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MANAGEMENT DISCUSSION SECTION

Dara W. Mohsenian

Analyst, Morgan Stanley & Co. LLC

Good afternoon, everyone. I'm Dara Mohsenian, Morgan Stanley's beverage, household products and food analyst. I'm very pleased to welcome Coca-Cola to Morgan Stanley's Global Consumer & Retail Conference. Before we get started, I do have to note there are important disclosures on Morgan Stanley's website at www.morganstanley.com/researchdisclosures and if you have any questions, feel free to reach out to your Morgan Stanley sales representative.

So, joining us today from Coca-Cola, we have John Murphy, who is Coca-Cola's Chief Financial Officer. Clearly, a very interesting time for Coke; the company was seeing a lot of traction in accelerating organic sales growth and also generating greater cash flow productivity pre-COVID under strategic changes under a relatively new management team, including John, and since then has clearly seen a significant decline in away-from-home volume during COVID, but has implemented numerous plans, including a restructuring, to adjust to the new environment.

So, John, it's great to have you here today, and thanks so much for joining us.

John Murphy

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

Thanks, Dara. Nice to be with you.

QUESTION AND ANSWER SECTION

Dara W. Mohsenian

Analyst, Morgan Stanley & Co. LLC

Q

So, to start with, John, maybe we can talk a bit about the near-term business trends, COVID impacts around the world, sort of walk around the world. On the Q3 call, you highlighted global volume trends improved from the 25% decline we saw in April to mid-single digits in July and August and then further to a low-single-digit decline in September and October with the away-from-home business improving sequentially during that period and driving that.

But you mentioned that some of that on-premise recovery stalled in October. There are obviously some risks here in the winter months with further lockdown measures. So, can you just take us through a bit of sort of the puts and takes as you look at the balance of the year and heading into 2021 on a regional basis and take us through a walk around the world?

John Murphy

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

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Sure, Dara. Thanks. Let me start with where we left off on the Q3 call. As you said, we've had seen the fourth quarter start sort of low-single digits, and there hasn't been a huge amount of material change throughout November on that either, some ups and downs as you would imagine around the world, as different economies and different markets handle the ongoing impact of the pandemic. We still have a few weeks to go. We're still in the early part of December. And as you know, December is an important month for us given that's Christmas season and the tremendous association there is around the world between Christmas and Coca-Cola. So, still a little bit of ways to go.

As I kind of go around the world, maybe I can start in Asia. We've continued to see China recover probably ahead of the rest of the world. The system in China is targeting to have growth numbers as we leave this year and go into next year, which is very encouraging. And not dissimilar to, I think, what we will see, while the away-from-home is recovering, the recovery lags the at-home in the case of China. In other parts of Asia, it's a mixed bag. Not only have we had in Southeast Asia the pandemic to deal with, there has been very unfavorable weather during the typhoon season, in fact, in a couple of our larger markets, including the Philippines, for a period. So, that's had sort of an impact. Japan, has been a challenging year in Japan, but I would expect Japan to see improvements going into the first quarter of 2021.

If we go over to Europe, kind of again some different pieces in Europe; Western Europe has seen, I would say, the most headwinds in the last few weeks given the moves in a number of the key markets to address the surge that was experienced there. But in Central and Eastern Europe, we've seen the business holding up better there. And, of course, in Europe, we have our Costa business, which in the UK has been impacted in the course of the year. And as we go, again, into the rest of the year, the December month is a big month for Costa, and we'll be looking to see how the UK manages through the next few weeks.

Coming across to United States, if ever there was a mixed bag, it's here in terms of the way that different states are handling the virus. The at-home business has continued to be very robust. But for sure, it does not make up for the impact we have had on the away-from-home. And away-from-home, over the last two or three weeks, I think has been a little softer. The good news, I think, on many fronts is the fact that there is a vaccine in sight. And

so, the key question will be, how long will it take for that to have a material impact on mobility and the sort of the reopening for us anyway of the away-from-home, the key away-from-home channels.

