



**TRIAN PARTNERS CALLS ON PEPSICO TO PROVIDE ANALYTICAL DEFENSE
OF ITS “POWER OF ONE” STRATEGY**

Says management credibility to create shareholder value is low based on Trián’s recent meetings with fellow shareholders; urges PepsiCo Board to meet shareholders without management

NEW YORK, March 13, 2014 – Trián Fund Management, L.P. (“Trián”), whose investment funds beneficially own approximately \$1.3 billion of PepsiCo, Inc. (NYSE: PEP) common shares, today sent a letter to PepsiCo’s Board of Directors calling on it to provide shareholders with analytical support for PepsiCo’s continued reliance on the “Power of One” strategy and its rejection of Trián’s recommendation to separate global snacks and beverages into two independent public companies.

Trián’s letter to the PepsiCo Board is below.

March 13, 2014

Board of Directors
PepsiCo, Inc.
700 Anderson Hill Road
Purchase, NY 10577

Dear Members of the Board:

We were extremely disappointed by Mr. Cook’s February 27th response to our white paper. The dismissive tone of his letter suggests that you do not appreciate the degree to which PepsiCo’s shareholders, the owners of the company, are frustrated. Given the company’s prolonged underperformance, we believe the Board and management are obligated to provide shareholders substance and analytics – not just platitudes and rhetoric – to defend the alleged benefits of the “Power of One.”

We call on you to back up your assertion that “much of Trián’s data is selective and, in many instances, misused.”¹ Please identify the specific data you are referring to. Our white paper is based on more than a year of exhaustive due diligence as well as decades of experience in the beverage industry as a former supplier and competitor. Our sources include publicly available information filed by the company, industry data and conversations with analysts, industry participants, customers, other knowledgeable sources and competitors from around the world. Among the sources we spoke with are some of the most respected people in the consumer products industry. We stand by our work product and insist that you furnish shareholders with information and transparency addressing the following “Trián data”:

- **Excessive overhead costs.** Provide the amount and detail behind PepsiCo’s unallocated and, most importantly, allocated corporate expense.
- **Advertising declines.** Show direct consumer advertising as a percentage of sales for snacks and beverage by year since 2005 (the year before Indra Nooyi became CEO).
- **Volume share losses.** Provide volume growth and market share data for all beverage categories in North America in recent years and also show shareholders that PepsiCo is not losing significant volume share to Coke. If PepsiCo’s beverage volumes continue to decline by hundreds of basis

points per year, the bottling system will lose its relevance and PepsiCo's beverage business risks being permanently impaired.

