

27-May-2020

# The Coca-Cola Co. (KO)

RBC Capital Markets Global Consumer & Retail Virtual Conference

## CORPORATE PARTICIPANTS

**John Murphy**

*Chief Financial Officer & Executive Vice President, The Coca-Cola Co.*

---

## OTHER PARTICIPANTS

**Nik Modi**

*Analyst, RBC Capital Markets LLC*

---

## MANAGEMENT DISCUSSION SECTION

**Nik Modi**

*Analyst, RBC Capital Markets LLC*

Good afternoon, everyone. I'm Nik Modi, RBC's Beverage, HPC, Packaged Food and Tobacco Analyst. And I'm pleased to welcome Coca-Cola's CFO, John Murphy. John has served leadership position in Coca-Cola's Asia-Pacific and Latin America groups before becoming CFO in 2018. It's 2:00 PM, so grab a refreshing beverage, perhaps an 8-ounce can of Coke with an AHA sparkling water, and let's get started.

So, John, thanks so much for being part of this conference and being with us today.

---

**John Murphy**

*Chief Financial Officer & Executive Vice President, The Coca-Cola Co.*

Thanks, Nik.

## QUESTION AND ANSWER SECTION

**Nik Modi**

*Analyst, RBC Capital Markets LLC*

Q

So, look, Coca-Cola has had a history of leaning in and leading during times of crisis. We saw this during World War II and most recently in challenges in Argentina. Can you just talk about philosophically how the company is leading during COVID-19? What do you think you could do to come out of this pandemic in a much stronger position?

**John Murphy**

*Chief Financial Officer & Executive Vice President, The Coca-Cola Co.*

A

Sure. Let me highlight a few points. First and foremost, I think it's important to actually learn from what has happened both in the past and with others, and we've had an opportunity even to go back into our archives and sort of dissect the way that the company has taken on these kinds of crisis in the past. So learning and having an open mind to what those learnings tell you, really important.

Keeping the end objective in sight. So for us emerging stronger is something that has been a key deliverable in crisis of the past. In doing so, maybe ahead of the economies that we're operating in and emerging stronger and staying true to our overall purpose is – are both guiding us with some of the decisions we're making.

Number three, I think leveraging and the strength that you have going into it. We started 2020 building of the momentum we've enjoyed for the last year-and-a-half or so. We have – I think a bottling system that as poised as it's ever been to create value for their stakeholders and in partnership with us, and we've got a set of tremendous relationships around the world and communities in both the public and in the private sector. And I think it's important not to forget that these are real strengths that you can lean on as you work through a complicated short-term.

I think it's important to focus on the dynamics of each phase that we go through. So in the case of the last, let's say, two to three months, starting in China, having a very deliberate and clear picture as to what does it take to get through the next two or three months while lockdown is underway and that's I think helped us enormously with the speed to which we can pivot and move our system in the right direction. But then being prepared for the next phase as it comes and to be pretty ruthless in how you prioritize so that you can manage each of these phases effectively.

It goes without saying that our people are critically are always important and in this time when you're operating virtually, staying connected and finding ways to have an engagement with people up and down the organization into our bottling system has been absolutely a key area of focus for James, for the rest of the leadership team.

And then lastly, I'd say is keep asking yourselves the question: What can we maybe do differently from going through this kind of a crisis, differently and better in the next two to three years that otherwise we would even either have been slow to get to or not gotten to at all? So our provocation is to what are the opportunities for us to take a step back and consider and don't lose sight of those opportunities.

**Nik Modi**

*Analyst, RBC Capital Markets LLC*

Q

Very helpful. Over the past two years, the Coca-Cola Company has undergone, I would say, a very positive cultural evolution. And I know this topic is very near and dear to you and James Quincey's heart, very passionate about this topic. Can you provide some context on how things have changed, especially around speed of decision-making, risk taking, and productivity? And just linking that to your last comment on perhaps things you can do differently, does anything stand out immediately like as we're only 9 or 10 weeks into the situation but anything come up to mind along those lines?

