Okay. So we are happy to have the Coca Cola company with us today. More than three years into the launch of its Beverages for Life strategy, Coke has made significant progress in contemporizing its portfolio and facilitating a more aligned global bottling system that can support better growth and profitability over time. And now, since in just the past few weeks have complemented, what we think is a version 2.0 of its approach. So we’re really excited to have CEO, James Quincy, and CFO, John Murphy with us for a Q and A session today. James and John, thanks so much for being here and participating in the conference. Hopefully, we’ll be in person in the not too distant future, but this is what we’ve got for now.

So you both know, I love, prefer frankly, talking about the strategic, but I do think it’s important for investors that we kind of just start with the short term. So an update on how the business is tracking. In July, when we spoke, you talked about volume pressure easing significantly through the peak of the crisis from down 25% in April to mid-single-digit decline in July. Could you just talk a little bit about how the recovery progressed since then? Especially in key markets, US, China, Latin America, Europe. And just knowing of course the outbreak trajectory has been quite different across geographies, just even in the last two months.

Yeah, sure. Look, as you say, April was the month of highest impact. And remembering the number one driver of volume in the short-term is the degree of lockdown in any given country, particularly as it affects the away from home channels, which is where the impact gets transmitted to us most directly. In April, as you say, we saw the highest number of lock downs globally all at the same time and we were volumetrically at least down 25%. That then improved through May and June through the teens to come to the minus tens. So far over the last couple of months that’s continued to improve. It’s now in the kind of negative, mid-single digits globally for July and August. And so we are seeing an overall an improvement from where we were in the second quarter, a continued improvement.

It is worth sounding one note of caution, that there’s no guarantee that it will be a straight line from bad to through zero, to better and full recovery. And I think you can see that at a country levels. In the second quarter, if you’re coming out of that, Japan got much better, but then recently in the third quarter, as the
government brought in more lockdowns, Japan has softened again in terms of volume. Whereas India, which had one of the strictest lockdowns, so has got much better. So this overall general trend of the deepest trough in April, and then steady improvement back to this negative [inaudible 00:03:13] does mask some ups and downs across the countries that are, as I said, very related to the government’s responses and degree of lockdown and how it transmits to us through the away-from-home channels.

James Quincey: As we look out from here, again there’s no guarantee it's going to steadily improve from mid single digit. I think that particularly important to us, and then we have a clear strategy for how we want to come out of this crisis. But getting through the winter in the Northern hemisphere will be the big test. Things paint better for 21, as some of the health and vaccine treatments improve and the economies adjust, et cetera, et cetera. The winter could see some choppy times around the world, particularly by country and then maybe overall. We’ll have to see. So I think that is worth, that’s worth bearing in mind too.

Lauren Lieberma...: Okay. That's great. I mean, let's take also with this, from the second quarter call as my lead off, but now in fact go a bit more strategic. So on the call you turned to talk about strategic updates coming out of this crisis. So through the crisis your three years into Beverages for Life and the structural transformation that came with it. So you laid out version 2.0, five key priorities to help accelerate the transformation and emerge stronger. I was curious of these five, kind of anything in particular that you're really prioritizing and also just how quickly you're able to move on them.

James Quincey: Yeah. So, just to lay out the overall umbrella of how we thought of a merger. I mean, as we went back and looked at all previous crises that have hit the company over the last 130 plus years, military, economic, pandemic. One of the important features of that was that by the time the country, the region, the globe had returned to the GDP level it had pre-crisis, so in this case, by the time the world gets back to GDP levels of 2019, had we made a step forward as a company? Did we have more drinkers, more share, better system economics, better engagement with stakeholders and a more engaged on organization? Where we stronger, even as the global economy was just backed up to where it was? And so we've set that as our North Star.

James Quincey: And in order to drive that, what we're ... And it's in part to do with the restructuring that we're doing and setting up the organization. What we need to do is double down on driving a few things. So, driving the portfolio. We said, look, yeah in the short term, it's clearly easier for the customer supply-chain to manage fewer [issues 00:05:56] but this is also a golden opportunity for us to accelerate the curation of the portfolio, there was any way an ongoing need. And actually bring all of that to fruition in a much shorter timeframe.

James Quincey: I think what I'm going to say about our strategy, is that actually were lots of things that we knew we needed to fix over the coming years. And that while the company was at the kind of the top end of the longterm growth model, we
knew we had time perhaps to fix them while the engine was, the flame was still flying. With Covid, we said, well we just need to accelerate them. The [one's in curation of the portfolio 00:06:33]. We're clear that what works for the Coke company, the Coke system is when we have brands or categories where we have quality leadership in them, because it has the scale and the margin. And we ended up with 500 brands. We were getting good at entering and experimenting and innovating, and it was driving growth, but we just not have been disciplined enough in converging on a few winning answers in the categories.

