash. See Note 12 for further information.

The carrying amounts of our cash and cash equivalents and short-term investments approximate fair value due to their short-term maturity. The fair value of our debt obligations as of September 7, 2019 and

December 29, 2018 was \$35 billion and \$32 billion, respectively, based upon prices of similar instruments in the marketplace, which are considered Level 2 inputs.

Losses/(gains) on our hedging instruments are categorized as follows:

	12 Weeks Ended					
	Fair Value/Non-designated Hedges		Cash Flow and Net Investment Hedges			
	Losses/(Gains) Recognized in Income Statement <sup>(a)</sup>		Losses/(Gains) Recognized in Accumulated Other Comprehensive Loss		Losses/(Gains) Reclassified from Accumulated Other Comprehensive Loss into Income Statement <sup>(b)</sup>	
	9/7/2019	9/8/2018	9/7/2019	9/8/2018	9/7/2019	9/8/2018
Foreign exchange	\$ 11	\$ 11	\$ (2)	\$ (10)	\$ 4	\$ (10)
Interest rate	(12)	(20)	65	20	38	17
Commodity	27	20	32	1	1	—
Net investment	—	—	(40)	3	—	—
<b>Total</b>	<b>\$ 26</b>	<b>\$ 11</b>	<b>\$ 55</b>	<b>\$ 14</b>	<b>\$ 43</b>	<b>\$ 7</b>

	36 Weeks Ended					
	Fair Value/Non-designated Hedges		Cash Flow and Net Investment Hedges			
	Losses/(Gains) Recognized in Income Statement <sup>(a)</sup>		Losses/(Gains) Recognized in Accumulated Other Comprehensive Loss		Losses/(Gains) Reclassified from Accumulated Other Comprehensive Loss into Income Statement <sup>(b)</sup>	
	9/7/2019	9/8/2018	9/7/2019	9/8/2018	9/7/2019	9/8/2018
Foreign exchange	\$ 15	\$ 8	\$ 16	\$ (40)	\$ —	\$ 6
Interest rate	(62)	118	117	29	54	72
Commodity	16	17	19	(1)	3	2
Net investment	—	—	(55)	(52)	—	—
<b>Total</b>	<b>\$ (31)</b>	<b>\$ 143</b>	<b>\$ 97</b>	<b>\$ (64)</b>	<b>\$ 57</b>	<b>\$ 80</b>

(a) Foreign exchange derivative losses/gains are primarily included in selling, general and administrative expenses. Interest rate derivative losses/gains are primarily from fair value hedges and are included in interest expense. These losses/gains are substantially offset by decreases/increases in the value of the underlying debt, which are also included in interest expense. Commodity derivative losses/gains are included in either cost of sales or selling, general and administrative expenses, depending on the underlying commodity.

(b) Foreign exchange derivative losses/gains are primarily included in cost of sales. Interest rate derivative losses/gains are included in interest expense. Commodity derivative losses/gains are included in either cost of sales or selling, general and administrative expenses, depending on the underlying commodity.

Based on current market conditions, we expect to reclassify net losses of \$24 million related to our cash flow hedges from accumulated other comprehensive loss into net income during the next 12 months.



## Note 10 - Net Income Attributable to PepsiCo per Common Share

The computations of basic and diluted net income attributable to PepsiCo per common share are as follows:

	12 Weeks Ended			
	9/7/2019		9/8/2018	
	Income	Shares <sup>(a)</sup>	Income	Shares <sup>(a)</sup>
Basic net income attributable to PepsiCo per common share	\$ 1.50		\$ 1.77	
Net income available for PepsiCo common shareholders	\$ 2,100	1,397	\$ 2,498	1,414
Dilutive securities:				
Stock options, RSUs, PSUs and Other	—	8	—	10
Diluted	\$ 2,100	1,405	\$ 2,498	1,424
Diluted net income attributable to PepsiCo per common share	\$ 1.49		\$ 1.75	

  

	36 Weeks Ended			
	9/7/2019		9/8/2018	
	Income	Shares <sup>(a)</sup>	Income	Shares <sup>(a)</sup>
Net income attributable to PepsiCo	\$ 5,548		\$ 5,661	
Preferred stock: <sup>(b)</sup>				
Redemption premium	—		(2)	
Net income available for PepsiCo common shareholders	\$ 5,548	1,401	\$ 5,659	1,417
Basic net income attributable to PepsiCo per common share	\$ 3.96		\$ 3.99	
Net income available for PepsiCo common shareholders	\$ 5,548	1,401	\$ 5,659	1,417
Dilutive securities:				
Stock options, RSUs, PSUs and Other	—	8	—	10
Employee stock ownership plan convertible preferred stock	—	—	2	—
Diluted	\$ 5,548	1,409	\$ 5,661	1,427
Diluted net income attributable to PepsiCo per common share	\$ 3.94		\$ 3.97	

(a) Weighted-average common shares outstanding (in millions).

(b) All of the outstanding shares of our convertible preferred stock were converted into common stock on January 26, 2018 and retired for accounting purposes. For further information, refer to Note 11 to our consolidated financial statements in our 2018 Form 10-K.

Out-of-the-money options excluded from the calculation of diluted earnings per common share are as follows:

	12 Weeks Ended		36 Weeks Ended	
	9/7/2019	9/8/2018	9/7/2019	9/8/2018
Out-of-the-money options <sup>(a)</sup>	—	0.1	0.4	1.0
Average exercise price per option	\$ —	\$ 115.75	\$ 115.98	\$ 109.63

(a) In millions.

**Note 11 - Accumulated Other Comprehensive Loss Attributable to PepsiCo**

The changes in the balances of each component of accumulated other comprehensive loss attributable to PepsiCo are as follows:

	Currency Translation Adjustment	Cash Flow Hedges	Pension and Retiree Medical	Available-For-Sale Securities	Other	Accumulated Other Comprehensive Loss Attributable to PepsiCo
Balance as of December 29, 2018 <sup>(a)</sup>	\$ (11,918)	\$ 87	\$ (3,271)	\$ 2	\$ (19)	\$ (15,119)
Other comprehensive (loss)/income before reclassifications <sup>(b)</sup>	475	(20)	(16)	—	—	439
Amounts reclassified from accumulated other comprehensive loss	—	(15)	34	—	—	19
Net other comprehensive (loss)/income	475	(35)	18	—	—	458
Tax amounts	(2)	8	(1)	—	—	5
Balance as of March 23, 2019 <sup>(a)</sup>	\$ (11,445)	\$ 60	\$ (3,254)	\$ 2	\$ (19)	\$ (14,656)
Other comprehensive (loss)/income before reclassifications <sup>(c)</sup>	(365)	(37)	16	1	—	(385)
Amounts reclassified from accumulated other comprehensive loss	—	29	37	—	—	66
Net other comprehensive (loss)/income	(365)	(8)	53	1	—	(319)
Tax amounts	—	2	(11)	—	—	(9)
Balance as of June 15, 2019 <sup>(a)</sup>	\$ (11,810)	\$ 54	\$ (3,212)	\$ 3	\$ (19)	\$ (14,984)
Other comprehensive (loss)/income before reclassifications <sup>(d)</sup>	(149)	(95)	19	(1)	—	(226)
Amounts reclassified from accumulated other comprehensive loss	—	43	54	—	—	97
Net other comprehensive (loss)/income	(149)	(52)	73	(1)	—	(129)
Tax amounts	(10)	14	(17)	—	—	(13)
Balance as of September 7, 2019 <sup>(a)</sup>	<u>\$ (11,969)</u>	<u>\$ 16</u>	<u>\$ (3,156)</u>	<u>\$ 2</u>	<u>\$ (19)</u>	<u>\$ (15,126)</u>

(a) Pension and retiree medical amounts are net of taxes of \$1,466 million as of December 29, 2018, \$1,465 million as of March 23, 2019, \$1,454 million as of June 15, 2019 and \$1,437 million as of September 7, 2019.

(b) Currency translation adjustment primarily reflects appreciation of the Russian ruble, Mexican peso and Pound sterling.

(c) Currency translation adjustment primarily reflects depreciation of the euro, Mexican peso and Swiss franc.

(d) Currency translation adjustment primarily reflects depreciation of the Pound sterling, Russian ruble and Mexican peso.

[Table of Contents](#)

	<b>Currency Translation Adjustment</b>	<b>Cash Flow Hedges</b>	<b>Pension and Retiree Medical</b>	<b>Available-For- Sale Securities</b>	<b>Other</b>	<b>Accumulated Other Comprehensive Loss Attributable to PepsiCo</b>
Balance as of December 30, 2017 <sup>(a)</sup>	\$ (10,277)	\$ 47	\$ (2,804)	\$ (4)	\$ (19)	\$ (13,057)
Other comprehensive (loss)/income before reclassifications <sup>(b)</sup>	288	93	(13)	(2)	—	366
Amounts reclassified from accumulated other comprehensive loss	—	(55)	43	—	—	(12)
Net other comprehensive (loss)/income	288	38	30	(2)	—	354
Tax amounts	2	(10)	(6)	—	—	(14)
Balance as of March 24, 2018 <sup>(a)</sup>	\$ (9,987)	\$ 75	\$ (2,780)	\$ (6)	\$ (19)	\$ (12,717)
Other comprehensive (loss)/income before reclassifications <sup>(c)</sup>	(953)	(70)	28	4	—	(991)
Amounts reclassified from accumulated other comprehensive loss	—	128	46	—	—	174
Net other comprehensive (loss)/income	(953)	58	74	4	—	(817)
Tax amounts	(18)	(10)	(18)	—	—	(46)
Balance as of June 16, 2018 <sup>(a)</sup>	\$ (10,958)	\$ 123	\$ (2,724)	\$ (2)	\$ (19)	\$ (13,580)
Other comprehensive (loss)/income before reclassifications <sup>(d)</sup>	(730)	(11)	16	2	—	(723)
Amounts reclassified from accumulated other comprehensive loss	—	7	56	—	—	63
Net other comprehensive (loss)/income	(730)	(4)	72	2	—	(660)
Tax amounts	2	3	(18)	—	—	(13)
Balance as of September 8, 2018 <sup>(a)</sup>	\$ (11,686)	\$ 122	\$ (2,670)	\$ —	\$ (19)	\$ (14,253)

(a) Pension and retiree medical amounts are net of taxes of \$1,338 million as of December 30, 2017, \$1,332 million as of March 24, 2018, \$1,314 million as of June 16, 2018 and \$1,296 million as of September 8, 2018.

(b) Currency translation adjustment primarily reflects appreciation of the Russian ruble and Mexican peso.