---

**John Murphy***Chief Financial Officer & Executive Vice President, The Coca-Cola Co.*

A

Yeah. I think there's a couple of reflections: First of all, I think if you use a [ph] sporting (05:20), and I don't think you become a – you go out and run a marathon without having some form of training beforehand. And so in the same vein, I think entering a crisis like this, you're better served when you've got a lot of good stuff happening and you're being well-positioned and well-poised. And I feel to some degree that many of the changes that James has kicked off and the rest of the leadership team have enrolled in over the last couple of years are serving us well.

To move to a virtual workplace has been relatively seamless. The degree to which the organization has responded so quickly to a completely pivot on our plans for the second quarter, I think, for me, has been a tremendous reflection of some of the – some of those changes that we have had underway.

I think the second thing I always say about decision-making is that I think when you go through these types of periods, you've got to be pretty ruthless and perhaps even more directive than you would otherwise be. I think organizations, I think people like clarity. They like to be told what to do more so perhaps in these kinds of times than others. And I think there's been a tremendous response to providing that type of clarity up and down the organization.

And on the productivity front, I think there is a lot in there. I I've been kind of blown away with how well our digital infrastructure has responded. We've had a program in place since the end of 2018 to move all of our systems to the cloud. And I think companies who are advanced in that direction are ones that had the least turbulence in moving to a virtual world. But I also think that there's like nobody would have ever believed that you could have done this 12 weeks ago. We closed our first quarter in record times like some parts of our business close faster virtually. And so, there's I think tremendous opportunities to take a step back and think about how we can even be more productive as we get used to this type of environment and the recovery process that will follow.

---

**Nik Modi***Analyst, RBC Capital Markets LLC*

Q

That's interesting. Can you provide an update on how you're seeing things progress as shelter-in-place restrictions are getting lifted? But also, given Coca-Cola's global footprint, there's certain markets where shelter-in-place might still be going on or getting worse, so any kind of going around the world and you can just share some of your thoughts [ph] around this (08:14)?

---

**John Murphy***Chief Financial Officer &  
Executive Vice President,  
The Coca-Cola Co.*

Sure. Sure. Just maybe a quick tour of the most important [ph] facet (08:19) and let me start it by saying I think we look at this in three distinct phases. You've got the lockdown and/or restrictions in place, and as we've seen, they vary by market. You've got a recovery process that's already underway in many parts of the world. And then, I

think we'll have a period until we have a vaccine or mass availability of testing and other medications to better help people who are in need of that help. And so, I think those three phases are very distinctive.

As you look around the world, China is in our business and from the – because it was the first to go through it, is the fastest to come out and the further – the furthest along its recovery and we're buoyed by the recovery trends that we're seeing in China. Our system there is doing a tremendous job to tackle the challenges that the lockdown has presented. And so, I'm reasonably optimistic on what to expect from China over the coming weeks.

Staying in Asia, we've got – if I divide the rest of Asia, Southeast Asia, I see it has been one area of the emerging developing world that will recover faster. Like I think it's important to evaluate the recovery potential by looking at the health of the economy in advance going into it the manner in which containment has been managed, the kind of political leadership there is in place, the strength of public services and, in our case, and the strength of our industry and the strength of our system. They are variables, I think, that are important to look at. Southeast Asia, I see, will be responding quite well over the coming weeks and months.

Southwest Asia, for us, is a bigger challenge. India's lockdown has been quite severe, and it's happened just at the start of our peak season. So I would expect recovery in India to be a little bit more delayed. And in Japan, we've – we're just seeing Japan open up again. They've had a kind of an up and down period of containment, and this latter phase seems to be managed very, very well. So, I'm a little bit more optimistic for Japan going into the second half of the year.

And then Australia and New Zealand have done a really nice job, and we're starting to see sequential improvements in those markets.

In Europe, we're seeing some improving trends but still quite challenging year-on-year, particularly given the size of the on-premise footprint and the importance of the HoReCa component of that to our business. So, I think that's going to be a little slower to come back.

Costa in the UK, as you know, is a primarily retail store-based business and it has been closed for much of the second quarter and the impact, therefore, has been significant in this period. We're starting to see some opening up in the UK, and so a little bit more hopeful that we'll get some degree of normalcy returning as we approach the end of the second quarter.

