THE Coca-Cola COMPANY

Lauren R. Liebe...: So next up we have the Coca-Cola company. We're excited to have COO Brian Smith and CFO, John Murphy with us for a Q and A session. There is a lot to cover. So I'm going to jump right in. So sadly COVID is far from over, but we are certainly deep enough into it to be talking about key learnings from the peak of the pandemic as the company and the entire system have navigated lockdowns in a volatile recovery. I don't know, either one of you want to take this one, but at a high level, we've talked about Coke becoming more durable, more flexible as a result of this experience. Could I have you share some examples of how this is playing out?

John Murphy: Sure Lauren. First of all, thanks for having us, nice to see you and maybe I can start with a couple of comments on the company and Brian can jump in with a broader view on the system. COVID and data's got more staying power I think than I hadn't really thought, this time last year and we, like many companies were using this period as a catalyst to drive a lot of actions that perhaps would have taken a little longer and the name of the game at the moment is to build the wherewithal, to adapt, to pivot and to stay relevant as the world continues to work through this. You've got to keep, the challenge is keeping the long-term in mind particularly in our industry, which despite the ups and downs has got a tremendous potential over that longer term.

John Murphy: And we're already focused on that. But as I said, taking actions to manage the choppiness that we see around us. So a few examples first and foremost, I think when you talk about endurance, for a consumer goods company to endure, we have to have great brands and they need to get the oxygen that they need and so over the last six to 12 months, we've talked about this in some previous calls, we've taken a series of actions to streamline the portfolio and to have a staple of our brands, we think are the right ones to be investing in and to help us on our pipeline journey.

John Murphy: Secondly, when I think about endurance, you've got to have a balance sheet that can weather both the storms that come, but also take advantage of opportunities. We feel good about the actions we've taken over the last year to improve our debt profile, to take some latent assets and start monetizing them so that we can reinvest support equity in the business, and so I think the overall strength of the company actually, as we move into whatever phase is next is it gives us the confidence that we can continue to work through it and come out the other end in a much better place. Flexibility is the name of the game, staying true to your overall purpose and direction, but having to where it was all to be flexible in.

John Murphy: And we've talked a little bit in recent months about the work we're doing on the marketing front, and we continue to take a number of actions to allow us to have greater flex around the world to align our marketing agenda with what's happening in the local markets that we do business in. We have moved from a much more decentralized approach to how we work with our vendor base, our agencies, to be in a position to both leverage our scale, but also to stay relevant to the consumer and to the customers that we do business, and then the last example on flexibility is moving to a much more agile operating model. Every large company needs an organization chart to be able to manage the agenda that goes on inside a large organization, but to free up resources and to have them available at the right place at the right time.

John Murphy: I think we're learning that's a big plus. If I could go back to the marketing world, some of the work we're doing at the moment on our big brands where we're able to have our creative expert in Singapore working with our brand expert out of London with somebody in the United States in real time and that's a big advantage for us to be able to scale and deploy and we're excited about how that's coming together. So Brian, maybe if I can hand it over to you for the system front.

Brian Smith: Sure. Thanks John, Lauren. So I think one of the things that's super important as we put together the new organization, it's not just the agility and flexibility, but it's also integration because I mean theoretically or arguably, we were flexible before in a geographical base and sense, but not necessarily something that we can scale and so what we're trying to do is to really scale the things that are important, the priorities that we have, and then be agile in terms of being able to pivot on a global basis with the things that are important. So the way it plays out in the new organization and with the system is that we used to be more hierarchical if you will. So the functions would connect with the operating units at the top. What's happening in the new organization, is that the functions connect horizontally with the operating units.

Brian Smith: So it's much more agile in the sense that the kinds of things that they want to scale with all of the operating units, they can do directly without sort of the going up and down the vertical ladder, if you will. And then if you take it out to the bottling system, it's the same thing. So there are steering committees in each of the functions, not just in marketing to be able to have the categories connect to the operating units in terms of resource allocation, but also in the other functions like supply chain and digital that have that same direct connection to the field and to the bottlers through the steering committees, to be able to scale the things that are important. So examples of that would be for instance, in supply chain, looking at an end to end, not only within the Coca-Cola company, but through the bottling system, figuring out the important things that we want to make more efficient and more effective and have the same metrics across the whole system so that we can, first of all, see what's happening and then drive it towards the results that we want.