James Quincey: And so we're going to accelerate in that world. We had 500 brands. Some of them are allied brands, but we're got to half of them, more than half the number of brands. So really focusing, that was a pending anyway. And then we're going to marry that with getting, accelerating the transition for how we do marketing. I mean, anyway, there was an ongoing trend to digital or to experiential. But, essentially the way the consumer was being engage, wanted to be engaged, was willing to engage and not blocking engagement, has been evolving with how we need ... We needed to catch up more with how we spend our money and how we organize our people to organize how we spend our money. And to make more of that money work for us and less of it to be in the enabling, as we call it, or the money that's spent before it even gets to the consumer.

James Quincey: So we needed, we knew we needed to change, to accelerate the curation of the portfolio. We knew we needed to accelerate the transition to a more modern marketing model, and how that would affect the organization and how we spend the marketing money. And that we're bringing forward because we believe it will set us up with more momentum behind stronger brands as we come out of this crisis.

James Quincey: And then there were a number of other things, particularly on the platform services on the digital side. We've made good progress. We've had number of [attempts 00:08:19] over the years to do shared services. I have a team that made it across the kind of final bridge in getting it to be really effective now. And as the world digitizes, whereas in the past, you could do things different ways in different countries and be effective, now you need ever more, more than ever, to have a common backbone. And we see an opportunity to work with our bottling partners to really create a couple of strong platforms that work for the whole system, that are very highly digital, and we call those platform services.

James Quincey: So driving really ultimately a set of agenda items that were pending, and we saw that with Covid where we had acted boldly in the second quarter, it had worked for us. And that just gave us the encouragement to really just accelerate and be bold, be decisive and go for it.

Lauren Lieberma...: Right. And with that, right, has been new announcement in the changes to the organizational structure, that was last week or the week before. You guys, you
love announcing stuff right before Labor Day. So, just curious if you could use a little bit more on how these changes the org structure, accelerate all the things that you're talking about. Tough on the outside to understand those moving pieces sometimes.

James Quincey: Yeah. So, so if you just take the blocks that I talked about, the curation of the portfolio, the way we do marketing and the platform services and look about how we have to organize to get that done. In essence, if you want to drive that agenda, you can't have as many people making as many decisions. I mean, essentially, kind of, to over-simplify the case, you have every country has the right to invent a brand in any category or to not launch the one that's coming from the country next door. I'm old, I'm exaggerating for effect. And that's just too many decision nodes. And so in order to bring to life the strategy in order to be able to do justice to the portfolio, we needed to drive some more of a networked organization that really was capable of still experimenting, still being able to connect to local opportunity but to converge on the biggest opportunities regionally or globally.

James Quincey: And so what that meant is starting with the marketing incentive, we wanted to break out. We have historically always had someone in charge of sparkling beverages, for example. So now, let's split Coke [no 00:10:57] sparkling beverages. Because if the person in charge of sparkling spends all of their time on Coke will never do justice to Fanta and Sprite. And Fanta and Sprite would be number one brands in any other company. They just happened to be number two and three for the Coca Cola company. And so really [try and focus 00:11:12]. And that also allows us to be much more clear with each of these categories [00:11:18]. It's like, what is the business imperative they're driving? So with Coke, we have 50 plus share in the global Cola category. We've got quality leadership, we can continue to drive that. With categories like Fanta and Sprite or some of these other categories we're in the 20s in March yet.

James Quincey: So there's a different order of mandate for those category leads versus Coca Cola. So breaking them out so that due justice is done to the mission of each category is important. And once you start driving that from above, so you're going to still look for experimentation at the local level, but want to drive convergence on the best answers globally. You just don't need as many marketing organizations as we have had. We had upwards of 20 business units and they all had kind of full marketed.