[ph] Thirdly (12:13) in the United States, we've got a gradual reopening, as you know, of many states, improving trends in direct correlation to the reopening of these states but still quite negative year-on-year. Restaurants beginning to open, not to near the levels yet of what I would consider close to being healthy. And so, still quite a long way to go in the US. But certainly, May is sequentially better than we saw in April.

And in Latin America, you've got a mixed bag of countries and a mixed approach being taken by countries, so a little early still to make a call on the size of the impact. We are seeing it affecting us in the big markets, but I tend to reserve judgment a little bit until we see – particularly in Brazil and Mexico, until we see how the approach they're taking, which is certainly not consistent with how other parts of the world have done, how that approach will play out.

---

**Nik Modi***Analyst, RBC Capital Markets LLC*

And just if we can go back to China because I think that's a great case study, I mean some things you can extract, some things you can't because it's a very unique market. But can you just talk about your experience there and how that's informing your strategy over the coming quarters?

---

**John Murphy**

*Chief Financial Officer & Executive Vice President, The Coca-Cola Co.*

**A**

Certainly, first of all, I want to sort of hats off to our system, to partners in China, Swire and COFCO. They put together what they call the [ph] 88-day (13:58) plan, which I – which, as many of you know, is a nice reference to how important the numbers [indiscernible] (14:30) in China. But a plan that really is designed to pivot the business to changes in consumer behavior, changes in the way in which retailers are thinking about their business certainly in the short- to medium-term. And, of course, the ongoing growth of e-commerce in that region.

So with respect to the consumer, I think we're seeing a demand in many parts of China for more affordability. We're seeing a heightened level of expectation on health and hygiene as important decision-making factors, which I think is something that will be – will play out across many markets. And I think we're seeing another – just another inflection point in how shoppers are going digital as part of the way that they choose to purchase and participate in categories. I think the whole concept of omni-channel is one that's alive and well there.

And I can – and I would see that becoming a bigger feature in other parts of the world. And for us, that's got both opportunities and challenges to address as to how we go to market with a shopper that's now got multiple options for each step along the path to purchase.

On the brand and category front, not dissimilar to many markets we're seeing, the leader brands in their categories getting more attention from retailers. We're seeing a heightened focus on streamlining and simplifying the supply chain, and we're seeing a fall-off in the amount of small innovations taking place. And I suspect that that will be a feature in many markets for certainly through 2020.

And then, just I think it's worth just saying an additional point on e-commerce. I think it's another inflection point for e-commerce, and particularly for beverages. We know in many markets around the world the e-commerce channel is a small percentage of the total beverage business. I think that this period will prove to be an inflection point for it to become a much larger period in a shorter period of time, and hence, the opportunity for companies like ours to become as good in the online shelf as we are in the offline shelf, and we have a lot of good work underway in that regard.

---

**Nik Modi**

*Analyst, RBC Capital Markets LLC*

**Q**

Very helpful perspective. Now we talked a lot about kind of the markets, right, in countries. But maybe can we just talk about perspective from a consumer standpoint? And obviously, the very fluid situation pantry loading and now we're seeing kind of post-pantry loading behavior. Can you just talk about that maybe across the portfolio in terms of the different behaviors you're seeing since – over the last several weeks or so?

---

**John Murphy**

*Chief Financial Officer & Executive Vice President, The Coca-Cola Co.*

**A**

Yeah. And I think it's important to look at these behaviors also in the context of which phase we're in and the degree of real freedom that people have because I think people choose or make choices very much associated with the kind of overall freedom that they have. So in the United States and in Europe, for example, we saw a

pretty significant spike-up in the water category as lockdowns happened. But then as those lockdowns continued, we see that normalizing back down and not a great degree of deviation, number one.

Number two, I've already mentioned in the case of China, we're seeing a much greater focus on big brands and on fast-moving SKUs. And I think people typically revert back to what they trust and what they're used to seeing and there's maybe less of a desire to experiment. I think, more than ever before, quality and safety become tremendous allies for a brand. Like I think that the Coca-Cola Company has been built on the foundation of quality going back over 100 years and so it's not necessarily a massive disruption for us, but it certainly is a reminder as to how important it is to have as part of your offering.