Latin America has demonstrated – our business has demonstrated a tremendous resiliency and particularly in our key markets, Brazil leading that, notwithstanding that the pandemic itself has been sort of raging through a number of those markets. So, all in all, sort of some puts and takes as I say. The first couple of months of the quarter, pretty much in line with what we had signaled, we'd expected in the October call. A few weeks left to go through the Christmas period. And as always, I think it'll be a dynamic period given what we're seeing in a number of the key markets around the world.

Dara W. Mohsenian

Analyst, Morgan Stanley & Co. LLC

Q

Great. That's helpful. And then maybe shifting from volume to price/mix. Clearly, revenue growth management has been one of the pillars of the top line strategy under James over the last several years and the shift to smaller premium packages. You've also discussed an increased focus post-COVID on affordability, particularly probably in emerging markets. So, as you look going forward with a less certain macro backdrop around COVID or post-COVID, how do you see that pricing strategy evolving? Is affordability more of a near-term focus or is there sort of more of a longer-term shift in strategy? And how do you think about the ability to obtain that price/mix over time?

John Murphy

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

A

Yes. Well, in the very near term, as we saw in the last couple of quarters, there has been pressure on the gross margin line. And so, over the next one to two quarters, I would expect that to be there. Revenue growth management, I was talking to somebody earlier today, was actually borne through a crisis in Latin America with the intention to be able to manage the exact equation that you're just talking about, provide absolute affordable price points to sustain the consumer base at a lower end of the socioeconomic scale, but by the same token be able to get value from those who can afford it at the mid to higher ends.

And so, that in essence is at the heart of the RGM equation. So, I've talked in the past the current iteration of RGM that we call 2.0 has been very effective around the world in both developed and developing markets, allowing our system to really leverage the data analytics that are now available today to help develop the right – the optimal price/pack architectures on a by channel basis in the various markets around the world.

Implicit in the RGM equation is one's ability to execute against the frame. It's one thing to write down what it should be, another thing then to make it happen on a outlet-by-outlet basis. So, I'm confident that the momentum that our bottling system has demonstrated over the last three or four years on a sustained basis in building the capabilities that you need to be able to execute the RGM strategy will continue and that will allow us to manage through over the next couple of years. As I say, in the near term, we will have some pressure on the gross margin line. But I think that there's enough levers within the RGM playbook to allow us to continue to have confidence in our ability to get back to the top end of the revenue line on the growth algorithm.

Dara W. Mohsenian

Analyst, Morgan Stanley & Co. LLC

Q

Okay. And then in August you clearly announced a large business reorganization with a move to a network model of the reduction from 17 business units to 9 operating units. Obviously, workforce reductions, the creation of Platform Services, so a number of changes. What's sort of the biggest opportunity in your mind emanating from the changes as you think about it? Is it higher top line growth, is it productivity, which is the most significant piece

of the program in your mind? And also maybe just give us some background on how you came to the decision to pursue this type of approach and what gives you confidence that it will actually pay off.

John Murphy

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

A

Yeah. So, maybe if I can carve that up into a few parts. First of all, the biggest opportunity for me, if you remember back to our CAGNY conversation, which seems forever ago in February, we talked about the top line flywheel feeding into the bottom line flywheel. And the genesis and the idea behind these changes are to really make those work even more effectively together. We had in the beginning of 2019 had a number of conversations, James and Brian and some of the other members of the leadership team to really take a step back and to challenge ourselves as to how can we be more simpler ourselves to do business, how can we be more agile and be more nimble in the marketplace.

And so, at the root of the so-called network model, there's a few areas that, I think, are going to deliver the opportunity that has driven us to accelerating it through the COVID period. The first one is the notion of being able to leverage scale where it matters and when it matters and, at the same time, stay intimate or local where it matters. I think some of our historic models have been a little bit one or the other and it's been difficult to get both to work in unison together.

