PepsiCo Stands by Beverage Unit, Pins Hopes on Natural, Low-Calorie Drinks

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In this photo taken May 16, 2011, file photo, the Pepsi logo is seen on a delivery truck at Walmart in Springfield, Ill. PepsiCo Inc. reports quarterly financial results before the market opens on Thursday, Feb. 13, 2014. **(AP Photo/Seth Perlman, File)**

NEW YORK (AP) — PepsiCo plans to stick by its struggling North American beverage unit, with hopes that the introduction of naturally sweetened, lower-calorie beverages will help revive soft drink sales.

The company has been under pressure to spin off the drink business in favor of its stronger Frito-Lay snack unit, most notably by activist investor Nelson Peltz of Trian Fund Management.

The calls for a split come as PepsiCo's drinks, which include Mountain Dew, Tropicana and Aquafina, have lost ground to bigger rival Coca-Cola Co. in recent years.

But PepsiCo said Thursday that it concluded after an "exhaustive" review involving "bankers and consultants" that it already has the best possible structure for its North American beverage unit.

"That decision has been made for a good period of time going forward," Chief Financial Officer Hugh Johnston said in a call with reporters.

That strength in snacks and weakness in drinks played out again in the company's fourth quarter, with Frito-Lay delivering volume growth of 3 percent in North America. Volume for carbonated soft drinks, by contrast, fell in the "mid-single digits" despite stepped up marketing. Non-carbonated drinks, which include Gatorade and Aquafina, increased in the "low-single digits."

Still, CEO Indra Nooyi stressed that PepsiCo's drinks and snacks are complementary to each other. And she noted that the company plans to test new natural sweeteners in carbonated drinks this year that could help improve results.

Dr Pepper Snapple Group Inc. also said this week that it plans to test naturally sweetened lower-calorie sodas this year, given the growing concerns customers have about the artificial sweeteners used in diet sodas. Coca-Cola, which introduced a similar concept in Argentina last year, reports next week.

PepsiCo also announced a five-year, $5 billion cost-cutting program that will include investments in automated manufacturing and factory closings.

For the period ended Dec. 28, the company earned $1.74 billion, or $1.12 per share. That compares with $1.66 billion, or $1.06 per share, a year ago.

Excluding charges and other items, earnings were $1.05 per share, topping the $1 per share Wall Street expected.

Revenue rose 1 percent to $20.12 billion, helped by results in Latin America and Asia. Analysts on average were looking for revenue of $20.1 billion, according to FactSet.

For the year, PepsiCo earned $6.74 billion, or $4.32 per share. In the prior year it earned $6.18 billion, or $3.92 per share. Adjusted earnings were $4.37 per share.

Annual revenue climbed 1 percent to $66.42 billion.

PepsiCo Inc.'s annual dividend will be raised by 15 percent to $2.62 per share and boost 2014 share repurchases to about $5 billion.

Its stock was down 3 percent at $78.89 in morning trading.