And I think how the retail world and the restaurant world, the entertainment world react to that heightened expectation in the future is going to be critical, and we need to be partners with them along the way. So, for example, we've got already in the pipeline, innovation around a contactless and touchless machines in our fast food restaurant channel. So there's opportunity there.

I think the second area that it's interesting to look at consumer behavior is as there – as home economics are challenged even more, I think affordability becomes a key decision-making driver, and it's important that we're able to leverage some of the great work that has already been underway and revenue growth management to provide the right kinds of solutions and then to adapt our marketing messaging to support those solutions. I think that's been a top priority this year and going into next year.

And I see the way in which we manage our innovation pipeline also coming under scrutiny. By that I mean, I think there is – there will be more demand from our customers for bigger, more scalable solutions than to have a plethora of small exploration projects. So, I think there's an opportunity in that regard to rebalance the innovation pipeline to deliver against that expectation.

---

**Nik Modi**

*Analyst, RBC Capital Markets LLC*

Q

Very helpful. John, just getting to retail, right, and I think you've kind of touched on this how some of the smaller brands might have some challenges and that can clear up some of the complexity in the marketplace. And we're hearing in the US that retailers are definitely kind of clearing up their assortment, focusing more on comp-level SKUs and maybe that'll be a permanent type of philosophy where they will carry less assortment.

So I just wanted to get your thoughts on that and put a global lens on it because we hear a lot of the US, but I don't really hear much of how retailers are rethinking their shelves, if at all, overseas as this COVID-19 pandemic has hit.

---

**John Murphy**

*Chief Financial Officer & Executive Vice President, The Coca-Cola Co.*

A

Yeah. I think it's a good point, to put a global end. I think in – globally and let's say the modern channels, the supermarkets and some of the convenience store channels around the world, you're seeing some very similar types of actions being taken, as you say, fewer SKUs. In supermarkets, you're seeing people spending more time on the outside of the store and less time in the store, trying to get in and out as fast as they can. That has implications for traffic flow, etcetera.

I think there's more preference being given to category leaders to partner with retailers on solutions that work in the short term. And I think as I mentioned earlier, I think there's a heightened appreciation that there's so much more choice now available to all of us for each step along the way to a transaction. And it's – some retailers, I



think, are doing an astounding job in being able to look through the eyes of the shopper and appreciate all of those capabilities that they have today and then redesigning their solutions to deliver against those new levels of expectation. I think for us there is a – there's an opportunity to look very closely at our supply chain, to optimize it and become an even better partner for our retailers.

And I think with our bottling partners, when one of our core advantages around the world is the fact that we work with our bottling partners in multiple channels. So the traditional channel which has been I think impacted in many of the emerging markets quite a lot during lockdown, I think there's a big opportunity to partner with them on having the right kind of pull mechanisms to encourage people back into those stores. So, a lot of good work on that.

And then finally, in the case of the digital arena, it's very easy to make it more complicated than it should be but being as good on the digital shelf as you are on the physical self is a really important priority because that's become a much bigger part of the gain for shoppers now.

---

**Nik Modi***Analyst, RBC Capital Markets LLC*

Absolutely.

Q

---

**John Murphy***Chief Financial Officer & Executive Vice President, The Coca-Cola Co.*

... [ph] that's out there, yeah. (24:37)

A

---

**Nik Modi***Analyst, RBC Capital Markets LLC*

Like I said I haven't left my house in 60 days, so I'm well aware of the e-commerce growth phenomenon. Okay.

Q

---

**John Murphy***Chief Financial Officer & Executive Vice President, The Coca-Cola Co.*

Yeah, and you learn – like as you say you learn a lot by practicing yourself. You learn a lot about the different ways you can order. You can order online. You can collect it somewhere. You can have it delivered. You can have it placed somewhere else for delivery later. So, there's just lots of opportunity out there with these new solutions being created.

A

---

**Nik Modi***Analyst, RBC Capital Markets LLC*

Absolutely. So, given – we know what's going on with on-premise with off-premise, and given the shift from the away-from-home to at-home, how should we be thinking about the resulting price mix implications in the second quarter?