(c) Currency translation adjustment primarily reflects depreciation of the Russian ruble, Brazilian real and Mexican peso.

(d) Currency translation adjustment primarily reflects depreciation of the Russian ruble, Turkish lira and Pound sterling.

The reclassifications from accumulated other comprehensive loss to the income statement are summarized as follows:

	12 Weeks Ended		36 Weeks Ended		Affected Line Item in the Income Statement
	9/7/2019	9/8/2018	9/7/2019	9/8/2018	
<b>Cash flow hedges:</b>					
Foreign exchange contracts	\$ —	\$ (1)	\$ 1	\$ (1)	Net revenue
Foreign exchange contracts	4	(9)	(1)	7	Cost of sales
Interest rate derivatives	38	17	54	72	Interest expense
Commodity contracts	—	1	2	4	Cost of sales
Commodity contracts	1	(1)	1	(2)	Selling, general and administrative expenses
Net losses before tax	43	7	57	80	
Tax amounts	(11)	(3)	(13)	(20)	
Net losses after tax	\$ 32	\$ 4	\$ 44	\$ 60	
<b>Pension and retiree medical items:</b>					
Amortization of prior service credits	\$ (2)	\$ (4)	\$ (6)	\$ (12)	Other pension and retiree medical benefits income
Amortization of net losses	38	51	113	148	Other pension and retiree medical benefits income
Settlement losses	18	9	18	9	Other pension and retiree medical benefits income
Net losses before tax	54	56	125	145	
Tax amounts	(12)	(12)	(27)	(32)	
Net losses after tax	\$ 42	\$ 44	\$ 98	\$ 113	
Total net losses reclassified, net of tax	\$ 74	\$ 48	\$ 142	\$ 173	

**Note 12 - Restricted Cash**

The following table provides a reconciliation of cash and cash equivalents and restricted cash as reported within the balance sheet to the same items as reported in the cash flow statement.

	9/7/2019	12/29/2018
Cash and cash equivalents	\$ 5,494	\$ 8,721
Restricted cash <sup>(a)</sup>	127	1,997
Restricted cash included in other assets <sup>(b)</sup>	86	51
Total cash and cash equivalents and restricted cash	\$ 5,707	\$ 10,769

(a) Primarily represents consideration held by our paying agent in connection with our acquisition of SodaStream.

(b) Primarily relates to collateral posted against our derivative asset or liability positions.

## Note 13 - Leases

### Lessee

We determine whether an arrangement is a lease at inception. We have operating leases for plants, warehouses, distribution centers, storage facilities, offices and other facilities, as well as machinery and equipment, including fleet. Our leases have remaining lease terms of one year to 20 years, some of which include options to extend the lease term for up to five years, and some of which include options to terminate the lease within one year. We consider these options in determining the lease term used to establish our right-of-use assets and lease liabilities. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments.

We have lease agreements that contain both lease and non-lease components. For real estate leases, we account for lease components together with non-lease components (e.g., common-area maintenance).

Components of lease cost are as follows:

	9/7/2019	
	12 Weeks Ended	36 Weeks Ended
Operating lease cost <sup>(a)</sup>	\$ 115	\$ 306
Variable lease cost <sup>(b)</sup>	\$ 29	\$ 71
Short-term lease cost <sup>(c)</sup>	\$ 83	\$ 260

(a) Includes right-of-use asset amortization of \$101 million and \$269 million for the 12 and 36 weeks ended September 7, 2019, respectively.

(b) Primarily related to adjustments for inflation, common-area maintenance and property tax.

(c) Not recorded on our balance sheet.

Supplemental cash flow information and non-cash activity related to our operating leases are as follows:

	9/7/2019
	36 Weeks Ended
<b>Operating cash flow information:</b>	
Cash paid for amounts included in the measurement of lease liabilities	\$ 326
<b>Non-cash activity:</b>	
Right-of-use assets obtained in exchange for lease obligations	\$ 304

Supplemental balance sheet information related to our operating leases is as follows:

		9/7/2019
Balance Sheet Classification		
Right-of-use assets	Other assets	\$ 1,499
Current lease liabilities	Accounts payable and other current liabilities	\$ 412
Non-current lease liabilities	Other liabilities	\$ 1,081

Weighted-average remaining lease term and discount rate for our operating leases are as follows:

	9/7/2019
Weighted-average remaining lease term	6 years
Weighted-average discount rate	4%

Maturities of lease liabilities by fiscal year for our operating leases are as follows:

2019 <sup>(a)</sup>	\$	146
2020		450
2021		336
2022		247
2023		155
2024 and beyond		360
Total lease payments		1,694
Less: Imputed interest		(201)
Present value of lease liabilities	\$	<u>1,493</u>

(a) Excluding the 36 weeks ended September 7, 2019.

As of December 29, 2018, minimum lease payments under non-cancelable operating leases by period were expected to be as follows:

2019	\$	459
2020		406
2021		294
2022		210
2023		161
2024 and beyond		310
Total	\$	<u>1,840</u>

A summary of rent expense for the fiscal years ended December 29, 2018 and December 30, 2017 is as follows:

	2018	2017
Rent expense	\$ 771	\$ 742

### ***Lessor***

We have various arrangements for certain foodservice and vending equipment under which we are the lessor. These leases meet the criteria for operating lease classification. Lease income associated with these leases is not material.

### **Note 14 - Acquisitions and Divestitures**

#### ***Acquisition of Pioneer Food Group Ltd. (Pioneer Foods)***

On July 19, 2019, we entered into an agreement to acquire all of the outstanding shares of Pioneer Foods for 110.00 South African rand per share in cash, in a transaction valued at approximately \$1.7 billion.

The transaction is subject to a Pioneer Foods shareholder vote, certain regulatory approvals and other customary conditions, and closing is expected by the first quarter of 2020.

#### ***Acquisition of SodaStream International Ltd.***

On December 5, 2018, we acquired all of the outstanding shares of SodaStream, a manufacturer and distributor of sparkling water makers, for \$144.00 per share in cash, in a transaction valued at approximately \$3.3 billion. The total consideration transferred was approximately \$3.3 billion (or \$3.2 billion, net of cash and cash equivalents acquired).

We accounted for the transaction as a business combination. We recognized and measured the identifiable assets acquired and liabilities assumed at their estimated fair values on the date of acquisition. The preliminary estimates of the fair value of the identifiable assets acquired and liabilities assumed as of the acquisition date include goodwill and other intangible assets of \$3.0 billion and property, plant and equipment of \$0.2 billion, all of which are recorded in our ESSA segment. The preliminary estimates of the fair value of identifiable assets acquired and liabilities assumed are subject to revisions, which may result in adjustments to the preliminary values discussed above as valuations are finalized. We expect to finalize these amounts in the fourth quarter of 2019.

***Refranchising in Thailand***

During the second quarter of 2018, we refranchised our beverage business in Thailand by selling a controlling interest in our Thailand bottling operations to form a joint venture, where we now have an equity method investment. We recorded a pre-tax gain of \$144 million (\$126 million after-tax or \$0.09 per share) in selling, general and administrative expenses in our AMENA segment as a result of this transaction.

## **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.**

### **FINANCIAL REVIEW**

*Our discussion and analysis is intended to help the reader understand our results of operations and financial condition and is provided as an addition to, and should be read in connection with, our condensed consolidated financial statements and the accompanying notes. Also refer to Note 1 of our condensed consolidated financial statements. Unless otherwise noted, tabular dollars are presented in millions, except per share amounts. All per share amounts reflect common stock per share amounts, assume dilution unless otherwise noted, and are based on unrounded amounts. Percentage changes are based on unrounded amounts.*

### **Our Critical Accounting Policies**

The critical accounting policies below should be read in conjunction with those outlined in our 2018 Form 10-K.

#### ***Total Marketplace Spending***

We offer sales incentives and discounts through various programs to customers and consumers. Total marketplace spending includes sales incentives, discounts, advertising and other marketing activities. Sales incentives and discounts are primarily accounted for as a reduction of revenue. A number of our sales incentives, such as bottler funding to independent bottlers and customer volume rebates, are based on annual targets, and accruals are established during the year for the expected payout.

These accruals are based on contract terms and our historical experience with similar programs and require management judgment with respect to estimating customer participation and performance levels. Differences between estimated expense and actual incentive costs are normally insignificant and are recognized in earnings in the period such differences are determined. In addition, certain advertising and marketing costs are also based on annual targets and recognized during the year as incurred.

For interim reporting, our policy is to allocate our forecasted full-year sales incentives for most of our programs to each of our interim reporting periods in the same year that benefits from the programs. The allocation methodology is based on our forecasted sales incentives for the full year and the proportion of each interim period’s actual gross revenue or volume, as applicable, to our forecasted annual gross revenue or volume, as applicable. Based on our review of the forecasts at each interim period, any changes in estimates and the related allocation of sales incentives are recognized beginning in the interim period that they are identified. In addition, we apply a similar allocation methodology for interim reporting purposes for certain advertising and other marketing activities.

#### ***Income Taxes***

In determining our quarterly provision for income taxes, we use an estimated annual effective tax rate which is based on our expected annual income, statutory tax rates and tax planning opportunities available to us in the various jurisdictions in which we operate. Subsequent recognition, derecognition and measurement of a tax position taken in a previous period are separately recognized in the quarter in which they occur.

During the fourth quarter of 2017, the TCJ Act was enacted in the United States. Among its many provisions, the TCJ Act imposed a mandatory one-time transition tax on undistributed international earnings and reduced the U.S. corporate income tax rate from 35% to 21%, effective January 1, 2018.

While our accounting for the recorded impact of the TCJ Act as of December 29, 2018 was deemed to be complete, this amount was based on prevailing regulations and available information as of December 29,



2018, and additional guidance issued by the IRS impacted, and may continue to impact, our recorded amounts after December 29, 2018.

In the 36 weeks ended September 7, 2019, we recognized tax benefits totaling \$29 million (\$0.02 per share) in connection with the TCJ Act, including the impact of additional guidance issued by the IRS in the first quarter of 2019.

On May 19, 2019, a public referendum held in Switzerland passed the TRAF, effective January 1, 2020. Certain provisions of the TRAF were enacted in the third quarter of 2019, resulting in adjustments to our deferred taxes. In the 12 and 36 weeks ended September 7, 2019, we recorded net tax benefits of \$45 million and \$33 million, respectively, related to the impact of the TRAF. Enactment of the TRAF provisions subsequent to our third quarter of 2019 is expected to result in adjustments to our financial statements and related disclosures in future periods. The future impact of the TRAF cannot currently be reasonably estimated; we will continue to monitor and assess the impact the TRAF may have on our business and financial results.