- Provide data that shows robust growth for Pepsi Max (and all diet brands under the Pepsi umbrella) versus Coke Zero and other no-calorie Coke brands.
 - Describe how Nielsen data is mistaken when it shows Coke's regular calorie colas delivered solid volume performance in 2013 despite challenging carbonated soft drink market conditions, while Pepsi's competing colas continued to erode.
 - Provide data that shows Tropicana has not ceded significant market share to Simply Orange, a brand that did not exist in 2000 (especially in the most profitable, "premium" category).ⁱⁱ
 - Explain what happened to Gatorade's market share since the re-branding campaign.
 - Explain what happened to SoBe, once a strong competitor in the fast-growth non-carbonated segment.
- **Inferior return on investment.** Show the returns on major investments since Indra Nooyi became CEO. We estimate that PepsiCo has spent \$46bn (37% of the current market capitalization) since 2006 on capital-intensive acquisitions, capex and restructurings, net of divestitures and asset sales.ⁱⁱⁱ This includes \$21bn (enterprise value) spent acquiring the bottlers (\$17bn excluding the equity PepsiCo previously owned) and \$5bn spent acquiring Wimm-Bill-Dann for a whopping 17.5x LTM EBITDA.^{iv} We note that the company's return on invested capital (ROIC; defined as net operating profit divided by average debt and shareholders' equity) has declined from 25% in 2006 to 14% today while earnings per share (EPS) growth has materially trailed peers and management's own targets.^v If we are wrong, and these acquisitions have in fact generated strong returns, show your shareholders the actual numbers.
 - **Buying the bottlers a mistake?** Explain your strategic vision for bottling in North America. It has been four years since the \$21bn acquisitions of Pepsi Bottling Group and PepsiAmericas. Last fall, management told us that the acquisitions were "a mistake" and the bottling system was "in disarray" when the bottlers were acquired, yet we believe the system is operating far less efficiently today.^{vi} Coke has committed to significantly reduce North American bottling exposure by 2020 through refranchising, thereby improving ROIC.^{vii} Does PepsiCo plan to refranchise? Will refranchising require fresh capital, as we suspect, given the makeup of PepsiCo's remaining bottling network? What precisely is management's plan or should shareholders assume low-ROIC bottling, which PepsiCo has shown limited ability to manage, will be a fixture of the beverage business in the future?
 - **Years behind on alternative packaging.** Tell us we are wrong and that PepsiCo is not three years behind Coke in North America when it comes to alternative package sizes (7.5 oz and 16 oz). Please note that in a recent phone conversation, CEO Indra Nooyi acknowledged that PepsiCo is indeed behind Coke in alternative package sizes but argued that catching up would require significant capital investment.
 - **Costly headquarters renovation.** Explain why management and the Board believe it is better to spend \$240mm of shareholder money renovating the Purchase corporate headquarters as opposed to upgrading the company's bottling capacity and investing in additional alternative package sizes.^{viii}
 - **"Power of One": international synergy myth.** Explain why, if "Power of One" is so powerful, PepsiCo continues to have low beverage market share (single or low double-digit) in five of its largest international snacks markets: Mexico, UK, Brazil, Spain and Australia.^{ix} Provide market share data in each of those countries and show how those shares have meaningfully changed over time.
 - **"Power of One": domestic synergy myth.** Explain why, if "Power of One" is so powerful, beverages lost significant domestic market share in recent years while snacks was pushed to over-earn, culminating in slowing volume trends and the 2012 EPS re-set to fund reinvestment.^x
 - **"Power of One": foodservice myth.** Explain why, if "Power of One" is so powerful, PepsiCo lost the Subway beverage contract to Coke despite Subway being one of Frito-Lay's largest foodservice

accounts.^{xi} Since management cites the Buffalo Wild Wings fountain contract to justify the “Power of One,” quantify the size of that contract relative to the Subway beverage contract loss.^{xii} Explain why, 17 years after the YUM! Brands spin-off, Taco Bell, Pizza Hut and KFC remain three of Pepsi’s largest foodservice accounts. And tell shareholders how many foodservice accounts have Pepsi’s equivalent of the Coke Freestyle machine.

Trian is looking for improved operating performance, not “financial engineering.”

Another of your assertions is that the “financial engineering [we] propose erodes value for shareholders rather than creates value.”^{xiii} We take exception to you characterizing our proposal as “financial engineering.” This appears to be yet another example of PepsiCo’s use of rhetoric and catch phrases to serve management and the Board’s public relations agenda. Moreover, we find it ironic that you criticized us for “financial engineering” shortly after the company announced increased share repurchase and dividend programs simultaneously with disappointing fourth quarter earnings results and weak 2014 guidance.^{xiv} Obfuscating poor operating performance with increased capital returns is, in our view, a classic example of “financial engineering.” We also believe including one-time Vietnam refranchising gains in core EPS, as PepsiCo management did in 2013, qualifies as “financial engineering.”^{xv}