James Quincey: We see an opportunity to really organize essentially the marketing around the biggest agglomerations of consumers. In Europe in a way, we had historically, in the company, organized around our bottling partners. And so flipped the model, and look say, if we truly are going to be consumer centric and we're going to prioritize the number one role of the company, which is driving the portfolio of brands, delivered against consumer choice. That then is what drives the economics of the bottling system. We need to look for the customer groupings first and not the bottling organizations as the primary drive for how we put together the operating units.
James Quincey: So it's much easier to say, look, Europe is a whole. Let's have Europe, let's look at the consumers across Europe and think about New York, not think of splitting it up. Similarly, Latin America, there are many similarities. And we know with having full business students, we’re not driven the most effective programs against the other categories. We've done very well in Coke, but not necessarily the other categories. We've created some big positions, things like juice. But we have not created as much margin as we should have done because we have fragmented down our efforts. So we've organized the company's operating needs about, around these bigger agglomerations of consumers. North America, Latin America, Europe, Africa, Eurasia, Middle East, India, China, and Japan and Korea. Because that's where the company role starts.

James Quincey: So once you do that, you want to make less marketing decisions around the core consumer clusters. You can have less operating units. So that's why we've collapsed it down from the, effectively from the 20 to the 9. And that goal, that's what creates all the organizational change. And then obviously the platform services, you're essentially extracting some things from the local operating units and saying, look, now this, we need to deliver more value by standardizing on certain platforms, whether they be digital services directly or digitally enabled services, so that we can add value. Not just to the company, but potentially work with our bottlers to do something collectively, where it works, where it works for all of us.

Lauren Lieberma...: That's great. I, so John, I'm going to bring you in now. All these changes, emerging stronger, there's going to be financial implications, hopefully. So, I'd just love to hear a little bit about how all these changes kind of manifest in organic revenue, profitability and really the longterm algorithm. And this more networked organization, how you balance kind of the reinvestment and then the flow through of some of this to the bottom line.

John Murphy: Yeah, thanks Lauren. So when you say changes, I think it's important to highlight that it's actually not so much changes to the strategy itself. The two flywheels that we use as techniques to talk about the Beverages for Life strategy and how we convert the top line and to the kind of value creation that's implicit in the longterm growth algorithm, remain very much the focal points. It's the how we generate momentum on those flywheels during an environment that's very different to where we were when we were in [Boka 00:15:41] is at the heart of what James has talked about. The longterm growth algorithm remain central to our agenda. The emerging stronger prioritization that we've done is designed to get us back to that longterm growth algorithm, as fast as possible.

John Murphy: Clearly this year it's a very unusual year given what's happened. And despite the better performance that we're seeing in the second half of the year, we will not be, we will not be there. 2021 clearly we'll have cycling benefits given, given what we're cycling and Q2 onwards. That will have its own sort of mathematical impact on, on the year on year trends. And 2022, we see has been a year in which we should be back to the more normal type of growth agenda that we,
that we aspire to have 4 to 6% get into the high end of our revenue line. And the 4 to 6, and that flowing all the way through for the algorithm.

John Murphy: The savings that will come from the restructuring are, I would say a secondary objective. Clearly there’s an opportunity as James has outlined, there’s an opportunity to be both more effective and more efficient. Historically those savings have had a one-to-one impact on the annual benefits that you can accrue. But were not as fixated as to how much will fall through this year or next year as we are in getting the balance right, to get those flywheels working in the way that they need to. So we, we’re more confident that the steps we’re taking will allow us to get to that, back to the algorithm faster than if we were to have sort of sat around and just continue to operate as nothing had changed.

Lauren Lieberma...: Okay. That’s great. James, I wanted to just spend a little more time on innovation. You’ve talked in the past that the importance of agility, right? Embracing an iterative process to kind of address opportunities with speed, getting things to market for their hundred percent rights and then perfecting it. So, but how do you sort of balance that mindset and approach with the putting more discipline into the process? Like what are the checks and balances that come in that the change that innovation iterative process, but you’ve worked hard to change.

James Quincey: Yeah, absolutely. So look, I think firstly we’re focusing in on what does innovation need to do to us? I mean, it needs to bring new drinkers. It needs to engage current drinkers more frequently, or it needs to do something for us on the price fix. Like getting clarity on which of the, which of the missions is this innovation actually targeted at. Sharpening that up as an important part of what we’ve learned over the last three years?

James Quincey: And absolutely we need both the discipline and agility. Sometimes they can be seen as competing against each other. So, but that they work together, when they drive a learning cycle. If we act, if we do something we need to learn and then move on to the next iteration. It’s a bit like if in an extremist, the kind of political philosophy, no one wants too much complete decentralization, a.k.a. anarchy. And you can’t have complete centralization, a.k.a. dictatorship, because we can’t know everything from the center. The bit in the middle is democracy and that’s, that is messy. And it does require constantly coming back and refining the processes, to strike that balance between the agility to diverge and find and experiment. And yet the discipline to converge around the answers that are going to generate scale, market share and therefore the economics, and the margin or drive for scaling up.