See Note 5 to our condensed consolidated financial statements for further information.

### **Our Business Risks**

*This Quarterly Report on Form 10-Q (Form 10-Q) contains statements reflecting our views about our future performance that constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 (Reform Act). Statements that constitute forward-looking statements within the meaning of the Reform Act are generally identified through the inclusion of words such as “aim,” “anticipate,” “believe,” “drive,” “estimate,” “expect,” “expressed confidence,” “forecast,” “future,” “goal,” “guidance,” “intend,” “may,” “objective,” “outlook,” “plan,” “position,” “potential,” “project,” “seek,” “should,” “strategy,” “target,” “will” or similar statements or variations of such words and other similar expressions. All statements addressing our future operating performance, and statements addressing events and developments that we expect or anticipate will occur in the future, are forward-looking statements within the meaning of the Reform Act. These forward-looking statements are based on currently available information, operating plans and projections about future events and trends. They inherently involve risks and uncertainties that could cause actual results to differ materially from those predicted in any such forward-looking statement. Such risks and uncertainties include, but are not limited to: changes in demand for PepsiCo’s products, as a result of changes in consumer preferences or otherwise; changes in laws related to the use or disposal of plastics or other packaging of PepsiCo’s products; changes in, or failure to comply with, applicable laws and regulations; imposition or proposed imposition of new or increased taxes aimed at PepsiCo’s products; imposition of labeling or warning requirements on PepsiCo’s products; PepsiCo’s ability to compete effectively; failure to realize anticipated benefits from PepsiCo’s productivity initiatives or operating model; political conditions, civil unrest or other developments and risks in the markets where PepsiCo’s products are made, manufactured, distributed or sold; PepsiCo’s ability to grow its business in developing and emerging markets; uncertain or unfavorable economic conditions in the countries in which PepsiCo operates; the ability to protect information systems against, or effectively respond to, a cybersecurity incident or other disruption; increased costs, disruption of supply or shortages of raw materials and other supplies; business disruptions; product contamination or tampering or issues or concerns with respect to product quality, safety and integrity; damage to PepsiCo’s reputation or brand image; failure to successfully complete, integrate or manage acquisitions and joint ventures into PepsiCo’s existing operations or to complete or manage divestitures or refranchisings; changes in estimates and underlying assumptions regarding future performance that could result in an impairment charge; increase in income tax rates, changes in income tax laws, including as a result of enactment and implementation of the TRAF, or disagreements with tax authorities; PepsiCo’s ability to recruit, hire or retain key employees or a highly skilled and diverse workforce; loss of, or a significant reduction in sales to, any key customer; disruption to the retail landscape, including rapid growth in hard discounters and the e-commerce channel; any downgrade or potential*

*downgrade of PepsiCo's credit ratings; PepsiCo's ability to implement shared services or utilize information technology systems and networks effectively; fluctuations or other changes in exchange rates; climate change or water scarcity, or legal, regulatory or market measures to address climate change or water scarcity; failure to successfully negotiate collective bargaining agreements, or strikes or work stoppages; infringement of intellectual property rights; potential liabilities and costs from litigation, claims, legal or regulatory proceedings, inquiries or investigations; and other factors that may adversely affect the price of PepsiCo's publicly traded securities and financial performance including those described in "Item 1A. Risk Factors" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks," included in our 2018 Form 10-K and in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks" of this Form 10-Q. Investors are cautioned not to place undue reliance on any such forward-looking statements, which speak only as of the date they are made. We undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise.*

In the 12 weeks ended September 7, 2019, substantially all of our financial results outside of North America reflect the months of June, July and August. In the 36 weeks ended September 7, 2019, substantially all of our financial results outside of North America reflect the months of January through August. In the 36 weeks ended September 7, 2019, our operations outside of the United States generated 41% of our consolidated net revenue, with Mexico, Russia, Canada, the United Kingdom and China comprising approximately 19% of our consolidated net revenue. As a result, we are exposed to foreign exchange risks in the international markets in which our products are made, manufactured, distributed or sold. In the 12 weeks ended September 7, 2019, unfavorable foreign exchange reduced net revenue growth by 1 percentage point, reflecting declines in the euro, Turkish lira and Pakistani rupee. In the 36 weeks ended September 7, 2019, unfavorable foreign exchange reduced net revenue growth by 2 percentage points, reflecting declines in the Russian ruble, euro, Turkish lira, Argentine peso and Brazilian real. Currency declines against the U.S. dollar which are not offset could adversely impact our future financial results.

In addition, volatile economic, political and social conditions and civil unrest in certain markets in which our products are made, manufactured, distributed or sold, including in Argentina, Brazil, China, Mexico, the Middle East, Russia and Turkey, and currency controls or fluctuations in certain of these international markets, continue to, and the threat or imposition of tariffs in or related to these international markets may, result in challenging operating environments. We also continue to monitor the economic and political developments related to the United Kingdom's pending withdrawal from the European Union, including how the United Kingdom will interact with other European Union countries following its departure, as well as the economic, operating and political environment in Russia and the potential impact for the ESSA segment and our other businesses.

Certain jurisdictions in which our products are made, manufactured, distributed or sold have either imposed, or are considering imposing, new or increased taxes or regulations on the manufacture, distribution or sale of our products or their packaging, ingredients or substances contained in, or attributes of, our products or their packaging, commodities used in the production of our products or their packaging or the recyclability or recoverability of our packaging. These taxes and regulations vary in scope and form. For example, some taxes apply to all beverages, including non-caloric beverages, while others apply only to beverages with a caloric sweetener (e.g., sugar). In addition, some regulations apply to all products using certain types of packaging (e.g., plastic), while others are designed to increase the sustainability of packaging and encourage waste reduction and increased recycling rates.

We sell a wide variety of beverages, foods and snacks in more than 200 countries and territories and the profile of the products we sell, the amount of revenue attributable to such products and the type of packaging used varies by jurisdiction. Because of this, we cannot predict the scope or form potential taxes, regulations

or other limitations on our products or their packaging may take, and therefore cannot predict the impact of such taxes, regulations or limitations on our financial results. In addition, taxes, regulations and limitations may impact us and our competitors differently. We continue to monitor existing and proposed taxes and regulations in the jurisdictions in which our products are made, manufactured, distributed and sold and to consider actions we may take to potentially mitigate the unfavorable impact, if any, of such taxes, regulations or limitations, including advocating alternative measures with respect to the imposition, form and scope of any such taxes, regulations or limitations.

Additionally, our industry continues to be affected by disruption of the retail landscape, including the rapid growth in sales through e-commerce websites and mobile commerce applications, including through subscription services, the integration of physical and digital operations among retailers and the international expansion of hard discounters. We continue to monitor changes in the retail landscape and to identify actions we may take to build our global e-commerce capabilities, distribute our products effectively through all existing and emerging channels of trade and potentially mitigate any unfavorable impacts on our future results.

During the fourth quarter of 2017, the TCJ Act was enacted in the United States. While our accounting for the recorded impact of the TCJ Act as of December 29, 2018 was deemed to be complete, this amount was based on prevailing regulations and available information as of December 29, 2018, and additional guidance issued by the IRS impacted, and may continue to impact, our recorded amounts after December 29, 2018. For further information on the impact of the TCJ Act, see Note 5 to our condensed consolidated financial statements, “Our Critical Accounting Policies” and “Our Liquidity and Capital Resources” in this Form 10-Q, as well as Note 5 to our consolidated financial statements in our 2018 Form 10-K.

On May 19, 2019, a public referendum held in Switzerland passed the TRAF, effective January 1, 2020. Certain provisions of the TRAF were enacted in the third quarter of 2019, resulting in adjustments to our deferred taxes. In the 12 and 36 weeks ended September 7, 2019, we recorded net tax benefits of \$45 million and \$33 million, respectively, related to the impact of the TRAF. Enactment of the TRAF provisions subsequent to our third quarter of 2019 is expected to result in adjustments to our financial statements and related disclosures in future periods. The future impact of the TRAF cannot currently be reasonably estimated; we will continue to monitor and assess the impact the TRAF may have on our business and financial results. See Note 5 to our condensed consolidated financial statements for further information.

See Note 9 to our condensed consolidated financial statements in this Form 10-Q for the fair values of our financial instruments as of September 7, 2019 and December 29, 2018 and Note 9 to our consolidated financial statements in our 2018 Form 10-K for a discussion of these items. Cautionary statements included above, in “Item 1A. Risk Factors” and in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks” in our 2018 Form 10-K should be considered when evaluating our trends and future results.

## **Results of Operations – Consolidated Review**

### ***Consolidated Results***

#### ***Volume***

Since our divisions each use different measures of physical unit volume (i.e., kilos, gallons, pounds and case sales), a common servings metric is necessary to reflect our consolidated physical unit volume. Our divisions’ physical volume measures are converted into servings based on U.S. Food and Drug Administration guidelines for single-serving sizes of our products. For the 12 and 36 weeks ended September 7, 2019, total servings increased 4%.

We discuss volume for our beverage businesses on a bottler case sales (BCS) basis in which all beverage volume is converted to an 8-ounce-case metric. Most of our beverage volume is sold by our Company-owned and franchise-owned bottlers, and that portion is based on our bottlers' sales to retailers and independent distributors. The remainder of our volume is based on our direct shipments to retailers and independent distributors. We report substantially all of our international beverage volume on a monthly calendar basis. The 12 weeks ended September 7, 2019 include beverage volume outside of North America for the months of June, July and August. The 36 weeks ended September 7, 2019 include beverage volume outside of North America for the months of January through August. Concentrate shipments and equivalents (CSE) represent our physical beverage volume shipments to independent bottlers, retailers and independent distributors, and is the measure upon which our revenue is based.

### *Net Revenue and Operating Profit*

	12 Weeks Ended			36 Weeks Ended		
	9/7/2019	9/8/2018	Change	9/7/2019	9/8/2018	Change
Net revenue	\$ 17,188	\$ 16,485	4 %	\$ 46,521	\$ 45,137	3 %
Operating profit	\$ 2,855	\$ 2,844	— %	\$ 7,592	\$ 7,679	(1)%
Operating profit margin	16.6%	17.3%	(0.7)	16.3%	17.0%	(0.7)

See “Results of Operations – Division Review” for a tabular presentation and discussion of key drivers of net revenue.

#### **12 Weeks**

Operating profit increased slightly and operating profit margin decreased 0.7 percentage points. Operating profit growth was driven by net revenue growth and productivity savings, partially offset by certain operating cost increases, a 4-percentage-point impact of higher commodity costs, and higher advertising and marketing expenses. The operating profit margin decrease primarily reflects certain operating cost increases.