The heart of the argument in our white paper is that centralization of costs and power within corporate has eroded PepsiCo’s culture and impaired the competitiveness of its businesses. We would like to see a separation of global snacks and beverages to empower focused management while eliminating the holding company structure and the excessive bureaucratic costs that go with it. We would close the Purchase and Chicago facilities (Quaker Oats to be run out of Frito-Lay and Tropicana to be run out of North American Beverage), thereby eliminating significant unnecessary corporate costs by having *two* headquarters (Plano for snacks and Somers for beverages) instead of *four*. Separating the businesses and closing Purchase and Chicago will be the catalyst to further and significantly reduce what we believe are billions of dollars (\$1.1 billion of publicly disclosed “unallocated” corporate costs plus what Trian believes is a multiple of that amount which is undisclosed and “allocated” to the divisions) presently being spent on a centralized corporate bureaucracy.^{xvi} As stated above, we call on management to provide transparency on corporate costs and thereby publicly disclose how much is allocated to the divisions. We expect those savings will be reinvested in the brands and/or passed along to shareholders. Either way, we believe – at any reasonable multiple of earnings - there will be tens of billions of dollars of shareholder value created by the increased profitability.

Frito-Lay can be a standalone snacks powerhouse.

PepsiCo has an amazing snacks business that has performed consistently well over many years. But we believe Frito-Lay could perform even better if standalone management were allowed to market, invest and make strategic decisions with no interference from corporate. Too often in recent years, the snacks business has served as a “piggy bank” for PepsiCo management. Tapping into the bank has come in the form of aggressive Frito-Lay pricing and advertising cuts. Frito-Lay still grew during these periods of underinvestment but, too often in our view, it grew slower than the market and underperformed its potential.

It is our understanding that advertising for snacks declined to approximately 3% of sales at one point in the recent past – a very low number for a leading branded food business. By way of example, we would note that in 2006, advertising at Hershey had declined to 2.2% of sales. That year, Hershey’s organic growth slowed to 2.6% and the company traded at only 20x forward earnings. Fast forward to today and, under new leadership, Hershey is spending 8.1% of sales on advertising, the company grew 7.9% organically last year and it now trades at 26x forward earnings.^{xvii} The implication is obvious – Frito-Lay could accomplish great things if it were no longer forced to subsidize an underperforming beverage

business and pay for bloated allocated corporate costs. We do not view improved operating performance as “financial engineering.”

PepsiCo’s beverage business must reestablish a lean, fast-moving, “disruptive” culture.

As for beverage, our message is similarly clear. To compete effectively as a number two, we believe PepsiCo must return to its roots as a lean, hard-hitting and fast-moving beverage business. It must be a *disruptive innovator*. This is best accomplished under the leadership of focused management. Excessive PepsiCo corporate costs should be eliminated, with savings reinvested in the business to improve competitiveness (investing in price, marketing, innovation and packaging). A standalone management team would not cede market share to Coke as is happening today. They would understand that you must compete on price to survive and that you must keep overhead costs low in order to invest in marketing, new products and packaging. We believe the trend of underperformance will reverse as a focused, standalone management team is freed to decide where to invest organically, whether to participate in M&A and whether to form strategic alliances to drive value.

Despite poor performance in recent years, we believe the beverage business has great potential. The business generates strong free cash flow and has the *only* North American distribution system that can compete head-on with Coke. We believe top-tier management, free to run beverage as they see fit, could create considerable value with a \$30bn+ revenue business and world-class brands. Moreover, we estimate the beverage business’ operating margin in 2014, after allocation of corporate overhead, is in the low double digits – far lower than the typical branded consumer staples company. *We see great potential to expand margins in a standalone beverage business.*^{xviii} As we said in the white paper, as a sign of our conviction and confidence, we would gladly buy additional shares in, and be willing to join the Board of, the newly formed beverage company.

Claims that standalone PepsiCo beverages will be overwhelmed by Coke – a red herring.