So, when we think about the world of innovation, the notion of being able to drive a few big, scalable initiatives and derive the value that is typically associated with scale, but by the same token stay very, very local and intimate with an experimentation mindset, so that you can nurture and build new ideas and ultimately have them scale is really powerful and is powerful when it works. So, scale and intimacy balanced and working in unison is the first piece of it.

Number two is we've – I've worked in the operating environment of the company all around the world as some of the other leaders. And I think one of our realizations is that over time, you end up having too many hands at the till, too much bureaucracy locally. And so, a second piece of the equation is to have a much greater percentage of our resources in the field focused on front-line activities. And that's been a big – that's a big shift that is underway at the moment. So, we'll have – 70%, 75% of our resources in the operating units will be front line focused. And I think that's going to be a really powerful ally for our bottling partners.

The third area – and these are not necessarily in order of importance, Dara, just as they come to mind. The third area that's been at the heart of this is a recognition that to get the top end of the revenue equation working well. We've got to continue to raise the bar on how we do marketing. How do we build brands, how do we engage in a relevant and effective manner with consumers all around the world, and how do we optimize the investments that we put into that.

So, Manolo has been charged with that since he took over. He and I are partnering very effectively on the resource allocation, the efficiency/effectiveness side of that. But we've also created new category leaders who will have the stewardship responsibility on global brands to get the value that we believe they have ahead of them working in partnership with our local operators.

And number four, I mentioned the fact that if our field offices are becoming more front line focused, we're creating the Platform Services organization to be able to aggregate disparate services from around in the back office and indeed some in the front as well. So, we have to do them consistently and more efficiently. And then secondly, within Platform Services is to have the wherewithal to really change the way we are able to leverage data. Today

we've just appointed a new Chief Data Officer as part of that equation that will, I think, be a tremendous catalyst for the opportunity we have ahead in that space.

Fourthly, there's – underpinning some of the work is a recognition that companies, as they get older, get a little bit fatter. And so, there's an opportunity to be leaner, to be more efficient, to drive out some of the bureaucracy that builds up over time. And that's implicit in the work. And those five elements are underpinned, Dara, which is important, I think, to recognize of having the right leadership model in place to allow it to get executed well. And so, that's the phase we're in at the moment as we've just gone through a series of appointments around the world. Very thoughtful process to put the right people into the key nodes, so to speak, of the network so that it works in the way that we think it can and create a tremendous amount of value for us and for our bottling partners.

Dara W. Mohsenian

Analyst, Morgan Stanley & Co. LLC

Q

Right. Okay. That's helpful. And just one follow-up. In terms of how the operating units work with the category leads, how do you ensure that there's no confusion in terms of responsibility, decision rights, et cetera? And I guess, how has that structure sort of changed versus your prior approach?

John Murphy

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

A

Yeah. So, I think it's a – the devil will be somewhat in the details here on how it works. But the category leads will have primary focus on the global brands. So, if you go back to some work that we had talked about previously, we have moved the portfolio to, I think, a leaner and healthier portfolio, shaping it with a – within that with segments that are global brands, regional and local.

The category leads have the primary responsibility to steward the global brands, to steward the positioning having a consistent brand positioning to drive the communication agenda on global brands. And that's done very much in a collaborative sense. So, our Christmas ad campaign for Coke this year is a good example, stewarded by the category lead, but working with a team of Coca-Cola experts located in the operations.

So, it's a model, we think, has got tremendous potential. The operating unit will continue to be the primary P&L owner in the company and the category leads will be held accountable to a set of metrics that are linked into the health of the brands that they own. So, they will be complementary. Will there be tension? Of course. I would expect there to be lots of it, but healthy tension, I think, to drive the right mix of forward-thinking, longer-term brand building work with what needs to happen on the front line each and every day to drive the business.

Dara W. Mohsenian

Analyst, Morgan Stanley & Co. LLC

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Right. Okay. And underpinning this new model is Platform Services. So, can you just explain the opportunity there with the Platform Service platform and how it drives scale for your system going forward?