#### **36 Weeks**

Operating profit decreased 1% and operating profit margin decreased 0.7 percentage points. Operating profit performance was driven by certain operating cost increases, a 6-percentage-point impact of higher commodity costs, and higher advertising and marketing expenses, partially offset by net revenue growth and productivity savings.

Higher restructuring and impairment charges (see “Items Affecting Comparability”) and a prior-year gain on the refranchising of a portion of our beverage business in Thailand each negatively impacted operating profit performance by 2 percentage points.

**Other Consolidated Results**

	12 Weeks Ended			36 Weeks Ended		
	9/7/2019	9/8/2018	Change	9/7/2019	9/8/2018	Change
Other pension and retiree medical benefits income	\$ 38	\$ 74	\$ (36)	\$ 163	\$ 231	\$ (68)
Net interest expense	\$ (224)	\$ (221)	\$ (3)	\$ (651)	\$ (656)	\$ 5
Tax rate <sup>(a)</sup>	21.0%	7.0%		21.5%	21.5%	
Net income attributable to PepsiCo	\$ 2,100	\$ 2,498	(16)%	\$ 5,548	\$ 5,661	(2)%
Net income attributable to PepsiCo per common share – diluted	\$ 1.49	\$ 1.75	(15)%	\$ 3.94	\$ 3.97	(1)%
Mark-to-market net impact	—	0.02		(0.03)	0.03	
Restructuring and impairment charges	0.06	0.02		0.16	0.05	
Inventory fair value adjustments and merger and integration charges	—	—		0.03	—	
Tax (benefits)/net tax expense related to the TCJ Act <sup>(a)</sup>	—	0.05		(0.02)	0.60	
Tax benefits <sup>(a)</sup>	—	(0.26)		—	(0.48)	
Net income attributable to PepsiCo per common share – diluted, excluding above items <sup>(b)</sup>	\$ 1.56 <sup>(c)</sup>	\$ 1.59 <sup>(c)</sup>	(2)%	\$ 4.07 <sup>(c)</sup>	\$ 4.17 <sup>(c)</sup>	(2)%
Impact of foreign exchange translation			1			2
Growth in net income attributable to PepsiCo per common share – diluted, excluding above items, on a constant currency basis <sup>(b)</sup>			(1)%			(0.5)% <sup>(c)</sup>

(a) See Note 5 to our condensed consolidated financial statements for further information.

(b) See “Non-GAAP Measures.”

(c) Does not sum due to rounding.

**12 Weeks**

Other pension and retiree medical benefits income decreased \$36 million, primarily reflecting lower expected return on plan assets due to a lower plan asset balance following the recognition of 2018 losses, higher interest costs and settlement losses in the U.S. pension plans.

Net interest expense increased \$3 million, reflecting lower interest income due to lower average cash balances. This impact was partially offset by lower interest expense due to lower average debt balances, as well as higher gains on the market value of investments used to economically hedge a portion of our deferred compensation liability.

The reported tax rate increased 14.0 percentage points, primarily reflecting the prior-year favorable conclusion of certain international tax audits. See Note 5 to our condensed consolidated financial statements for further information.

Net income attributable to PepsiCo decreased 16% and net income attributable to PepsiCo per common share decreased 15%. Items affecting comparability (see “Items Affecting Comparability”) negatively impacted both net income attributable to PepsiCo performance and net income attributable to PepsiCo per common share performance by 13 percentage points.

## 36 Weeks

Other pension and retiree medical benefits income decreased \$68 million, primarily reflecting lower expected return on plan assets due to a lower plan asset balance following the recognition of 2018 losses, higher interest costs and settlement losses in the U.S. pension plans.

Net interest expense decreased \$5 million, reflecting lower interest expense due to lower average debt balances, as well as higher gains on the market value of investments used to economically hedge a portion of our deferred compensation liability. These impacts were partially offset by lower interest income due to lower average cash balances.

The reported tax rate was even with the prior year, primarily reflecting the prior-year provisional net tax expense related to the TCJ Act, offset by the prior-year impacts of the favorable conclusion of certain international tax audits and the favorable resolution with the IRS of all open matters related to the audits of taxable years 2012 and 2013. See Note 5 to our condensed consolidated financial statements for further information.

Net income attributable to PepsiCo decreased 2% and net income attributable to PepsiCo per common share decreased 1%. Items affecting comparability (see “Items Affecting Comparability”) positively contributed 1.5 percentage points to both net income attributable to PepsiCo performance and net income attributable to PepsiCo per common share performance.

### *Non-GAAP Measures*

Certain financial measures contained in this Form 10-Q adjust for the impact of specified items and are not in accordance with U.S. Generally Accepted Accounting Principles (GAAP). We use non-GAAP financial measures internally to make operating and strategic decisions, including the preparation of our annual operating plan, evaluation of our overall business performance and as a factor in determining compensation for certain employees. We believe presenting non-GAAP financial measures in this Form 10-Q provides additional information to facilitate comparison of our historical operating results and trends in our underlying operating results, and provides additional transparency on how we evaluate our business. We also believe presenting these measures in this Form 10-Q allows investors to view our performance using the same measures that we use in evaluating our financial and business performance and trends.

We consider quantitative and qualitative factors in assessing whether to adjust for the impact of items that may be significant or that could affect an understanding of our ongoing financial and business performance or trends. Examples of items for which we may make adjustments include: amounts related to mark-to-market gains or losses (non-cash); charges related to restructuring plans; charges or adjustments related to the enactment of new laws, rules or regulations, such as significant tax law changes; amounts related to the resolution of tax positions; tax benefits related to reorganizations of our operations; amounts associated with mergers, acquisitions, divestitures and other structural changes; debt redemptions, cash tender or exchange offers; pension and retiree medical related items; asset impairments (non-cash); and remeasurements of net monetary assets. See below and “Items Affecting Comparability” for a description of adjustments to our U.S. GAAP financial measures.

Non-GAAP information should be considered as supplemental in nature and is not meant to be considered in isolation or as a substitute for the related financial information prepared in accordance with U.S. GAAP. In addition, our non-GAAP financial measures may not be the same as or comparable to similar non-GAAP measures presented by other companies.

The following non-GAAP financial measures are contained in this Form 10-Q:

- cost of sales, gross profit, selling, general and administrative expenses, other pension and retiree

medical benefits income, provision for income taxes and net income attributable to noncontrolling interests, each adjusted for items affecting comparability;

- operating profit, adjusted for items affecting comparability, and net income attributable to PepsiCo per common share – diluted, adjusted for items affecting comparability, and the corresponding constant currency growth rates;
- organic revenue growth; and
- free cash flow.

*Cost of sales, gross profit, selling, general and administrative expenses, other pension and retiree medical benefits income, provision for income taxes and net income attributable to noncontrolling interests, each adjusted for items affecting comparability, operating profit, adjusted for items affecting comparability, and net income attributable to PepsiCo per common share – diluted, adjusted for items affecting comparability, and the corresponding constant currency growth rates*

These measures exclude the net impact of mark-to-market gains and losses on centrally managed commodity derivatives that do not qualify for hedge accounting, restructuring and impairment charges related to our 2019 and 2014 Productivity Plans, inventory fair value adjustments and merger and integration charges largely associated with our acquisition of SodaStream, tax benefits/net tax expense in connection with the TCJ Act and tax benefits (see “Items Affecting Comparability” for a detailed description of each of these items). We also evaluate performance on operating profit, adjusted for items affecting comparability, and net income attributable to PepsiCo per common share – diluted, adjusted for items affecting comparability, on a constant currency basis, which measure our financial results assuming constant foreign currency exchange rates used for translation based on the rates in effect for the comparable prior-year period. In order to compute our constant currency results, we multiply or divide, as appropriate, our current-year U.S. dollar results by the current-year average foreign exchange rates and then multiply or divide, as appropriate, those amounts by the prior-year average foreign exchange rates. We believe these measures provide useful information in evaluating the results of our business because they exclude items that we believe are not indicative of our ongoing performance.

#### *Organic revenue growth*

We define organic revenue growth as net revenue growth adjusted for the impact of foreign exchange translation, as well as the impact from acquisitions, divestitures and other structural changes. We believe organic revenue provides useful information in evaluating the results of our business because it excludes items that we believe are not indicative of ongoing performance or that we believe impact comparability with the prior year.

See “Net Revenue and Organic Revenue Growth” in “Results of Operations – Division Review” for further information.

#### *Free cash flow*

We define free cash flow as net cash provided by operating activities less capital spending, plus sales of property, plant and equipment. Since net capital spending is essential to our product innovation initiatives and maintaining our operational capabilities, we believe that it is a recurring and necessary use of cash. As such, we believe investors should also consider net capital spending when evaluating our cash from operating activities. Free cash flow is used by us primarily for financing activities, including debt repayments, dividends and share repurchases. Free cash flow is not a measure of cash available for discretionary expenditures since we have certain non-discretionary obligations such as debt service that are not deducted from the measure.

See “Free Cash Flow” in “Our Liquidity and Capital Resources” for further information.