We have heard that PepsiCo management is now telling shareholders they disagree with our recommendations because a standalone Pepsi beverage business may be overwhelmed by Coke. But we believe PepsiCo’s beverage business is already being overwhelmed by Coke. That is apparent in consolidated financial results, relative market share trends and Coke consistently being one step ahead of PepsiCo when it comes to game-changing innovation.^{xix} In fact, we believe that if management stays on the current path and delivers the promised high single digit EPS growth over the next few years *without* another reset, they will materially weaken (and perhaps even destroy) the North American Beverage business because they will have done it by not competing on innovation, speed and price, thereby losing market share to Coke. We believe it is a shortsighted strategy that will end badly. We believe a focused standalone PepsiCo beverage business would be a far more formidable competitor to Coke. Lastly, as to Coke’s view of the situation, we would only say that we are highly skeptical of public commentary Coke makes as to strategic actions it would like to see PepsiCo take. Our sources tell us Coke is quite pleased with the status quo and believe they have PepsiCo’s beverage business at the “tipping point.”

Owning the beverage business for free.

While we believe our strategic initiatives will create substantial, long-term value for all shareholders, we also believe it is clear that the status quo is “eroding value.” One can quantify how the company’s structure (and resulting operating underperformance) obscures the inherent value of the underlying businesses as follows: PepsiCo’s snacks business represents approximately two-thirds of EPS. CEO Indra Nooyi is on record stating that “if it were a standalone company, Frito-Lay North America might well be the best consumer products company.”^{xx} Who are we to disagree? Hershey, a leading North American company in sweet snacks, trades at 26x forward earnings – an approximate 50% premium to the 17x forward earnings multiple that PepsiCo traded at on the day we released our white paper.^{xxi} If

PepsiCo snacks (two-thirds of EPS) were to trade at Hershey's multiple (50% higher than PepsiCo's multiple), simple math suggests that the value of the snacks business would be equivalent to PepsiCo's total value today – and shareholders would therefore own the standalone beverage business for free.^{xxii} And that is *before* reducing PepsiCo's excessive corporate costs to drive savings for reinvestment into the brands – savings that can be realized through a “blank sheet of paper” or “zero-based budgeting” approach.

Conclusion: Shareholders own PepsiCo.

In summary, the assertion in your letter that the Board has carefully studied and rejected our proposal would suffice if management and the Board owned 100% of PepsiCo. It might also suffice had PepsiCo delivered consistent top-tier performance over many years. However, PepsiCo's results can be summed up as follows: during the CEO's 7+ year tenure, PepsiCo's total shareholder return of 45% has grown at less than half the rate of the Consumer Staples Index (101%) and competitors like Coca-Cola (105%).^{xxiii} PepsiCo's EPS growth has also significantly trailed that of peers.^{xxiv} The timeframe we reference coincides with management's tenure but also with the transformation of “Power of One” from a marketing slogan with limited operational impact to a pervasive strategy that increased the influence and control of corporate.

The reality is that shareholders own PepsiCo and we believe, in the end, will have the ultimate say in determining what is the best path forward for the Company. A recent survey conducted by a top-ranked research analyst at Sanford Bernstein suggested that 54% of polled shareholders favor a separation, only 27% favor keeping snacks and beverage together while 19% are undecided – and that is before we had met with more than a handful of shareholders.^{xxv} While the Sanford Bernstein survey was informal and not weighted by ownership levels, based on what we have heard from shareholders to date, we are not surprised by the results. We also note that since our February 19th letter and white paper was made public, PepsiCo's share price has risen 8% to \$83, approximately double the return of the consumer staples index and Coca-Cola.^{xxvi} This is after the share price declined from \$87, when we first advocated a separation of snacks and beverages in July 2013, to a low of \$77 in the days following PepsiCo's announcement of no structural change.^{xxvii} Once again, we believe the market has spoken.

It is also clear from our meetings with shareholders that management's credibility to create shareholder value is low. We strongly recommend that instead of dismissing our initiatives, Board members meet shareholders without management present to learn their views. We believe such a dialogue will be enlightening and will provide the Board with a broader perspective. Our hope remains that PepsiCo will take the necessary actions that are in the best long-term interests of its underlying businesses and all of its shareholders.