John Murphy

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

A

Yes. Look, it's the next evolution. We had started years back with a shared services model internally that was primarily back office focused on transaction activity. More recently, we have outsourced some of that work to an organization who can – for whom it is their front office and therefore who do it a hell of a lot better than we can.

But the Platform Services play is a series of verticals within the organization; finance, marketing, procurement have been three general services, et cetera. And the opportunity here is to take work that historically has been done in – if there's 17 business units, in 17 slightly different ways and do it once and do it well and be able to provide a superior service back into the operating units. So, it's about service delivery of depending on what the area is, whether it's marketing, finance, procurement at a higher level than historically.

And then the second part of the Platform Services equation is to be able to become a much more data-driven enterprise. And for that to happen, it's work that I firmly believe needs to be centralized, needs to have one set of owners, and in order to have the foundations in place whereby you can then go and leverage it for whatever the business needs are. And as I mentioned, the new Chief Data Officer will have a key role to play in bringing that to life. We have had a initial and primary focus on our own company, but we also see opportunities to underline on having a system-wide approach to this area working with our bottlers.

Dara W. Mohsenian

Analyst, Morgan Stanley & Co. LLC

Q

Okay. And you've discussed your desire to emerge stronger post-COVID.

John Murphy

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

A

Yeah.

Dara W. Mohsenian

Analyst, Morgan Stanley & Co. LLC

Q

In the last earnings call, you talked about getting to the high end of your long-term algorithm when you recover the earnings base that's been pressured during COVID, which is 4% to 6% organic sales growth, 6% to 8% operating profit, 7% to 9% local currency earnings growth. What gives you confidence you can get to the high end of that range as you look out? And also specifically, maybe you can talk about share repurchases. They obviously haven't been a factor in the last couple of years here, particularly with the recent Tax Court opinion we've seen and how sort of the balance sheet plays into it, particularly with the high dividend payout ratio we're looking at here.

John Murphy

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

A

Okay. Good. Let me start with why do I think it's feasible. It starts at the top line and two ways to look at that. First of all, I think the industry itself will continue to be a very attractive one. If we take 2020 out of the mix for a moment, the industry growth has been very consistent at around 4%. And when you look at the drivers of industry growth, population, the socioeconomic status of the population and one's ability to access that population, those drivers continue to be very much in favor of an industry like beverages. And so, we think that the industry will continue to grow at those rates. So, that's a good starting point.

Secondly, as we continue to, I think, improve our own capabilities to be a formidable competitor around the world, we think that we should look for a higher level of growth than just the average. And so, I'm confident that with the work that we have underway and the execution of that [ph] while going into (24:04) 2021 and beyond that the top end is very achievable.

And that the drivers of that will be that top – that flywheel that we have talked about before as starting out with great brands and so shaping the growth portfolio that we think is right for the future is set number one. Putting into

place these category leaders to really have the accountability to steward the global brands and then our operating leaders to be accountable to winning locally, I think, is a tremendous formula for us to be able to drive the brand piece of the equation, the execution piece of the equation. And then working very closely with our bottlers the RGM piece, as I mentioned earlier, I think, has got a lot of runway ahead.

And then supporting all of that is the world of innovation, whether it's product innovation to support the ongoing attractiveness of brands and relevance, package innovation to support the RGM agenda, communication innovation, et cetera. So, I think there's a lot of really interesting stuff we have in the pipeline to be confident that that flywheel can work to deliver the top end on the revenue line. As we go into then converting that into the bottom line that we need, in the near term, yes, you are right, the share repurchases have not been a priority for the last year or so, and I think in the near term will not be.

You mentioned the tax – effective tax rate is clearly an important part of the equation. We did have a judgment recently and we were disappointed in that. And we will be continuing to vigorously defend our position. We've got a lot of work underway to reflect on that judgment and be ready with next steps. We'll talk more about that in the coming weeks. And yet when I take – when I zoom out and take a step back and look at the world post-pandemic, we think that we have the levers in place to be confident with the algorithm.