**Items Affecting Comparability**

Our reported financial results in this Form 10-Q are impacted by the following items in each of the following periods:

	12 Weeks Ended 9/7/2019						
	Cost of sales	Gross profit	Selling, general and administrative expenses	Operating profit	Other pension and retiree medical benefits income	Provision for income taxes <sup>(a)</sup>	Net income attributable to PepsiCo
Reported, GAAP Measure	\$ 7,694	\$ 9,494	\$ 6,639	\$ 2,855	\$ 38	\$ 559	\$ 2,100
Items Affecting Comparability							
Mark-to-market net impact	(13)	13	9	4	—	1	3
Restructuring and impairment charges	(10)	10	(83)	93	5	16	82
Inventory fair value adjustments and merger and integration charges	—	—	(7)	7	—	1	6
Core, Non-GAAP Measure	<u>\$ 7,671</u>	<u>\$ 9,517</u>	<u>\$ 6,558</u>	<u>\$ 2,959</u>	<u>\$ 43</u>	<u>\$ 577</u>	<u>\$ 2,191</u>
	12 Weeks Ended 9/8/2018						
	Cost of sales	Gross profit	Selling, general and administrative expenses	Operating profit	Provision for income taxes <sup>(a)</sup>	Net income attributable to noncontrolling interests	Net income attributable to PepsiCo
Reported, GAAP Measure	\$ 7,527	\$ 8,958	\$ 6,114	\$ 2,844	\$ 188	\$ 11	\$ 2,498
Items Affecting Comparability							
Mark-to-market net impact	(31)	31	2	29	6	—	23
Restructuring and impairment charges	—	—	(35)	35	3	1	31
Provisional net tax expense related to the TCJ Act	—	—	—	—	(76)	—	76
Tax benefit	—	—	—	—	364	—	(364)
Core, Non-GAAP Measure	<u>\$ 7,496</u>	<u>\$ 8,989</u>	<u>\$ 6,081</u>	<u>\$ 2,908</u>	<u>\$ 485</u>	<u>\$ 12</u>	<u>\$ 2,264</u>
	36 Weeks Ended 9/7/2019						
	Cost of sales	Gross profit	Selling, general and administrative expenses	Operating profit	Provision for income taxes <sup>(a)</sup>	Net income attributable to noncontrolling interests	Net income attributable to PepsiCo
Reported, GAAP Measure	\$ 20,786	\$ 25,735	\$ 18,143	\$ 7,592	\$ 1,529	\$ 27	\$ 5,548
Items Affecting Comparability							
Mark-to-market net impact	19	(19)	31	(50)	(12)	—	(38)
Restructuring and impairment charges	(100)	100	(182)	282	57	4	221
Inventory fair value adjustments and merger and integration charges	(34)	34	(12)	46	8	—	38
Tax benefits related to the TCJ Act	—	—	—	—	29	—	(29)
Core, Non-GAAP Measure	<u>\$ 20,671</u>	<u>\$ 25,850</u>	<u>\$ 17,980</u>	<u>\$ 7,870</u>	<u>\$ 1,611</u>	<u>\$ 31</u>	<u>\$ 5,740</u>



36 Weeks Ended 9/8/2018

	Cost of sales	Gross profit	Selling, general and administrative expenses	Operating profit	Other pension and retiree medical benefits income	Provision for income taxes <sup>(a)</sup>	Net income attributable to noncontrolling interests	Net income attributable to PepsiCo
Reported, GAAP Measure	\$ 20,445	\$ 24,692	\$ 17,013	\$ 7,679	\$ 231	\$ 1,562	\$ 31	\$ 5,661
Items Affecting Comparability								
Mark-to-market net impact	(51)	51	(6)	57	—	14	—	43
Restructuring and impairment charges	—	—	(75)	75	4	12	1	66
Provisional net tax expense related to the TCJ Act	—	—	—	—	—	(854)	—	854
Tax benefits	—	—	—	—	—	678	—	(678)
Core, Non-GAAP Measure	\$ 20,394	\$ 24,743	\$ 16,932	\$ 7,811	\$ 235	\$ 1,412	\$ 32	\$ 5,946

(a) Provision for income taxes is the expected tax benefit/charge on the underlying item based on the tax laws and income tax rates applicable to the underlying item in its corresponding tax jurisdiction.

### Mark-to-Market Net Impact

We centrally manage commodity derivatives on behalf of our divisions. These commodity derivatives include energy, agricultural products and metals. Commodity derivatives that do not qualify for hedge accounting treatment are marked to market each period with the resulting gains and losses recorded in corporate unallocated expenses as either cost of sales or selling, general and administrative expenses, depending on the underlying commodity. These gains and losses are subsequently reflected in division results when the divisions recognize the cost of the underlying commodity in operating profit. Therefore, the divisions realize the economic effects of the derivative without experiencing any resulting mark-to-market volatility, which remains in corporate unallocated expenses.

### Restructuring and Impairment Charges

#### 2019 Multi-Year Productivity Plan

In connection with our 2019 Productivity Plan, we expect to incur pre-tax charges of approximately \$2.5 billion, of which we have incurred \$420 million to date. We expect to incur pre-tax charges of approximately \$200 million for the remainder of 2019, with the balance to be reflected in our fiscal 2020 through 2023 results. These total pre-tax charges are expected to consist of approximately 70% of severance and other employee-related costs, 15% for asset impairments (all non-cash) resulting from plant closures and related actions, and 15% for other costs associated with the implementation of our initiatives. We expect to incur cash expenditures of approximately \$1.6 billion, of which we have incurred \$136 million to date. We expect cash expenditures of approximately \$150 million for the remainder of 2019, with the balance to be reflected in our fiscal 2020 through 2023 cash flows. We expect to incur the majority of the pre-tax charges and cash expenditures in our fiscal 2019, 2020 and 2021 results.

The total expected plan pre-tax charges are expected to be incurred by division approximately as follows:

	FLNA	QFNA	PBNA	LatAm	ESSA	AMENA	Corporate
Expected pre-tax charges	10%	3%	35%	12%	25%	13%	2%

### *2014 Multi-Year Productivity Plan*

We have substantially completed our 2014 Productivity Plan and do not expect to incur material charges in 2019 associated with this plan. The pre-tax charges and cash expenditures approximate the original total plan estimates of \$1.3 billion and \$960 million, respectively.

See Note 3 to our condensed consolidated financial statements in this Form 10-Q, as well as Note 3 to our consolidated financial statements in our 2018 Form 10-K for further information related to our 2019 and 2014 Productivity Plans.

We regularly evaluate productivity initiatives beyond the productivity plans and other initiatives discussed above and in Note 3 to our condensed consolidated financial statements.

### **Inventory Fair Value Adjustments and Merger and Integration Charges**

During the 12 and 36 weeks ended September 7, 2019, we incurred incremental costs of \$7 million (\$6 million after-tax with a nominal amount per share) in our ESSA segment and \$46 million (\$38 million after-tax or \$0.03 per share), including \$45 million in our ESSA segment and \$1 million in corporate unallocated expenses, respectively, largely associated with our acquisition of SodaStream. These incremental costs are primarily related to fair value adjustments to the acquired inventory included in SodaStream's balance sheet at acquisition date, as well as merger and integration charges, including employee-related costs.

See Note 14 to our condensed consolidated financial statements for further information.

### **Tax Benefits/Net Tax Expense Related to the TCJ Act**

During the fourth quarter of 2017, the TCJ Act was enacted in the United States. Among its many provisions, the TCJ Act imposed a mandatory one-time transition tax on undistributed international earnings and reduced the U.S. corporate income tax rate from 35% to 21%, effective January 1, 2018.

In connection with the TCJ Act, we recognized tax benefits totaling \$29 million (\$0.02 per share) in the 36 weeks ended September 7, 2019, and provisional transition tax expense of \$76 million (\$0.05 per share) in the 12 weeks ended September 8, 2018 and \$854 million (\$0.60 per share) in the 36 weeks ended September 8, 2018.

See Note 5 to our condensed consolidated financial statements for further information.

### **Tax Benefits**

In the 12 weeks ended September 8, 2018, we recognized a non-cash tax benefit of \$364 million (\$0.26 per share) resulting from the conclusion of certain international tax audits. In the second quarter of 2018, we reached an agreement with the IRS resolving all open matters related to the audits of taxable years 2012 and 2013. The conclusion of certain international tax audits and the resolution with the IRS, collectively, resulted in non-cash tax benefits totaling \$678 million (\$0.48 per share) in the 36 weeks ended September 8, 2018.

See Note 5 to our condensed consolidated financial statements for further information.

### **Results of Operations – Division Review**

The results and discussions below are based on how our Chief Executive Officer monitors the performance of our divisions. See “Non-GAAP Measures” and “Items Affecting Comparability” for a discussion of items to consider when evaluating our results and related information regarding non-GAAP measures.

In the discussions of net revenue and operating profit below, “effective net pricing” reflects the year-over-year impact of discrete pricing actions, sales incentive activities and mix resulting from selling varying

products in different package sizes and in different countries, and “net pricing” reflects the year-over-year combined impact of list price changes, weight changes per package, discounts and allowances. “Acquisitions and divestitures,” except as otherwise noted, reflect all mergers and acquisitions activity, including the impact of acquisitions, divestitures and changes in ownership or control in consolidated subsidiaries and nonconsolidated equity investees.

**Net Revenue and Organic Revenue Growth**

Organic revenue growth is a non-GAAP financial measure. For further information on organic revenue growth see “Non-GAAP Measures.”

12 Weeks Ended 9/7/2019						
	Reported % Change, GAAP Measure	Impact of		Organic % Change, Non-GAAP Measure <sup>(a)</sup>	Impact of	
		Foreign exchange translation	Acquisitions and divestitures		Volume <sup>(b)</sup>	Effective net pricing
FLNA	5.5%	—	—	5.5%	2	3.5
QFNA	1.5%	—	—	1%	(1)	2
PBNA	3.5%	—	(1)	3%	(1)	3
LatAm	2%	2	—	4%	(3)	7
ESSA	6%	4	(5)	4%	(2)	6
AMENA	5%	1	3.5	9%	7	3
Total	4%	1	(1)	4%	—	4

36 Weeks Ended 9/7/2019						
	Reported % Change, GAAP Measure	Impact of		Organic % Change, Non-GAAP Measure <sup>(a)</sup>	Impact of	
		Foreign exchange translation	Acquisitions and divestitures		Volume <sup>(b)</sup>	Effective net pricing
FLNA	5%	—	—	5%	2	3.5
QFNA	1%	—	(0.5)	1%	(1)	1
PBNA	3%	—	(0.5)	2%	(1.5)	4
LatAm	2%	6	—	8%	—	7
ESSA	3%	7	(5)	5%	(1)	6
AMENA	1%	3	3	8%	6	2
Total	3%	2	(1)	5%	—	4

(a) Amounts may not sum due to rounding.

(b) Excludes the impact of acquisitions and divestitures. In certain instances, volume growth varies from the amounts disclosed in the following divisional discussions due to nonconsolidated joint venture volume, and, for our beverage businesses, temporary timing differences between BCS and CSE, as well as the mix of beverage volume sold by our Company-owned and franchise-owned bottlers. Our net revenue excludes nonconsolidated joint venture volume, and, for our franchise-owned beverage businesses, is based on CSE.

**Operating Profit, Operating Profit Adjusted for Items Affecting Comparability and Operating Profit Growth Adjusted for Items Affecting Comparability on a Constant Currency Basis**

Operating profit adjusted for items affecting comparability and operating profit growth adjusted for items affecting comparability on a constant currency basis are both non-GAAP financial measures. For further information on these measures see “Non-GAAP Measures” and “Items Affecting Comparability.”