Brian Smith: The same thing in digital, so building the eB2B platforms if you will in e-commerce. In the system, necessitates us being coordinated across the whole world in such a way that we can drive towards the vision that we want. And again, another example is in the commerce and the commercial area, in terms of an automated promotion optimization project, we're able to drive that through the system. So that's not every operating unit that's doing its own thing, but we're figuring out the things that really can be scaled and will make a big difference in terms of both growth and bottom line and taking them through the whole system.

Lauren R. Liebe...: Okay. So to follow on that, I mean Brian, is it fair to say that in the past, the prior model, there was a lot of reinventing the wheel that was going on in each of the operating units.

Brian Smith: It's very fair to say.

Lauren R. Liebe...: Okay.

Brian Smith: Yes. In marketing and commercial and a lot of things and so what we're trying to do is really grab the best practices from around the world. It doesn't mean that it's centralized. What it means is we're grabbing the best practices, and then we're trying to scale them across the rest of the world.

Lauren R. Liebe...: Okay and scale being a pretty operative word I would think so that we do things once in a best case scenario and reap the benefits rather than doing it over and over again with different iterations.

Brian Smith: That is the idea. We don't always get it right. But yes, we're much better at it now than we used to be.

Lauren R. Liebe...: Okay. So it's a long year, a short year, but it's been a year, right? Since you did embark on this work to reorganize the company into this more network model. John, I was curious if you could tell us a little bit about what the category teams look like, sort of the structure of those teams. That's also a very important piece of this. Growing pains maybe is worth speaking to and anything you can share at this point in terms of incentive compensation changes for business leaders that reinforces this whole network ideal.

John Murphy: Sure. Growing pains would be accurate. Just a reminder of what we're trying to achieve here. When you think about our global footprint and over 200 markets, it's a sort of a combination of being able to scale for where and when it makes sense, whether that's what brands are with other elements of the mix, but by the same token, stay very close, very intimate to the markets in which we operate and getting that balance right, it's a daily tussle. We felt as part of the new model that we needed to have better stewardship of our global brands and hence the creation of the category leads in order to have that responsibility. I think Brian and I sort of would say, we kind of enjoy the tension that it creates because positive tension in any large organization, it's just an absolute must have in order to get the best of both worlds.

John Murphy: And so it's early days, the early months of the new model and action and I think as the category presidents have said as they were listening to this, they said they're trying to add all the way around the table so that their voice is heard. We also have as part of the new model, an evolved approach to resource allocation. So it's one thing to say I want to do something, its something to have the resources to get to make it happen, and so we have changed the way in which we are allocating resources across the global brands with accountability for some portions of that, sitting with it of category president.

John Murphy: So that tension between what we want to do at the global level or at a macro level with what we need to do tomorrow at a local level is very much alive, and over time, I think it's going to be the new secret sauce that will propel the business. I think that the whole resource area is just so critical for a company like ours to continue to work on it. As Brian said it's early test yet, but from some of the initial outputs that we're seeing from the bigger brands cope up in the first example that would come to mind, we feel that we're moving in a vertical direction.

Lauren R. Liebe...: Okay great.

John Murphy: Sorry, on to the incentive question. Yes, we have made a pretty significant change to our incentive program this year, our annual incentive program whereby we flipped the model so that the majority of incentive that was based on enterprise performance, not on local performance or not on a specific brand performance. So we're all in this together and that's making a significant difference I think and behavior.

