

PepsiCo, Inc. Q3 2020 Pre-recorded management discussion
Reconciliation of GAAP and Non-GAAP Information (unaudited)¹

In discussing financial results and guidance, the Company refers to the following measures which are not in accordance with U.S. Generally Accepted Accounting Principles (GAAP): organic revenue growth, core results, core constant currency results, adjusted core results and free cash flow. We use these 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 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 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 certain 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 to our reported results include: amounts related to mark-to-market gains or losses (non-cash); charges related to restructuring plans; amounts associated with mergers, acquisitions, divestitures and other structural changes; certain charges taken as a result of the COVID-19 pandemic; pension and retiree medical related items; 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; debt redemptions, cash tender or exchange offers; asset impairments (non-cash); and remeasurements of net monetary assets.

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.

Organic revenue: Organic revenue growth adjusts reported net revenue growth for the impact of acquisitions, divestitures and other structural changes, foreign exchange translation and, when applicable, the impact of the 53rd reporting week.

Constant currency: 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.

Core results: Core results exclude certain items from our reported results. For further information regarding these excluded items for the 12 weeks ended September 5, 2020, refer to “Items Affecting Comparability” in “Item 2 - Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Q3 2020 Form 10-Q. For the periods presented, core results exclude the following items:

Mark-to-market net impact: Mark-to-market net gains and losses on commodity derivatives in corporate unallocated expenses. These gains and losses are subsequently reflected in division results when the divisions recognize the cost of the underlying commodity in operating profit.

Restructuring and impairment charges: Expenses related to the multi-year productivity plan publicly announced in 2019.

Inventory fair value adjustments and merger and integration charges: Charges related to our acquisitions of BFY Brands, Inc. (BFY Brands), Rockstar Energy Beverages (Rockstar), Pioneer Food Group Ltd. (Pioneer Foods) and Hangzhou Haomusi Food Co., Ltd. (Be & Cheery).

Free cash flow: 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 acquisitions and 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.

Net capital spending: Capital spending less cash proceeds from sales of property, plant and equipment.

¹ For a full discussion of our third quarter 2020 financial results, including definitions we use in discussing our financial results, please refer to our third quarter 2020 earnings release and our quarterly report on Form 10-Q for the fiscal quarter ended September 5, 2020 (Q3 2020 Form 10-Q) both available at pepsico.com/investors.

Adjusted Core Operating Margin: Adjusted core operating margin performance further adjusts core operating margin for certain charges taken as a result of COVID-19 pandemic, including incremental allowances for expected credit losses, upfront payments to customers, inventory write-downs and product returns, employee compensation expense, employee protection costs and certain other charges. For further information regarding these excluded charges for the 12 weeks ended September 5, 2020, refer to “Our Divisions” in Note 1 to our condensed consolidated financial statements in our Q3 2020 Form 10-Q.

2020 guidance: Our 2020 organic revenue growth guidance excludes the impact of acquisitions, divestitures and other structural changes and foreign exchange translation. Our 2020 core effective tax rate guidance and 2020 core EPS guidance exclude the mark-to-market net impact included in corporate unallocated expenses and restructuring and impairment charges. We are unable to reconcile our full year projected 2020 organic revenue growth to our full year projected 2020 reported net revenue growth because we are unable to predict the occurrence or impact of any acquisitions, divestitures or other structural changes. We are also not able to reconcile our full year projected 2020 core effective tax rate to our full year projected 2020 reported effective tax rate and our full year projected 2020 core EPS to our full year projected 2020 reported EPS because we are unable to predict the mark-to-market net impact on commodity derivatives due to the unpredictability of future changes in commodity prices. Therefore, we are unable to provide a reconciliation of these measures.