*Operating Profit and Operating Profit Adjusted for Items Affecting Comparability*

	12 Weeks Ended 9/7/2019				
	Items Affecting Comparability <sup>(a)</sup>				Core, Non-GAAP Measure
	Reported, GAAP Measure	Mark-to-market net impact	Restructuring and impairment charges	Inventory fair value adjustments and merger and integration charges	
FLNA	\$ 1,286	\$ —	\$ 16	\$ —	\$ 1,302
QFNA	126	—	2	—	128
PBNA	640	—	26	—	666
LatAm	277	—	22	—	299
ESSA	474	—	14	7	495
AMENA	357	—	10	—	367
Corporate unallocated expenses	(305)	4	3	—	(298)
Total	\$ 2,855	\$ 4	\$ 93	\$ 7	\$ 2,959

  

	12 Weeks Ended 9/8/2018			
	Items Affecting Comparability <sup>(a)</sup>			Core, Non-GAAP Measure
	Reported, GAAP Measure	Mark-to-market net impact	Restructuring and impairment charges	
FLNA	\$ 1,241	\$ —	\$ —	\$ 1,241
QFNA	143	—	—	143
PBNA	703	—	12	715
LatAm	284	—	4	288
ESSA	439	—	17	456
AMENA	311	—	2	313
Corporate unallocated expenses	(277)	29	—	(248)
Total	\$ 2,844	\$ 29	\$ 35	\$ 2,908

  

	36 Weeks Ended 9/7/2019				
	Items Affecting Comparability <sup>(a)</sup>				Core, Non-GAAP Measure
	Reported, GAAP Measure	Mark-to-market net impact	Restructuring and impairment charges	Inventory fair value adjustments and merger and integration charges	
FLNA	\$ 3,694	\$ —	\$ 22	\$ —	\$ 3,716
QFNA	391	—	2	—	393
PBNA	1,719	—	42	—	1,761
LatAm	785	—	43	—	828
ESSA	965	—	73	45	1,083
AMENA	883	—	63	—	946
Corporate unallocated expenses	(845)	(50)	37	1	(857)
Total	\$ 7,592	\$ (50)	\$ 282	\$ 46	\$ 7,870

	36 Weeks Ended 9/8/2018			
	Items Affecting Comparability <sup>(a)</sup>			Core, Non-GAAP Measure
	Reported, GAAP Measure	Mark-to-market net impact	Restructuring and impairment charges	
FLNA	\$ 3,491	\$ —	\$ 4	\$ 3,495
QFNA	443	—	—	443
PBNA	1,838	—	23	1,861
LatAm	742	—	16	758
ESSA	995	—	25	1,020
AMENA	994	—	6	1,000
Corporate unallocated expenses	(824)	57	1	(766)
<b>Total</b>	<b>\$ 7,679</b>	<b>\$ 57</b>	<b>\$ 75</b>	<b>\$ 7,811</b>

(a) See “Items Affecting Comparability.”

*Operating Profit Growth and Operating Profit Growth Adjusted for Items Affecting Comparability on a Constant Currency Basis*

	12 Weeks Ended 9/7/2019						
	Impact of Items Affecting Comparability <sup>(a)</sup>				Core % Change, Non- GAAP Measure <sup>(b)</sup>	Impact of	
	Reported % Change, GAAP Measure	Mark-to- market net impact	Restructuring and impairment charges	Inventory fair value adjustments and merger and integration charges		Foreign exchange translation	Core Constant Currency % Change, Non- GAAP Measure <sup>(b)</sup>
FLNA	4 %	—	1	—	5 %	—	5 %
QFNA	(12)%	—	1	—	(11)%	—	(11)%
PBNA	(9)%	—	2	—	(7)%	—	(7)%
LatAm	(3)%	—	6	—	4 %	1	5 %
ESSA	8 %	—	—	1	9 %	4	13 %
AMENA	15 %	—	3	—	18 %	1	19 %
Corporate unallocated expenses	10 %	11	(1)	—	20 %	—	20 %
<b>Total</b>	<b>— %</b>	<b>(1)</b>	<b>2</b>	<b>—</b>	<b>2 %</b>	<b>1</b>	<b>3 %</b>

	36 Weeks Ended 9/7/2019						
	Impact of Items Affecting Comparability <sup>(a)</sup>				Core % Change, Non- GAAP Measure <sup>(b)</sup>	Impact of	
	Reported % Change, GAAP Measure	Mark-to- market net impact	Restructuring and impairment charges	Inventory fair value adjustments and merger and integration charges		Foreign exchange translation	Core Constant Currency % Change, Non- GAAP Measure <sup>(b)</sup>
FLNA	6 %	—	0.5	—	6 %	—	7 %
QFNA	(12)%	—	—	—	(11)%	—	(11)%
PBNA	(6)%	—	1	—	(5)%	—	(5)%
LatAm	6 %	—	3.5	—	9 %	3	12 %
ESSA	(3)%	—	—	9	6 %	8	14 %
AMENA	(11)%	—	6	—	(5)%	2.5	(3)%
Corporate unallocated expenses	3 %	14	(5)	—	12 %	—	12 %
<b>Total</b>	<b>(1)%</b>	<b>(1)</b>	<b>2</b>	<b>1</b>	<b>1 %</b>	<b>2</b>	<b>2 %</b>

(a) See “Items Affecting Comparability” for further information.

(b) Amounts may not sum due to rounding.

## ***FLNA***

### **12 Weeks**

Net revenue grew 5.5% and volume grew 2%. The net revenue growth was driven by effective net pricing and volume growth. The volume growth reflects high-single-digit growth in trademark Doritos and Cheetos and low-single-digit growth in variety packs, partially offset by a double-digit decline in our Sabra joint venture products.

Operating profit grew 4%, primarily reflecting the net revenue growth and productivity savings, partially offset by certain operating cost increases.

### **36 Weeks**

Net revenue grew 5% and volume grew 1%. The net revenue growth was driven by effective net pricing and volume growth. The volume growth reflects mid-single-digit growth in trademark Doritos and Cheetos and low-single-digit growth in variety packs and trademark Ruffles, partially offset by a double-digit decline in our Sabra joint venture products.

Operating profit grew 6%, primarily reflecting the net revenue growth and productivity savings, partially offset by certain operating cost increases. Additionally, a prior-year bonus extended to certain U.S. employees in connection with the TCJ Act contributed 1 percentage point to operating profit growth.

## ***QFNA***

### **12 Weeks**

Net revenue grew 1.5% and volume declined 1%. The net revenue growth reflects favorable net pricing and mix, partially offset by the volume decline. The volume decline was driven by a high-single-digit decline in ready-to-eat cereals and a mid-single-digit decline in oatmeal, partially offset by double-digit growth in trademark Gamesa and mid-single-digit growth in Aunt Jemima syrup and mix.

Operating profit decreased 12%, reflecting certain operating costs increases, a 5-percentage-point impact of higher commodity costs and a 2-percentage-point prior-year impact of insurance settlement recoveries related to the 2017 earthquake in Mexico, partially offset by productivity savings and the net revenue growth.

### **36 Weeks**

Net revenue grew 1% and volume declined 1%. The net revenue growth reflects favorable net pricing and mix, partially offset by the volume decline. The volume decline was driven by mid-single-digit declines in oatmeal and ready-to-eat cereals, partially offset by double-digit growth in trademark Gamesa and mid-single-digit growth in Aunt Jemima syrup and mix.

Operating profit decreased 12%, reflecting certain operating costs increases and a 5-percentage-point impact of higher commodity costs, partially offset by productivity savings and the net revenue growth.

## ***PBNA***

### **12 Weeks**

Net revenue increased 3.5%, primarily driven by effective net pricing, partially offset by a decline in volume. Acquisitions contributed 1 percentage point to the net revenue growth. Volume decreased 0.5%, driven by a 3% decline in carbonated soft drink (CSD) volume partially offset by a 3% increase in non-carbonated beverage (NCB) volume. The NCB volume increase primarily reflected a high-single-digit increase in our overall water portfolio and a low-single-digit increase in Gatorade sports drinks, partially offset by a low-

single-digit decrease in Lipton ready-to-drink teas. Acquisitions had a nominal positive contribution to the volume performance.

Operating profit decreased 9%, reflecting certain operating cost increases, higher advertising and marketing expenses and a 5-percentage-point impact of higher commodity costs. These impacts were partially offset by the effective net pricing and productivity savings. A gain associated with the sale of an asset in the prior year negatively impacted operating profit performance by 5 percentage points and was largely offset by a gain associated with an insurance recovery in the current year, which positively contributed 4 percentage points to operating profit performance.

### **36 Weeks**

Net revenue increased 3%, primarily driven by effective net pricing, partially offset by a decline in volume. Acquisitions contributed 0.5 percentage points to the net revenue growth. Volume decreased 1%, driven by a 3% decline in CSD volume partially offset by a 1% increase in NCB volume. The NCB volume increase primarily reflected a high-single-digit increase in our overall water portfolio, partially offset by a mid-single-digit decrease in our juice and juice drink portfolio and low-single-digit decreases in Lipton ready-to-drink teas and Gatorade sports drinks. Acquisitions had a nominal positive contribution to the volume performance.

Operating profit decreased 6%, reflecting certain operating cost increases, higher advertising and marketing expenses, a 7-percentage-point impact of higher commodity costs and the volume decline. These impacts were partially offset by the effective net pricing and productivity savings. Gains associated with the sale of assets in the prior year negatively impacted operating profit performance by 3 percentage points and were partially offset by a current-year gain associated with a sale of an asset, which positively contributed 2 percentage points to operating profit performance. A gain associated with an insurance recovery positively contributed 2 percentage points to current-year operating profit performance and was partially offset by less-favorable insurance adjustments compared to the prior year, which negatively impacted the current-year operating profit performance by 1.5 percentage points. Additionally, a prior-year bonus extended to certain U.S. employees in connection with the TCJ Act positively contributed 2 percentage points to operating profit performance.

### ***LatAm***

#### **12 Weeks**

Net revenue increased 2%, reflecting effective net pricing, partially offset by a net decline in volume and a 2-percentage-point impact of unfavorable foreign exchange.

Snacks volume declined 3%, reflecting a double-digit decline in Brazil, partially offset by low-single-digit growth in Mexico.

Beverage volume grew 5%, reflecting high-single-digit growth in Brazil and double-digit growth in Guatemala, partially offset by a high-single-digit decline in Colombia and a low-single-digit decline in Argentina. Additionally, Mexico experienced mid-single-digit growth and Honduras experienced low-single-digit growth.

Operating profit decreased 3%, reflecting certain operating cost increases, the net volume decline and a 12-percentage-point impact of higher commodity costs largely due to transaction-related foreign exchange, partially offset by the effective net pricing and productivity savings. Additionally, insurance settlement recoveries in the prior year related to the 2017 earthquake in Mexico negatively impacted operating profit performance by 5 percentage points. Higher restructuring and impairment charges negatively impacted operating profit performance by 6 percentage points.