Very truly yours,

Nelson Peltz
*Founding Partner &
Chief Executive
Officer*

Peter May
*Founding Partner &
President*

Ed Garden
*Founding Partner &
Chief Investment Officer*

Josh Frank
*Partner and Senior
Analyst*

ⁱ Source: Letter from Ian Cook to Trian Partners, 2.27.2014

ⁱⁱ Source: “125 Years of Sharing Happiness - The Coca-Cola Company” 5.4.2011.

ⁱⁱⁱ Source: PepsiCo, Wimm-Bill-Dann, Pepsi Bottling Group and PepsiAmericas Annual Reports and press releases, Bloomberg and Trian estimates. Uses enterprise value of major acquisitions net of equity already owned.

^{iv} Source: PepsiCo, Wimm-Bill-Dann, Pepsi Bottling Group and PepsiAmericas Annual Reports and press releases, Bloomberg and Trian estimates.

^v Net operating profit is PepsiCo’s operating profit, adjusted for non-recurring items, net of PepsiCo adjusted effective tax rate for the given year, based on the Company’s annual earnings press releases.

^{vi} Source: PepsiCo Annual Reports and press releases, Bloomberg and Trian estimates.

^{vii} Source: Various Coca-Cola transcripts including Coca-Cola at Deutsche Bank Conference on 12.6.2013.

^{viii} Source: “Governor Cuomo Announces PepsiCo to Modernize and Expand its Worldwide Headquarters in Westchester, Retaining 1,100 Jobs”, Governor.NY.Gov, 10.6.2012.

^{ix} Source: Consumer Edge Research 5.12.2013 and Euromonitor data for 2012. Market share is 15% or below for Pepsi beverages in these countries.

^x Source: PepsiCo Annual Reports and Euromonitor data from 2009-2012.

^{xi} Source: “Subway Chain Chooses Coke, Displacing Pepsi”, The New York Times, 2003. “Pepsico Foodservice and Subway® Restaurants Extend and Expand Snack Relationship”, Frito-Lay Press Releases, 5.15.2008.

^{xii} Source: PepsiCo 2014 CAGNY transcript, 2.20.2014.

^{xiii} Source: Letter from Ian Cook to Trian Partners, 2.27.2014.

^{xiv} Source: PepsiCo Q4 2013 Press Release. PepsiCo stock price underperformed the Consumer Staples Index by ~500bps in the two days following the Q4 2013 earnings, indicating disappointment.

^{xv} PepsiCo Q2 2013 and Q4 2013 Press Release.

^{xvi} Source: Trian estimates and PepsiCo 2013 10-K. Excludes depreciation and estimated pension costs.

^{xvii} Capital IQ as of 3.11.2014 and Hershey Annual Reports.

^{xviii} Source: SEC filings and Trian estimates based on Morgan Stanley research as of 5.9.2013, Bernstein research as of 8.4.2011, and Q4 2013 earnings presentation.

^{xix} Source: Coca-Cola and PepsiCo 2013 Annual Reports, PepsiCo Q4 2013 slide presentation, Euromonitor data 2009-2012.

^{xx} Source: PepsiCo Q1 2011 earnings call.

^{xxi} Source: Capital IQ as of 2.19.2014 for PepsiCo and as of 3.11.2014 for Hershey.

^{xxii} Source: SEC filings and Trian estimates based on Morgan Stanley research as of 5.9.2013, Bernstein research as of 8.4.2011 and Q4 2013 earnings presentation.

^{xxiii} Source: Bloomberg as of 2.19.2014, the date of Trian’s white paper.

^{xxiv} Peers include Coca-Cola Enterprises, Coca-Cola, Dr Pepper Snapple, Hershey and consolidated Kraft (grocery and snack business). Source: Respective peers’ Annual Reports and press releases.

^{xxv} Source: Sanford Bernstein research dated 3.3.2014.