Lauren R. Liebe...: Okay, great. I wanted to also dig into this more modern marketing model. They haven't gotten used to there being people in the office yet, I guess. But the idea of the more modern marketing model and Brian, how that kind of differs from the past. I know we spoke a little bit in the introductory comments, my first question on marketing, but I was just curious, part of these efforts to drive marketing efficiency, eliminate duplication, where do we stand on that work? And then also in a more front and center financially measurable way? My impression after the 2Q call was it the focus of this was total DME spend, so that PNL advertising levels should in fact rebuild to 2019. But I wanted to just clarify that for scaling the spend globally, I would think it's either the intensity and the return on the spend goes up tremendously, and particularly if the spend is going to go back to 2019 levels, right? Or if it's you can do more with less.

Brian Smith: Right. So first of all, just let me caveat, my answer along the lines of what John was saying and I'll talk more about the big core brands that we have on a global basis because there's a lot of local and regional brands that continue to be managed if you will by the operating units. And a lot of the decisions are made locally, and it's not been the reason they're staying because we've reduced the number of brands and so on and so forth is because they're still very profitable. So typically the bigger the brand, the bigger the scale is, the more profitable it can be. But we do have exceptions to the rule where we have local and regional brands that are very profitable and so those will stay. But if we talk about the other, the bigger part if you will brand Coke and the other big brand.

Brian Smith: Looking at it from first of all, the what we're trying to do which is different maybe than in the past. The what is, in the past, we were less zeroed in if you will, on recruiting the consumer base for the specific brand, to be able to increase the bottom of the pyramid and bring more people into the brand. And we tended to do a lot of marketing thing that would increase the frequency of the loyal consumer base. What we're changing going forward is we'll continue to have activities around the frequency if you will, but as well, the big push is going to be to recruit more so that we can broaden the weekly drinkers that we have and as opposed to measuring them in a way that is a little nebulous, because it's kind of well, what did you drink?

Brian Smith: We'll have mechanisms to really understand exactly who is drinking on a weekly basis around so that we have very strong quantitative measures of whether we're making progress or not in terms of increasing the consumer base. In terms of the how, the big difference is as opposed to just sort of obsessing if you will, about the DME spend and spending it in a way that is somewhat less disciplined, more geographically based if you will, where again, people were doing more what they thought was right, but it wasn't necessarily thought in an integrated way across the corporation. We're going to think about it much more scientifically to figure out not only how the message should be sent so that it's effective, what the assets are that we want to use to be able to go after the consumer basis for each given brand, which will be different depending on the brand.

Brian Smith: So as opposed to just TV like we used to do in the past, if we go into digital, is it going to be gaming? Is it going to be music? Is it going to be sports? What kinds of assets are we going to use because ultimately what we're trying to do is to engage the consumers as opposed to just talking to them, and so we need to draw them into that conversation and them actually becoming a lot of cases, co-creators of the content that we want to disseminate, and then that's the way we believe we can get the stickiness with the consumer base to be able to increase the base. So we have to do both of those things.

Brian Smith: In addition to making sure that the marketing spend is connected with market execution by the bottlers. I.e. A lot of times we've launched products where we had great products, well positioned for the right consumer segments with the right spend in media, but where we didn't have the follow through necessarily in terms of getting the distribution, having the coolers and being able to track to make sure that we're getting the sampling that we need to be able to get consumers, to connect the dots, if you will, across the whole thing.

Brian Smith: So that's what, I think we're going to do much better going forward. We have much more discipline and so if I had to use one word in terms of how marketing is going to change, its discipline around both the what and the how we're going to do things for the global brands around the world.

Brian Smith: And in terms of your question about where the spend ends up, what I can tell you is we believe that we're going to be much more efficient because part of the thing in the past is that we didn't know exactly which marketing was the marketing that was driving the growth if you will, and so by having better metrics to know exactly how the marketing is working, we'll be able to get rid of all the marketing that didn't do very much and be able to reallocate it towards that does, and we have ways to be able to experiment if you will, and figure out exactly what the payback will be for a different message across the different media for a certain brand, etc.

Lauren R. Liebe...: Okay. All right. That's great. On this idea of better leveraging spending, John at our conference last year, you offered up that fragmented efforts across geographies hindered the company from reaching true margin potential. We just talked to us about reinventing the wheel. So now with this network model theory that should change, right? That's the aspiration. So how should we think about the true margin potential in all capitals of the Coca Cola company?