James Quincey: And you can see that in the ways that we’ve done things recently. Leveraging a trademark to expand a category. We used Coke Energy. Yeah. I mean, timing wasn’t the ideal coming only a few months before the Corona, the Corona crisis. But there’s an op, there’s an idea where we’re using innovation to try and take an existing trademark and make it more appealing to more consumers for the Coke brand.
James Quincey: So you've got a tremendous leveraging, a tremendous depth of equity to potentially use an innovation, to do something interesting, to bring in more drinkers. Or with [AHA 00:20:43] where it's done, it's done really well, it's got some double digit retail value share in the first, whatever it is, 18, 20 weeks. Of course, again, it's run into the Covid buzzsaw. But there's ... By getting more disciplined, we've been able to start being more targeted, whether it's, experimenting with things like Coke Energy or experimenting with AHA. Or even, things that have already drawn attention and they're not even in the marketplace like Topo Chico hard seltzer.

James Quincey: So getting, using that, we can, I think we can really expand the degree to which we using innovation, not just to have additional flavors, but to really be disruptive on where the boundaries two brands are or two categories are. So that we can bring new things to consumers, which will really generate value. In the end, if it's all incremental, it's at the risk of just being all churn and adding no total momentum to the business. We need thing, we need to converge on answers that are truly disruptive and are ultimately capable of adding material scale.

James Quincey: And tell me, I mean, one of the great benefits of being big as you have the resources to do things. The disadvantage is you need to do something big to make a difference. And so we really do need to converge on these disruptive innovations that are actually going to move the needle, not just in the marketplace, but in the marketplace at a scale that's relevant to the Coca Cola complex. And bringing that together is really important. And of course, not, in all of that, not lose sight of one of the core avenues of innovation, which has been very powerful for us over the years, just because sometimes branding and formulas and products can be seen as more sexy. Packaging innovation. Coming back to packaging innovation.

James Quincey: We can never let up on the importance of that as a lever, whether for affordability, because we get back in and we find new ways to innovate and bring returnables to be relevant for people. Or the, or taking markets like Japan, which are very important for us for profitability and trying to break out of the kind of homogenization of the market around 500 milliliters, everyone's in 500 milliliters for every brand. And the only dimension of innovation is the brand and the category and the formula. We can add an extra dimension by starting to introduce different pack sizes and really create value, even within the same brand. By going from 500 breaking that out to 700 and 300.

James Quincey: So yes, the thing that always gets more attention is the brand, the category, the formula, the positioning. But for us, it's always important to remember the central role that packaging has played in innovation, in the creation of Coke. And we will create for other brands and categories going forward.

Lauren Lieberman...: Okay. I can't talk about innovation and not ask the hard seltzer conversation. So it may be a long story, but anything you can offer just on kind of the backstory. Key pros and cons you maybe debated, and anything at this point you can share
on aspirations. How does this play in over the next three to five years in terms of portfolio evolution?

James Quincey: Yeah. Okay. So I'll try not to make it too long a story.

Lauren Lieberma...: I know, sorry, I know.

James Quincey: Just standing back for a second. There are two optics of which we look through the Coke system business. One is the consumer and the consumer's interest. The other is the customer because the Coke company starts from the idea, we need to provide that portfolio of brands that best works for the consumers. And so over the years we have expanded from Coke to other flavored sparkling, to other categories of non-alcoholic of [ready to drink 00:00:24:41]. And then, the coffee now that we're talking, we're talking about alcohol.

James Quincey: We start very much from the idea of, we've got to provide the portfolio brands the consumers want and we need to start from what we know how to do best. But, our business system and our bottlers sell those brands to the customers in channels. And we also want them to be the best possible beverage partner to those customers. And in some channels and countries, that means a broader portfolio than necessarily the one we automatically have given when we start with consumers.

James Quincey: So over the years and decades in the past we have teamed up with people in different ways. Brewers have often been beverage partners for us in different parts of the world because in those countries, either the scale of distribution is under developed or the nature of the marketplace is such that working together on the bottling front allows us to present a portfolio to the customer. Or to have an economic sort of a distribution system that are more advantaged than just the [inaudible 00:25:47]. So those two lenses always sit out there. And so there's always been a force of the Coke system in the alcohol space. But that comes through the customer lens, and the distributional lens, rather than the consumer lens.