Dara W. Mohsenian

Analyst, Morgan Stanley & Co. LLC

Q

Okay. And maybe let's shift a little to the margin side of that. So, first, marketing, obviously it's going to be down meaningfully this year as a result of the pandemic. But you've talked a lot about increasing the marketing effectiveness. You mentioned it earlier. And you talked about in the last earnings call sort of doing more with the same or even potentially doing the same with less.

So, can you just elaborate on your thought process around the level of marketing spend? First of all, how do you decide on that as we move into 2021 and sort of the pace of the recovery? But secondarily, might there be a chance to have lower spend in the industry coming out of all this as you do potentially realize that greater effectiveness or maybe some of these cutbacks during the pandemic you've realized there's certain areas that weren't as efficient as you otherwise might have thought?

John Murphy

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

A

Yeah. A huge area that I'm working very closely with Manolo on, the year that we've just gone through has been a catalyst, let's say, for this work to get to where it has so far. It was on the agenda towards the end of last year as we really started looking at the future role of marketing, of innovation, how we have over time built up our resource allocation models. Many companies – I think what happens is that your budget process only really allows you to play on the margins and rarely to – in my knowledge and there may be other companies out there I'm not that familiar with are in a position to make material changes on where they choose to put their resources on a year-on-year basis.

And so, this year has been an opportunity actually, a unique opportunity to be able to take that step back. And given the significant amount of cutbacks that we implemented in the second quarter particularly to allow us in a non-normal environment to relook at our whole resource allocation model, number one. Number two, as part of that, it's also when times are tough is when you get – you inspect very deeply everything that you're doing.

And so, we believe that there's a tremendous opportunity over the next, I would say, 18 months or so to deliver against that formula of being able to do the same with less as a first step. And the delta there is going to allow us,

I think, to reinvest intelligently where the markets need it and/or be able to take some of that to the bottom line. We have – gosh, I can't – we have again eight or nine verticals in motion at the moment, spanning all aspects of how we do marketing that I'm confident will be able to deliver significant benefits for us.

And then as I said, hand in hand with that is the right conversation, say, well, what is the right amount of marketing that a market needs versus how much am I spending versus last year. How much I'm spending versus last year to me has become a less relevant measure, and it's more importantly to be activity based and to be able to demonstrate through that avenue as to what a market or what a brand needs. And that's what we're going to at the moment, and I'm actually pretty excited about where it's all heading.

Dara W. Mohsenian

Analyst, Morgan Stanley & Co. LLC

Q

Right. Okay. And that's a good segue into market share, obviously, markets tied into that. As you think about share of voice in your categories, ROI you're realizing around marketing, can you take us through the market share environment at this point? I'd argue your trends have held up pretty well considering some of the channel mix issues you have when you look at sort of the underlying market share dynamics. So, I'd love to get an update around market share among your major brands and categories and where you guys stand on that front and how that ties into marketing.

John Murphy

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

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So, I can tell you a great story. When you get into the weeds, you say there's pockets where we're doing really well and areas where we have opportunity. When you compare it year-on-year, the biggest variable in the equation is the channel dynamics. So, there is a channel dynamic that has been a headwind for us that I would expect to reverse and particularly in the – starting in the middle of next year. So, we're not ignoring it and we're not being flippant about it. We're conscious that it's there. But we believe that it's a mathematical equation that has gone against us for reasons that we know.

We think the away-from-home channel is going to come back or even the sub-channels within away-from-home are going to come back. And we have an opportunity to come back strong. What's been interesting is for the channels that are open, working with our bottlers, we've seen in many markets a lot of progress, let's say, in the supermarket channels in many markets where we may not have been as strong, we've seen a lot of progress there because that's a place you have to play – you can play the hardest in the course of the pandemic.

And so, we're seeing good momentum in some of the channels that we had not been doing as well. But on the flip side, there are areas. It's important to get underneath the details and be clear as to what is the issue relative to sort of year-on-year, where are we doing well apples to apples, and where we are not doing well. And so, for example in the US in some of the non-cola flavors area, we have lost some ground. The team is very focused on that. And we think we will have a very good plan to address that going into next year.