^{xxvi} Source: Bloomberg as of 3.11.2014. PepsiCo’s share price rose 8%, adjusted for dividends and 7% excluding the dividend adjustment.

^{xxvii} Source: Bloomberg and SEC filings. Date in July 2013 is July 18, 2013 (the day after Trian’s presentation calling for a separation of snacks and beverages was made public). The PepsiCo announcement of no structural change was made on February 13, 2014. The low was as of February 19, 2014, the last closing price prior to Trian’s letter and white paper being made public.

#

About Trian Fund Management, L.P.

Founded in 2005 by Nelson Peltz, Peter May and Ed Garden, Trian seeks to invest in high quality but undervalued and under-performing public companies and to work constructively with the management and boards of those companies to significantly enhance shareholder value for all shareholders through a combination of improved operational execution, strategic re-direction, more efficient capital allocation and increased focus.

Media Contact:

Anne A. Tarbell

(212) 451-3030

atarbell@trianpartners.com

The views expressed in this press release represent the opinions of Trian Fund Management, L.P. (“Trian”) and the funds it manages (collectively, “Trian Partners”), and are based on publicly available information with respect to PepsiCo, Inc. (the “Issuer”). Trian Partners recognizes that there may be confidential information in the possession of the Issuer that could lead it to disagree with Trian Partners’ conclusions. Trian Partners reserves the right to change any of its opinions expressed herein at any time as it deems appropriate. Trian Partners disclaims any obligation to update the data, information or opinions contained in this press release.

Certain financial information and data used herein have been derived or obtained from filings made with the Securities and Exchange Commission (“SEC”) or other regulatory authorities and from other third party reports. Neither Trian Partners nor any of its affiliates shall be responsible or have any liability for any misinformation contained in any third party SEC or other regulatory filing or third party report. There is no assurance or guarantee with respect to the prices at which any securities of companies referred to herein will trade, and such securities may not trade at prices that may be implied herein. The estimates, projections, pro forma information and potential impact of the opportunities identified by Trian Partners herein are based on assumptions that Trian Partners believes to be reasonable as of the date of this press release, but there can be no assurance or guarantee that actual results or performance of the Issuer will not differ, and such differences may be material.

This press release is provided merely as information and is not intended to be, nor should it be construed as, an offer to sell or a solicitation of an offer to buy any security. This press release does not recommend the purchase or sale of any security. Funds managed by Trian currently beneficially own, and/or have an economic interest in, shares of the Issuer. These funds are in the business of trading – buying and selling– securities. It is possible that there will be developments in the future that cause one or more of such funds from time to time to sell all or a portion of their holdings of the Issuer in open market transactions or otherwise (including via short sales), buy additional shares (in open market or privately negotiated transactions or otherwise), or trade in options, puts, calls or other derivative instruments relating to such shares.

This press release contains forward-looking statements. All statements contained in this press release that are not clearly historical in nature or that necessarily depend on future events are forward-looking, and the words “anticipate,” “believe,” “expect,” “potential,” “opportunity,” “estimate,” “plan,” and similar expressions are generally intended to identify forward-looking statements. The projected results and statements contained in this press release that are not historical facts are based on current expectations, speak only as of the date of this press release and involve risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such projected results and statements. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of Trian Partners. Although Trian Partners believes that the assumptions underlying the projected results or forward-looking statements are reasonable as of the date of this press release, any of the assumptions could be inaccurate and therefore, there can be no assurance that the projected results or forward-looking statements included in this press release will prove to be accurate. In light of the significant

uncertainties inherent in the projected results and forward-looking statements included in this press release, the inclusion of such information should not be regarded as a representation as to future results or that the objectives and strategic initiatives expressed or implied by such projected results and forward-looking statements will be achieved. Trian Partners will not undertake and specifically declines any obligation to disclose the results of any revisions that may be made to any projected results or forward-looking statements in this press release to reflect events or circumstances after the date of such projected results or statements or to reflect the occurrence of anticipated or unanticipated events.