James Quincey: What we've seen all over recent years is that blurring of categories and what ... And the central idea is that the beverage industry continues to grow, but consumers want more choice. People want diversity and they're starting to see brands, they're starting to create new categories and they starting to see brands across multiple categories, rather than everyone staying in their swim lane. And so we have seen opportunities at the intersection of the consumer first optic, and the local customer or channel or competitive optic, where actually alcohol makes sense.

James Quincey: So in Japan, we had the Lemon-do, which is the alcoholic lemonade drink, which is doing super well there. We did it for reasons that obeyed the Japanese market dynamic, as much customer and competitive as consumer. There's clearly been a consumer opportunity on [ready to mix 00:00:27:00] drinks. We
have tended to let that be led by the alcohol drinks. So it's someone else's alcohol brand with a no-name tonic or Coke, rather than doing a rum and Coke, which would be very linked to where consumers are. So we've looked at some of those premixed drinks.

James Quincey: And in the case of Topo Chico hard seltzer, it's a fabulous sparkling water brand. A lot of it is drunk in the channel of alcohol or in being away-from-home where alcohol served in cafes and restaurants. And so there's a huge opportunity, a huge permission from consumers of Topo Chico to look at our hard seltzer space. So we're experimenting in it. Our experimentation really is going to obey the logic both of this, looking through the consumer lens, looking through the customer, the sales [inaudible 00:27:54] lens.

James Quincey: And also from the perspective of, can we achieve quality leadership. Because just as there's an opportunity and the ability to launch, and dip a toe in the water and do something small, does not mean it should be done. At the end of the day, back to what I said on the other question, it needs to be big in the context of the Coca Cola company, otherwise it's not going to be worth doing. So as we look at our portfolio, we are very clear that if we're going to be in a category in a country, we need to have a vision of how we can attain quality leadership.

James Quincey: And back to the organizational structure. We've organized it, look, we're going to keep driving Coke. Coke has quality leadership, has 60% market share. How are we going to drive that to its next level of leadership? How are we going to keep it relevant? Not just in the Cola category, which obviously it is, but how are we going to keep it relevant and gaining share in the total beverage industry? Because that's the relevant set as you start to think about competition.

James Quincey: But we have clear leadership there. And we have a set of categories where we have leadership or some challenging positions, depending on where you are in the world, whether that's flavored sparkling or juice or ready-to-drink tea. They have a mission on, they've proven that we can generate leadership in those categories, we just need to do it in more countries. And then you've got a third tier, which is coffee, where we have a vision of what quality leadership can look like and scale and margins, and we're in the execution. So can we make that come true? And then you got a fourth tier, which is this, these other insights on opportunities where we don't even have a vision of what it could be, but we want to learn about what it would take to compete in those categories. Whether a vision that's worth chasing for the longterm comes out of it or not, it's way too early to say.

Lauren Lieberma...: Okay.

James Quincey: That was a long answer, sorry.
Lauren Lieberma...: I knew it. I knew it when I asked. Because it's interesting, it's a lot. I'm going to sneak in one more, John, this won't take you by surprise but I'd love to just wrap up with an update on cashflow. So just, how should we think about cash flow generation capacity kind of going forward. And then capital allocation plans both this year and looking further out.

John Murphy: Yeah, not a surprise that you wanted to slip that one in. So the objectives really stays the same Lauren, to really, to grow cashflow faster than earnings, faster than dividends growth. Obviously this year has been a setback, particularly with the top line being impacted the way it has been. But not a big enough impact to actually deviate from, hopefully what we have communicated, I think pretty consistently over the last couple of years around our capital allocation priorities. We've also taken a number of steps to manage our overall debt portfolio. A number of very, I think, strong steps, both in terms of reshaping the portfolio and also giving us the liquidity that we need, regardless of what lies ahead. So a combination I think of expectations on cash generation over the next periods plus what we've done on debt, I think allows us to continue to reinvest as we need in the business, to continue to support the dividend as we have done very consistently and historically.

John Murphy: With a lesser priority in the short to medium term, on other opportunities in the M&A space, and certainly share repurchasing is not on the immediate agenda. So, really not a huge amount of change to our overall objectives, how we're thinking about it. We continue to be very focused on working capital, optimizing our capex, optimizing our balance sheet in order to help us along the way. Because we know we can make further progress there. But that's about where we are and don't expect to deviate from that significantly as we navigate ahead.

Lauren Lieberma...: Okay. All right. That's great. We are out of time, but James, John, thank you so much for doing this. And like-

John Murphy: Thank you.

Lauren Lieberma...: I said, hopefully we do it in person soon.

John Murphy: Thanks Lauren.

James Quincey: Thank you.