John Murphy: Yeah, I go back to what I said there a little bit threaded through Brian's comments. I think a decentralized model has got tremendous advantages to win locally which has been and will continue to be very much a priority for us to stay relevant, but it also has downsides and that you're not able to leverage fully the scale of what you switched to in an aggregated basis you operate and so part of what I think we're able to do better with this model we have in place is to get that balance right between scaling up for it makes sense and being able to do it. It's one thing we have talk about it a little bit, think we have to do it and do it with agility. So when it comes to margin potential, we're still very much grounded in delivery of our growth algorithm.

John Murphy: And embedded in that algorithm is a margin improvement of 50 basis points per annum, but this work I think is going to allow us to do is to have the confidence to do it in a more sustained manner. Many of the leavers that I've talked about for the last couple of years in and of themselves have not changed. We talk about strong brands allows you to have pricing power over time. Scale gives you the ability to drive efficiency over time. Being more wired networks allows you to be more effective over time and say intimate in your markets allows us to stay relevant. So having that blend working in unison is I think what I say gives us the opportunity to drive those levers harder and in a more effective way and so the true margin potential is what we have embedded in our thinking. Some years, you want to see it better than others, but over time, we feel confident that the algorithm that we have talked about for some time is very doable.

Lauren R. Liebe...: Okay, great. If I take this conversation and focus it a bit more on the US, you now have Alfredo Rivera running the business, my sense is there's probably some interesting opportunities to leverage his experiences in Latin America into improving domestic profitability. So Brian, I'd be curious to hear a little bit about maybe some specific initiatives underway. We've already seen changes in the hot field supply chain, so maybe it's across revenue growth management and how much of that remaining margin gap do you think can conceivably narrow just through RGM, right? Or is it something bigger and more structural that needs to take place?

Brian Smith: Yeah, it goes beyond that. In fact, maybe I'll let John at the end talk a little bit more about revenue growth management, but it's much more than that I think in north America and I think you put it the right way, which is North America has gone as you know, if you look at it over the last 20 years from a volume focus to a revenue focus, and now the real emphasis is to be able to leverage on that revenue base, which is big, into accelerate profits across the system, not just the Coca-Cola company, and we think there's a lot of ways that we can do that. So you talked about the supply chain, that's a big part of it. There are a lot of things that we can do in revenue growth management to drive margins.

Brian Smith: And John can talk about that, but revenue growth management can drive the top line as well and I think the answer is doing both because it's not just the margin play. It's really one of the things that's going to make a huge difference for North America is to really drive the top line. So revenue growth management is part of that. It's a big part of it which is what Alfredo will be able to help bring to North America which is the kind of execution that we have in the marketplace in Latin America and to the extent that we can help bring those things in Latin America that are potentially better than what we have in North America there. It'll make a big difference. Everything from the focus on share of visible inventory, share of cold inventory, much more coolers, where I think if you look at Latin America versus north America, the amount of coolers we place every year is significantly more.

Brian Smith: So we need to do those things that are super basic if you will, in terms of execution, but they really feel a huge amount of growth if you do them the right way across the system and then with revenue growth management also have the ability to broaden the package portfolio so that you can drive premium pricing where you can take it, my value pricing where you need to do it. If you;re too restricted with too few packages, whether they be individual packages or multi-packs, it's harder, you tend to be squeezed in the middle and you tend to price in a more commoditized way to the extent that you have, as you know, for instance, in Mexico, for Coca-Cola, we have over 30 different packages which goes from the lowest price point to the highest price point and everything in between.

Brian Smith: And we hit all the magic price points. It doesn't mean that we need to replicate what we do in Mexico in North America, but there is a middle ground there that would make a huge difference in our ability to drive premium this at the same time as value across the different channels, and I think there's a huge opportunity as well in the fragments of trade in North America. To go after that like we do in Latin America, which has been arguably a little abandoned if you will and if we go after that in a big way, I think it's going to make a huge difference in terms of again, driving a top line growth.