PepsiCo, Inc. and Subsidiaries
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PepsiCo Net Revenue Growth Reconciliation	12 Weeks Ended	
	9/5/2020	6/13/2020
Reported net revenue growth	5 %	(3) %
Impact of:		
Foreign exchange translation	2	4
Acquisitions and divestitures	(3)	(1)
Organic revenue growth	<u>4 %</u>	<u>— %</u>

Net Revenue Growth Reconciliation	12 Weeks Ended 9/5/2020			
	Reported % Change, GAAP Measure	Impact of		Organic % Change, Non- GAAP Measure
Foreign exchange translation		Acquisitions and divestitures		
Frito-Lay North America (FLNA)	7 %	—	(1)	6 %
Quaker Foods North America (QFNA)	6 %	—	—	6 %
PepsiCo Beverages North America (PBNA)	6 %	—	(2.5)	3 %
North America	MSD %	—	(LSD)	MSD %
International	4 %	6	(6)	4 %
Global snacks and food	7 %	4	(5)	6 %
Global beverages	4 %	1	(2)	3 %
International division snacks	7 %	8	(9)	5 %
International division beverages	(1)%	3	(1)	2 %
International developed markets	10 %	(2)	—	8 %
International developing and emerging markets	2 %	9	(8)	2 %

Note – Certain amounts above may not sum due to rounding.

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**Operating Profit
Growth
Reconciliation**

	12 Weeks Ended 9/5/2020						
	Impact of Items Affecting Comparability				Impact of		
	Reported % Change, GAAP Measure	Mark- to- market net impact	Restructuring and impairment charges	Inventory fair value adjustments and merger and integration charges	Core % Change, Non- GAAP Measure ^(a)	Foreign exchange translation	Core Constant Currency % Change, Non- GAAP Measure
PepsiCo	5.5 %	(3)	(1)	1	3 %	2	5 %
FLNA	5 %	—	(1)	—	4 %	—	4 %
QFNA	15 %	—	(2)	—	14 %	—	14 %
PBNA	9 %	—	—	2	11 %	—	12 %

Diluted Earnings Per Share (EPS) Growth Reconciliation

12 Weeks Ended
9/5/2020

Reported diluted EPS growth	10 %
Mark-to-market net impact	(3)
Restructuring and impairment charges	(2)
Inventory fair value adjustments and merger and integration charges	1
Core diluted EPS growth	7 %
Impact of foreign exchange translation	3
Core constant currency diluted EPS growth	9 %

QFNA Operating Margin Performance Reconciliation

12 Weeks Ended
9/5/2020

Reported operating margin performance	197 bps
Restructuring and impairment charges	(31)
Core operating margin performance	166 bps

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Net Revenue Growth Reconciliation

	12 Weeks Ended 9/5/2020			
	Reported % Change, GAAP Measure	Impact of		
		Foreign exchange translation	Acquisitions and divestitures	Organic % Change, Non- GAAP Measure
Latin America:				
Brazil	(DD) %	DD %	— %	DD %
Europe:				
France	DD %	(LSD) %	— %	DD %
United Kingdom	HSD %	(LSD) %	— %	MSD %
Russia	(MSD) %	DD %	— %	MSD %
Africa, Middle East and South Asia:				
India	(MSD) %	HSD %	MSD %	HSD %
Asia Pacific, Australia and New Zealand and China Region:				
Australia	DD %	(LSD) %	— %	DD %
China	DD %	LSD %	(DD) %	MSD %

Gross Margin Performance Reconciliation

	12 Weeks Ended 9/5/2020
Reported gross margin performance	(32) bps
Mark-to-market net impact	(29)
Restructuring and impairment charges	(6)
Inventory fair value adjustments and merger and integration charges	6
Core gross margin performance	(60) bps

Operating Margin Performance Reconciliation

	12 Weeks Ended 9/5/2020
Reported operating margin performance	3 bps
Mark-to-market net impact	(42)
Restructuring and impairment charges	(21)
Inventory fair value adjustments and merger and integration charges	20
Core operating margin performance	(40) bps
Charges taken as a result of the COVID-19 pandemic	82
Adjusted core operating margin performance	42 bps

Net Cash Provided by Operating Activities Reconciliation (in billions)

	2020 Guidance	
Net cash provided by operating activities	\$ ~	\$ 10
Net capital spending	~	\$ (4)
Free cash flow	\$ ~	\$ 6

Note – Certain amounts above may not sum due to rounding.