### **36 Weeks**

Net revenue increased 2%, primarily reflecting effective net pricing, partially offset by a 6-percentage-point impact of unfavorable foreign exchange.

Snacks volume grew slightly, reflecting low-single-digit growth in Mexico, partially offset by a high-single-digit decline in Brazil.

Beverage volume grew 5%, reflecting double-digit growth in Brazil and Guatemala, partially offset by a high-single-digit decline in Argentina. Additionally, Mexico, Colombia and Honduras each experienced low-single-digit growth and Chile experienced mid-single-digit growth.

Operating profit increased 6%, reflecting the net revenue growth and productivity savings, partially offset by certain operating cost increases and a 13-percentage-point impact of higher commodity costs largely due to transaction-related foreign exchange. Higher restructuring and impairment charges and unfavorable foreign exchange reduced operating profit growth by 3.5 percentage points and 3 percentage points, respectively.

### ***ESSA***

### **12 Weeks**

Net revenue increased 6%, primarily reflecting effective net pricing and a 7-percentage-point impact of the SodaStream acquisition, partially offset by a 4-percentage-point impact of unfavorable foreign exchange.

Snacks volume grew slightly, reflecting mid-single-digit growth in France and Poland and slight growth in Spain, partially offset by low-single-digit declines in Russia, Turkey and the United Kingdom, a mid-single-digit decline in South Africa and a slight decline in the Netherlands.

Beverage volume grew 17%, primarily reflecting an 18-percentage-point impact of the SodaStream acquisition, high-single-digit growth in the United Kingdom and mid-single-digit growth in Poland and Nigeria, partially offset by a high-single-digit decline in Russia, a double-digit-decline in Turkey, a mid-single-digit decline in France and a low-single-digit decline Germany.

Operating profit increased 8%, reflecting the effective net pricing, productivity savings and a 7-percentage-point net impact of the SodaStream acquisition. These impacts were partially offset by certain operating cost increases, a 9-percentage-point impact of higher commodity costs largely due to transaction-related foreign exchange and higher advertising and marketing expenses. Unfavorable foreign exchange reduced operating profit growth by 4 percentage points.

### **36 Weeks**

Net revenue increased 3%, reflecting effective net pricing and a 6-percentage-point impact of the SodaStream acquisition, partially offset by a 7-percentage-point impact of unfavorable foreign exchange.

Snacks volume grew 1%, reflecting mid-single-digit growth in Poland and low-single-digit growth in France and the Netherlands, partially offset by low-single-digit declines in the United Kingdom and South Africa and a mid-single-digit decline in Turkey. Additionally, Russia experienced slight growth.

Beverage volume grew 20%, primarily reflecting a 19-percentage-point impact of the SodaStream acquisition, high-single-digit growth in Nigeria and Poland and low-single-digit growth in the United Kingdom, partially offset by a mid-single-digit decline in Russia, a high-single-digit decline in Turkey and low-single-digit declines in Germany and France.



Operating profit decreased 3%, reflecting certain operating cost increases, a 14-percentage-point impact of higher commodity costs largely due to transaction-related foreign exchange, a 6-percentage-point impact of restructuring and impairment charges and higher advertising and marketing expenses. These impacts were partially offset by the effective net pricing and productivity savings. The SodaStream acquisition positively contributed 7 percentage points to operating profit performance and was partially offset by inventory fair value adjustments and merger and integration charges which negatively impacted operating profit performance by 3 percentage points. Unfavorable foreign exchange negatively impacted operating profit performance by 8 percentage points.

## **AMENA**

### **12 Weeks**

Net revenue increased 5%, reflecting volume growth and effective net pricing, partially offset by a 3-percentage-point impact of refranchising a portion of our beverage business in India in 2019.

Snacks volume grew 8%, reflecting double-digit growth in Pakistan and high-single-digit growth in the Middle East, India and China. Additionally, Australia experienced low-single-digit growth.

Beverage volume grew 4%, reflecting double-digit growth in India and Vietnam, partially offset by a low-single-digit decline in Pakistan. Additionally, China and the Middle East each experienced low-single-digit growth.

Operating profit increased 15%, reflecting the net revenue growth and productivity savings, partially offset by certain operating cost increases and higher advertising and marketing expenses. Higher restructuring and impairment charges reduced operating profit growth by 3 percentage points.

### **36 Weeks**

Net revenue increased 1%, reflecting volume growth and effective net pricing, partially offset by unfavorable foreign exchange and refranchising a portion of our beverage business in India in 2019 and in Thailand in 2018 which reduced net revenue growth by 3 percentage points each.

Snacks volume grew 6%, reflecting high-single-digit growth in China, double-digit growth in Pakistan and mid-single-digit growth in India and the Middle East. Additionally, Australia experienced low-single-digit growth.

Beverage volume grew 2%, reflecting high-single-digit growth in India and the Philippines and double-digit growth in Vietnam, partially offset by a low-single-digit decline in the Middle East and Pakistan. Additionally, China experienced slight growth.

Operating profit decreased 11%, reflecting a 14-percentage-point impact of a gain on the prior-year refranchising of a portion of our beverage business in Thailand, certain operating cost increases and higher advertising and marketing expenses. These impacts were partially offset by the net revenue growth and productivity savings. Higher restructuring and impairment charges and unfavorable foreign exchange negatively impacted operating profit performance by 6 percentage points and 2.5 percentage points, respectively.

## **Our Liquidity and Capital Resources**

We believe that our cash generating capability and financial condition, together with our revolving credit facilities and other available methods of debt financing, such as commercial paper borrowings and long-term debt financing, will be adequate to meet our operating, investing and financing needs. Our primary sources of cash available to fund cash outflows, such as our anticipated share repurchases, dividend payments, debt repayments, our proposed acquisition of Pioneer Foods and transition tax liability under the TCJ Act, include cash from operations, proceeds obtained from issuances of commercial paper and long-term debt, and cash and cash equivalents. However, there can be no assurance that volatility in the global capital and credit markets will not impair our ability to access these markets on terms commercially acceptable to us, or at all. See “Our Business Risks” included in this Form 10-Q and “Item 1A. Risk Factors” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks” included in our 2018 Form 10-K for further information.

As of September 7, 2019, we had cash, cash equivalents, short-term investments and restricted cash in our consolidated subsidiaries outside the United States of \$3.2 billion, including restricted cash held outside the United States of approximately \$0.1 billion related to our acquisition of SodaStream. See Note 12 to our condensed consolidated financial statements for further discussion of restricted cash. As of September 7, 2019, cash, cash equivalents and short-term investments in our consolidated subsidiaries subject to currency controls or currency exchange restrictions were not material.

The TCJ Act imposed a mandatory one-time transition tax on undistributed international earnings. As of September 7, 2019, our mandatory transition tax liability was \$3.4 billion. This transition tax liability will be paid over the remaining seven years. Any additional guidance issued by the IRS may impact our recorded amounts for this transition tax liability. See Note 5 to our condensed consolidated financial statements for further discussion of the TCJ Act.

### ***Operating Activities***

During the 36 weeks ended September 7, 2019, net cash provided by operating activities was \$5.1 billion, compared to net cash provided by operating activities of \$4.7 billion in the prior-year period. The operating cash flow performance primarily reflects prior-year discretionary contributions of \$1.5 billion to our pension and retiree medical plans, partially offset by higher net cash tax payments in the current year.

### ***Investing Activities***

During the 36 weeks ended September 7, 2019, net cash used for investing activities was \$4.3 billion, primarily reflecting \$1.9 billion of cash paid in connection with our acquisition of SodaStream, as well as net capital spending of \$1.9 billion.

We expect 2019 net capital spending to be approximately \$4.5 billion.

### ***Financing Activities***

During the 36 weeks ended September 7, 2019, net cash used for financing activities was \$5.8 billion, primarily reflecting the return of operating cash flow to our shareholders through dividend payments and share repurchases of \$6.2 billion and payments of long-term debt borrowings of \$3.0 billion, partially offset by proceeds from issuances of long-term debt of \$3.1 billion.

We annually review our capital structure with our Board of Directors, including our dividend policy and share repurchase activity. On February 13, 2018, we announced a share repurchase program providing for the repurchase of up to \$15.0 billion of PepsiCo common stock which commenced on July 1, 2018 and will expire on June 30, 2021. In addition, on February 15, 2019, we announced a 3% increase in our annualized

dividend to \$3.82 per share from \$3.71 per share, effective with the dividend paid in June 2019. We expect to return a total of approximately \$8 billion to shareholders in 2019 through share repurchases of approximately \$3 billion and dividends of approximately \$5 billion. See Part II, “Item 2. Unregistered Sales of Equity Securities and Use of Proceeds” for a description of our share repurchase program.

### **Free Cash Flow**

Free cash flow is a non-GAAP financial measure. For further information on free cash flow see “Non-GAAP Measures.”

The table below reconciles net cash used for operating activities, as reflected on our cash flow statement, to our free cash flow.

	36 Weeks Ended	
	9/7/2019	9/8/2018
Net cash provided by operating activities	\$ 5,063	\$ 4,732
Capital spending	(1,959)	(1,578)
Sales of property, plant and equipment	63	119
Free cash flow	\$ 3,167	\$ 3,273

We use free cash flow primarily for financing activities, including debt repayments, dividends and share repurchases. We expect to continue to return free cash flow to our shareholders through dividends and share repurchases while maintaining Tier 1 commercial paper access, which we believe will facilitate appropriate financial flexibility and ready access to global capital and credit markets at favorable interest rates. See “Our Business Risks” included in this Form 10-Q and “Item 1A. Risk Factors” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks,” included in our 2018 Form 10-K, for certain factors that may impact our credit ratings or our operating cash flows.

Any downgrade of our credit ratings by a credit rating agency, especially any downgrade to below investment grade, whether or not as a result of our actions or factors which are beyond our control, could increase our future borrowing costs and impair our ability to access capital and credit markets on terms commercially acceptable to us, or at all. In addition, any downgrade of our current short-term credit ratings could impair our ability to access the commercial paper market with the same flexibility that we have experienced historically, and therefore require us to rely more heavily on more expensive types of debt financing. See Note 8 to our condensed consolidated financial statements and “Our Business Risks” included in this Form 10-Q, as well as “Item 1A. Risk Factors” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks” included in our 2018 Form 10-K for further information.

## Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors  
PepsiCo, Inc.:

### *Results of Review of Interim Financial Information*

We have reviewed the Condensed Consolidated Balance Sheet of PepsiCo, Inc. and subsidiaries (the Company) as of September 7, 2019, the related Condensed Consolidated Statements of Income, Comprehensive Income and Equity for the twelve and thirty-six week periods ended September 7, 2019 and September 8, 2018, the related Condensed Consolidated Statement of Cash Flows for the thirty-six week periods ended September 7, 2019 and September 8, 2018, and the related notes (collectively, the consolidated interim financial information). Based on our reviews, we are not aware of any material modifications that should be made to the consolidated interim financial information for it to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Consolidated Balance Sheet of the Company as of December 29, 2018, and the related Consolidated Statements of Income, Comprehensive Income, Cash Flows and Equity for the year then ended (not presented herein); and in our report dated February 15, 2019, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying Condensed Consolidated Balance Sheet as of December 29, 2018, is fairly stated, in all material respects, in relation to the Consolidated Balance Sheet from which it has been derived.

### *Basis for Review Results*

This consolidated interim financial information is the responsibility of the Company's management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our reviews in accordance with the standards of the PCAOB. A review of consolidated interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

/s/ KPMG LLP

New York, New York  
October 3, 2019

### **ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.**

See “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks.” In addition, see “Item 1A. Risk Factors,” “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Our Business Risks” and Note 9 to our consolidated financial statements in our 2018 Form 10-K.

### **ITEM 4. Controls and Procedures.**

As of the end of the period covered by this report, we carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period covered by this report our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting during our third fiscal quarter of 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

During our third fiscal quarter of 2019, we continued migrating certain of our financial processing systems to an enterprise-wide systems solution. These systems implementations are part of our ongoing global business transformation initiative, and we plan to continue implementing such systems throughout other parts of our businesses. In addition, in connection with our 2019 multi-year productivity plan, we continue to migrate to shared business models across our operations to further simplify, harmonize and automate processes. In connection with these implementations and resulting business process changes, we continue to enhance the design and documentation of our internal control over financial reporting processes to maintain effective controls over our financial reporting. These transitions have not materially affected, and we do not expect them to materially affect, our internal control over financial reporting.

## PART II OTHER INFORMATION

### ITEM 1. Legal Proceedings.

The following information should be read in conjunction with the discussion set forth under Part I, “Item 3. Legal Proceedings” in our 2018 Form 10-K and Part II, “Item 1. Legal Proceedings” in our Quarterly Reports on Form 10-Q for the fiscal quarters ended March 23, 2019 and June 15, 2019.

We and our subsidiaries are party to a variety of litigation, claims, legal or regulatory proceedings, inquiries and investigations. While the results of such litigation, claims, legal or regulatory proceedings, inquiries and investigations cannot be predicted with certainty, management believes that the final outcome of the foregoing will not have a material adverse effect on our financial condition, results of operations or cash flows. See also “Item 1. Business – Regulatory Matters” and “Item 1A. Risk Factors” in our 2018 Form 10-K.

### ITEM 1A. Risk Factors.

There have been no material changes with respect to the risk factors disclosed in our 2018 Form 10-K.

### ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.

A summary of our common stock repurchases (in millions, except average price per share) during the third quarter of 2019 is set forth in the table below.

#### Issuer Purchases of Common Stock

Period	Total Number of Shares Repurchased <sup>(a)</sup>	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans or Programs
6/15/2019				\$ 12,334
6/16/2019 - 7/13/2019	1.1	\$ 132.63	1.1	(144)
7/14/2019 - 8/10/2019	1.4	\$ 129.35	1.4	(187)
8/11/2019 - 9/7/2019	1.7	\$ 133.46	1.7	(220)
<b>Total</b>	<b>4.2</b>	<b>\$ 131.82</b>	<b>4.2</b>	<b>\$ 11,783</b>

(a) All shares were repurchased in open market transactions pursuant to the \$15 billion share repurchase program authorized by our Board of Directors and publicly announced on February 13, 2018, which commenced on July 1, 2018 and will expire on June 30, 2021. Such shares may be repurchased in open market transactions, in privately negotiated transactions, in accelerated stock repurchase transactions or otherwise.

### ITEM 6. Exhibits.

See “Index to Exhibits” on page [51](#).

**INDEX TO EXHIBITS**

**ITEM 6**

**EXHIBIT**

<a href="#">Exhibit 3.1</a>	<a href="#">Amended and Restated Articles of Incorporation of PepsiCo, Inc. effective as of May 1, 2019, which are incorporated herein by reference to Exhibit 3.1 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 3, 2019.</a>
<a href="#">Exhibit 3.2</a>	<a href="#">By-Laws of PepsiCo, Inc., as amended and restated, effective as of January 11, 2016, which are incorporated herein by reference to Exhibit 3.2 to PepsiCo, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on January 11, 2016.</a>
<a href="#">Exhibit 15</a>	<a href="#">Letter re: Unaudited Interim Financial Information.</a>
<a href="#">Exhibit 31</a>	<a href="#">Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
<a href="#">Exhibit 32</a>	<a href="#">Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
Exhibit 101	The following materials from PepsiCo, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 7, 2019 formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) the Condensed Consolidated Statement of Income, (ii) the Condensed Consolidated Statement of Comprehensive Income, (iii) the Condensed Consolidated Statement of Cash Flows, (iv) the Condensed Consolidated Balance Sheet, (v) the Condensed Consolidated Statement of Equity, and (vi) Notes to the Condensed Consolidated Financial Statements.
Exhibit 104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 7, 2019, formatted in iXBRL and contained in Exhibit 101.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PepsiCo, Inc.  
(Registrant)

Date: October 3, 2019

/s/ Marie T. Gallagher  
\_\_\_\_\_  
Marie T. Gallagher  
Senior Vice President and Controller  
(Principal Accounting Officer)

Date: October 3, 2019

/s/ David Yawman  
\_\_\_\_\_  
David Yawman  
Executive Vice President, Government Affairs,  
General Counsel and Corporate Secretary  
(Duly Authorized Officer)



**Accountant's Acknowledgement**

To the Shareholders and Board of Directors  
PepsiCo, Inc.:

We hereby acknowledge our awareness of the use of our report dated October 3, 2019 included within the Quarterly Report on Form 10-Q of PepsiCo, Inc. for the twelve and thirty-six weeks ended September 7, 2019, and incorporated by reference in the following Registration Statements and in the related Prospectuses:

**Description, Registration Statement Number****Form S-3**

- PepsiCo Automatic Shelf Registration Statement, 333-216082
- PepsiCo Automatic Shelf Registration Statement, 333-197640
- PepsiCo Automatic Shelf Registration Statement, 333-177307
- PepsiCo Automatic Shelf Registration Statement, 333-154314
- PepsiCo Automatic Shelf Registration Statement, 333-133735
- PepsiAmericas, Inc. 2000 Stock Incentive Plan, 333-165176
- PBG 2004 Long Term Incentive Plan, PBG 2002 Long Term Incentive Plan, PBG Long Term Incentive Plan, The Pepsi Bottling Group, Inc. 1999 Long Term Incentive Plan and PBG Stock Incentive Plan, 333-165177

**Form S-8**

- The PepsiCo Savings Plan, 333-76204, 333-76196, 333-150867 and 333-150868
- PepsiCo, Inc. 2007 Long-Term Incentive Plan, 333-142811 and 333-166740
- PepsiCo, Inc. 2003 Long-Term Incentive Plan, 333-109509
- PepsiCo SharePower Stock Option Plan, 33-29037, 33-35602, 33-42058, 33-51496, 33-54731, 33-66150 and 333-109513
- Director Stock Plan, 33-22970 and 333-110030
- 1979 Incentive Plan and the 1987 Incentive Plan, 33-19539
- 1994 Long-Term Incentive Plan, 33-54733
- PepsiCo, Inc. 1995 Stock Option Incentive Plan, 33-61731, 333-09363 and 333-109514
- 1979 Incentive Plan, 2-65410
- PepsiCo, Inc. Long Term Savings Program, 2-82645, 33-51514 and 33-60965
- PepsiCo 401(k) Plan, 333-89265
- Retirement Savings and Investment Plan for Union Employees of Tropicana Products, Inc. and Affiliates (Teamster Local Union #173) and the Retirement Savings and Investment Plan for Union Employees of Tropicana Products, Inc. and Affiliates, 333-65992
- The Quaker Long Term Incentive Plan of 1990, The Quaker Long Term Incentive Plan of 1999 and The Quaker Oats Company Stock Option Plan for Outside Directors, 333-66632
- The Quaker 401(k) Plan for Salaried Employees and The Quaker 401(k) Plan for Hourly Employees, 333-66634
- The PepsiCo Share Award Plan, 333-87526
- PBG 401(k) Savings Program, PBG 401(k) Program, PepsiAmericas, Inc. Salaried 401(k) Plan and PepsiAmericas, Inc. Hourly 401(k) Plan, 333-165106
- PBG 2004 Long Term Incentive Plan, PBG 2002 Long Term Incentive Plan, PBG Long Term Incentive Plan, The Pepsi Bottling Group, Inc. 1999 Long Term Incentive Plan, PBG Directors' Stock Plan, PBG Stock Incentive Plan and PepsiAmericas, Inc. 2000 Stock Incentive Plan, 333-165107

Pursuant to Rule 436 under the Securities Act of 1933 (the Act), such report is not considered part of a registration statement prepared or certified by an independent registered public accounting firm, or a report prepared or certified by an independent registered public accounting firm within the meaning of Sections 7 and 11 of the Act.

/s/ KPMG LLP

New York, New York  
October 3, 2019

## CERTIFICATION

I, **Ramon L. Laguarta**, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PepsiCo, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 3, 2019

/s/ Ramon L. Laguarta

Ramon L. Laguarta

Chairman of the Board of Directors and  
Chief Executive Officer

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## CERTIFICATION

I, **Hugh F. Johnston**, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PepsiCo, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 3, 2019

/s/ Hugh F. Johnston

Hugh F. Johnston  
Chief Financial Officer

CERTIFICATION PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of PepsiCo, Inc. (the "Corporation") on Form 10-Q for the quarterly period ended September 7, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ramon L. Laguarta, Chairman of the Board of Directors and Chief Executive Officer of the Corporation, certify to my knowledge, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934;  
and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: October 3, 2019

/s/ Ramon L. Laguarta

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Ramon L. Laguarta  
Chairman of the Board of Directors and  
Chief Executive Officer

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CERTIFICATION PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of PepsiCo, Inc. (the "Corporation") on Form 10-Q for the quarterly period ended September 7, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Hugh F. Johnston, Chief Financial Officer of the Corporation, certify to my knowledge, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934;  
and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: October 3, 2019

/s/ Hugh F. Johnston

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Hugh F. Johnston  
Chief Financial Officer