Lauren R. Liebe...: So I mean it sounds like the reality is that the North America, lower profitability relative to other markets. I mean there's some structural elements of course, but that a lot of this really is about the quality of revenue growth or the magnitude of revenue that you're generating domestically more so than there being big structural changes in supply chain that are critical to improve profitability.

Brian Smith: Yes. I think the structural changes in supply chain will make a significant difference, but it goes way beyond that. I think a lot of it will be around the ability to price strategically and I don't mean just taking prices across the board, but I mean pricing in such a way that we can price to what consumer demand is.

Lauren R. Liebe...: Okay. Is there more to come on that front on the supply chain, structural side of things beyond sort of the hot fill that there's more that's being evaluated?

Brian Smith: Everything is being looked at because wherever we feel we can be more efficient, as long as it's not something that we're giving up that we feel is on some level strategic for whatever reason, everything is being looked at. And the way we think about it is it's not necessarily where our core competency is, and so to the extent that there's others that can do it better, then that's what we would try to do.

Lauren R. Liebe...: Okay. Figure out how to juggle my time. Okay. I mean John, quickly, you've mentioned asset right, right? So as you look at bottlers, you look at supply chain, bottling investments, is there anything we should be aware of in terms of potential EPS dilution that comes with that? Is there sort of a right business model? What does that asset right look like as we look forward?

John Murphy: Yeah. First of all, I think the business model needs to be in service of something bigger and I think it's really important that as we continue to evolve the business model, and for many reasons, we've talked about having a lighter balance sheet, becoming a much more brand centric organization again, leveraging the strength of the franchise model, that's a direction of travel that we are well on the way and we will continue to be available on make progress on over the coming months and into next year. But I think your business model needs to be in service of the bigger, your bigger reason for being and James has talked to him, we've all talked about the, the consumer centric nature of what it is we are all about.

John Murphy: And we think that core franchise model with us having the focus and the wherewithal to invest behind a strong brand portfolio is the primary vehicle for us to deliver on that bigger purpose. But you can't allow yourself to become rigid either and so when we talk about asset right, that's what it means. It means yes, the core premise is what I just said, but there are times and there are moments when it makes sense to have a sort of an ancillary model. That's how North America got to be who it is today and I think the key is to continue to really challenge ourselves as to what is it that we need to win in the marketplace with consumers in North America. We've made some decisions recently on our supply chain.

John Murphy: And as Brian said, we continue to evaluate and look at ways in which we can operate more efficiently and effectively, and we will continue on our journey to become the world's smallest bottler while there are others out there who, as Brian said, can do it better than the we can over time. So it's an all around I think I'm saying, having this combination of staying disciplined around a model that we know can deliver value for our share owners, but also not becoming too rigid that it becomes the reason for being, because when that happens, I think we lose sight of the bigger crisis in the marketplace.

Lauren R. Liebe...: Okay, great. I am going to sneak one more in which is just to give you an opportunity to chat on capital allocation if there's anything you want to mention. Near term, medium term, how you're thinking about capital allocation?

John Murphy: Well, if I go back to the first question you asked, one of our objectives from the get-go not just in the early part of last year when COVID hit, but even work underway prior to that is to have a balance sheet that allows us to deliver against our ambition longer term and how we allocate capital is clearly a huge part of that process. We still see investing in the business being our first priority. We are committed to our dividend. We know how important that is to a large number of people who are invested in us and as I was talking earlier to somebody else, as we love Cathy at market dynamics around the world over the next couple of years, you've got to keep an eye on what's happening. Stay opportunistic and I think we'll have somewhat more flexibility over the next couple of years to perhaps look at new opportunities as they arise, but the overall framework we're using our approach to thinking about how we allocate capital. There are no material changes since we last spoke.

Lauren R. Liebe...: Okay. All right, great. I am deep into overtime. So John, Brian, thank you so much. It's great to see you both and I really look forward to being in person soon.

John Murphy: Thank Lauren, good luck.

Brian Smith: Thank you.