So, market share, Dara, and my experience working in the operating – you've got to get into the deep – into a very granular understanding of by channel, by category, by brand and then understand what are the root causes of either share gains or share losses. Is it something we're doing, is it something the competitor is doing, or is it a combination of one versus the other and then work your way through that that granular picture?

And when you do, it normally – the market share performance normally lags the actual work that gets done. It just takes a little bit of time. But overall, I think we – the numbers show – as you said, they show us with a – with some declines primarily channel mix driven. But overall, I think going into 2021, we feel that we'll get back into the green

box again and also use the time to address some of the areas of weakness that we know we have relative to competition.

Dara W. Mohsenian

Analyst, Morgan Stanley & Co. LLC

Q

Right. Okay. That's helpful. And then moving to your bottling network, we've obviously seen a large transaction here recently, a proposed transaction with CCEP and Amatil. Why does the combination of non-contiguous partners make sense in this case? How do you think about sort of what size you'd like bottlers to be, scale, size around the world? Is the aspiration fewer, larger bottlers? Is that a big focus from your part?

And also then secondarily, you've clearly got some bottling assets still under your ownership, the Philippines, CCBA. You've indicated in the past you consider refranchising them. So, is consolidation a focus in this environment for Coke? How do we think about it in this environment also?

John Murphy

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

A

Yeah. Let me start. If you take big picture over the last number of years, we've gone from having more to having less. That's been a trend. And there's many benefits associated with that and I think that you'll probably see over the coming three or four years more of that happening in selected places around the world.

As you said, the Amatil-European Partners transaction is currently a proposed transaction. So, I won't dwell too much on the transaction itself. But as you think about the different types of deals that get done, the more normal one is when you've got one bottler purchasing another in contiguous territories to get supply chain synergies of scale and efficiencies. In this case, the synergies will come from the revenue from the innovation space. And when you look at the – when I look at the way in which European Partners have performed since they were formed and then underneath that the capability of the organization, the ethos of the organization, sort of the quality of the ownership, like there's lots of factors that go into any assessment.

We're shareholders in both companies, we support. We think it's an opportunity that longer term has got potential. But I think it is important to say that there's no – we don't have a formula we kind of tick the box on. It is somewhat case by case against some criteria that we would – that we always want to see in the equation. And so, we're shareholders in both. We're supportive of both, if both sets of shareholders can reach a positive outcome.

With respect to Bottling Investments Group, absolutely, there's no real change in our position. We still want to ultimately become a very small bottler and move towards our asset-light model and focus our organization's energy and resources on the brand building and on the innovation space because that's what we think we're best at and that's what we think we can add the most value to the system. But as I've said before, [ph] the experience in the past, too (38:19), is you can't be too flippant on who – on the refranchising process and just give it to anybody. And so, we're in the midst of a number of conversations at the moment, and I would expect us to make progress in the number of the BIG territories, Bottling Investments Group territories, over the next couple of years.

Dara W. Mohsenian

Analyst, Morgan Stanley & Co. LLC

Q

Great. That's helpful. And then maybe we can move back to the margin front. Obviously, a lot of different impacts here, right? We talked about marketing earlier and how there may be efficiencies there. You've got productivity under this restructuring that you've announced. There's channel mix shifts, right? So, as we look out, assuming a top line recovery – assuming sort of a full top line recovery and you get back to that 2019 base, I guess how

should we think about margins? It seems like there might be opportunities for higher margins emerging from all this with the productivity post-COVID and potentially more effectiveness in terms of marketing in other areas. Is that the right way to think about things or how do you sort of think about it longer term a couple of years out?

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

A

Yeah. I'm kind of anchored in the commitment we have embedded in the long-term growth model. Like there is margin expansion embedded in there. I think I've mentioned it. I like to think that we have levers and it's situational at times as to which lever you deploy at which time and which has got the most impact at which time. I think that's the art of management of being able to leverage these levers, whether it's on the revenue line through premiumization, better innovation or better pack architectures or whether it's on the cost line through better formulas, managing our cost base, our cost of goods base.