Q

---

**John Murphy***Chief Financial Officer & Executive Vice President, The Coca-Cola Co.*

Well, for sure there's going to be an impact in the second quarter. The math would lead you to that conclusion pretty quickly if our – some of our more profitable channels are the most impacted then the equation will be that we'll have – we're going to have I think expect to see some negative price mix in the second quarter. How it plays

A



out beyond that though, I think is what we're even more focused on not only for the second half of this year but going into 2021.

And so, I think it's a little bit early for anybody to kind of draw conclusions on what the trends will be in the second half of the year given how soon we are coming out of lockdown. I do think it's fair to assume that in a number of markets the away-from-home piece will be slower to recover. That's certainly the early indications from China and a couple of other markets that are a little bit further down the curve. But also, from China there's a – there's not a – to-date, there's not reason to believe that it will not come back. So, it's just going to be a little slower. And how slow it will be I think is going to again be market specific, which hopefully by end of July from around the Q2 call we'd be able to give a cleaner update on some of those trends.

---

**Nik Modi**

*Analyst, RBC Capital Markets LLC*

Q

Yeah. I look forward to hearing that. Last question, of course, I have to ask every CFO, the mandatory liquidity and capital allocation question. So, we'll end this...

---

**John Murphy**

*Chief Financial Officer & Executive Vice President, The Coca-Cola Co.*

A

Yes

---

**Nik Modi**

*Analyst, RBC Capital Markets LLC*

Q

...fireside chat with kind of an update on how you see the balance sheet, the capital allocation strategy as we think about 2020 and beyond.

---

**John Murphy**

*Chief Financial Officer & Executive Vice President, The Coca-Cola Co.*

A

Yeah. I think I'll divide it into the parts like when the crisis hits in the first quarter, we felt it was really important to be prepared for worst case scenarios, and we've taken actions in the month of March and April to be best prepared, I don't think those worst case scenarios will necessarily play out, but I do think it's prudent to not allow yourself to get caught. So that's point number one.

And we also have – had as an objective at the start of 2020 to rebalance our – the age of our debt portfolio. As you know, Nik, it's on the younger side compared to many companies and we thought that this is a good moment to make some changes, and I think the crisis has actually given us an opportunity to do it a little bit faster perhaps than we would have thought.

With respect to the capital allocation priorities, clearly, we continue to see investing in the business as a number one priority. Supporting our dividend is a very close second. For the foreseeable future, we probably, relative to some previous discussions, would see the M&A piece being a lower priority at the moment. We think we've got a lot in our portfolio to work with. And so that's maybe a slight change from when we talked last. And share repurchase, we don't see that being really part of the equation for the time being. So very clear on our allocation priorities.

And obviously, the shape of the recovery in the second half going into 2021 in terms of cash inflows will be equally important to take into consideration as we continue to make decisions on this area going forward.

**Nik Modi**

*Analyst, RBC Capital Markets LLC*

Well, excellent. John, I thank you and The Coca-Cola Company for being part of our RBC Consumer & Retail Conference. Again, thanks for taking the time. I know you've got a number of meetings still to get to. So, I'll let you do that. So again, thank you...

**John Murphy**

*Chief Financial Officer & Executive Vice President, The Coca-Cola Co.*

Thank you, Nik.

**Nik Modi**

*Analyst, RBC Capital Markets LLC*

And for everyone dialing in, thank you for tuning in and I'll see you at the next fireside chat.

**John Murphy**

*Chief Financial Officer & Executive Vice President, The Coca-Cola Co.*

Thanks, Nik. Appreciate it.

**Nik Modi**

*Analyst, RBC Capital Markets LLC*

Okay. Thanks.

**John Murphy**

*Chief Financial Officer & Executive Vice President, The Coca-Cola Co.*

Take care.

**Nik Modi**

*Analyst, RBC Capital Markets LLC*

Good night, John. Bye-bye.

**John Murphy**

*Chief Financial Officer & Executive Vice President, The Coca-Cola Co.*

Bye-bye.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2020 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.