And obviously, right down through into both – into the SG&A line. So, I think the – for where I would anchor people is to – is that we have implicit in our growth model margin expansion over time. And year-on-year, it's going to not be a straight line. But I believe that there's enough levers at our disposal to be able to deliver on what's in the long-term model.

Dara W. Mohsenian*Analyst, Morgan Stanley & Co. LLC*

Q

Okay. That's helpful. And then the payout ratio has certainly moved up here, the dividend payout ratio. How do you think about that conceptually is sort of the dividend commitment, a long-term commitment to shareholders and you're not too worried about a couple of years of cyclically depressed earnings around the pandemic or might there be more of a need to generate some balance sheet flexibility? How do you just think through that conceptually?

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

A

Yeah. I think it's a very dynamic area with a number of pieces connected. We have talked over the last two or three quarters because I know it's a topic that is very important to many as to what is our approach, particularly with the dividend. And so, again, I think you've got to take a longer-term view on policy around items such as dividend, broader capital allocation agenda.

And so, we believe that the business can generate sufficient cash to support the dividend and to support the investment that we need in the business in the near term. Is it where we would want it to be? Ideally no. I think this year has for sure set us back a little from the progress we were making. But it is an area like ultimately you have to deliver on, you have to be able to deliver the ongoing results of the business, and that's a huge reason that we have been so, I think, focused on the emerging stronger agenda is to be able to get the business back humming as quickly as we can and leave the pandemic in the rearview mirror.

So, as we speak, we continue to believe that we can navigate our way through the next couple of years, not at the payout levels that we have established longer term, but we think we can do it and still invest in the business as the business needs. We have stated that M&A will take a backseat for the time being and that's always got the caveat of you've got to stay a little bit opportunistic, too. But right now, it's not a huge priority. And as I mentioned in the earlier question, in the near term, share repurchasing will take a backseat also.

Dara W. Mohsenian

Analyst, Morgan Stanley & Co. LLC

Q

Right. Okay. And then maybe we can end on the innovation front. You've talked about sort of moving to fewer, but larger type of projects, not having as much of a tail around innovation. What gives you confidence that that approach will pay off? How should we think about the level of innovation contribution to top line in light of that in 2021 and beyond versus the last few years?

John Murphy

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

A

Yeah. I think there's two parts. I'd like to just qualify what you've said. I think there's two parts. There's the – the first part is the notion that fewer, more scalable initiatives can ultimately create more value, and I firmly believe that is the case. But there's a second component that sometimes gets forgotten, and that is you've got to continue to experiment and explore in an intelligent fashion locally.

What we have, I think, been able to do again is using this year as a catalyst because the work already had started was it's important, I think, to do a spring-cleaning every so often, let's put it that way. We all have our garages, and they all get – over time, they get full of junk and all of a sudden you can't move. Well, that's a little bit like, I think, what happens in the innovation pipeline. It sort of almost creeps up on you. And so, this year has been a year to do a spring-cleaning and get absolutely clear as to what the initiatives that we need to be driving to be able to scale and deliver the value.

But by the same token then create the space that allows us to explore and experiment more successfully, but just exploration for the sake of being able to say it is not a great game to be in. And when you look at the rate of success in the industry, there's I think less than 3% or 4% of innovations actually last more than three years. So, the success rate is not very high. And so, I think being smarter and having a higher bar as to what goes into the market makes sense. But you've got to continue to be willing to explore and experiment, while you drive and focus on the bigger plays that can help fuel the overall growth equation in the near term.

Dara W. Mohsenian

Analyst, Morgan Stanley & Co. LLC

All right. Well, that's very helpful, John. We really appreciate your time and we appreciate you being here. This was very informative. So, thanks for being with us.

John Murphy

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

Thank you, Dara. Talk to you soon. Bye-bye.

Dara W. Mohsenian

Analyst, Morgan Stanley & Co. LLC

Great. Thanks.

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