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MANAGEMENT DISCUSSION SECTION

Bonnie Herzog

Analyst, Goldman Sachs & Co. LLC

Hi, everyone. It is my privilege to now welcome The Coca-Cola Company back to CAGNY this year. Joining us today are Chairman and Chief Executive Officer, James Quincey; and President and Chief Financial Officer, John Murphy. So first off, please join me in thanking them for their continued support for the conference, including their sponsorship of the refreshments that are available today and the rest of the week and I hope all of you are enjoying them.

Now, this is quite – yes, thank you. So, this is quite an exciting time for Coke, given its all-weather strategy. The company has proven it can deliver in many types of markets globally. In fact, they're coming off a very impressive 2023 where they delivered 8% EPS growth despite a steep 7% currency headwind highlighted by positive volume growth each quarter. It's clear that Coke's powerful portfolio and bias to invest in growth, coupled with very strong execution, continues to bear fruit globally despite the tough operating environment.

So, with that, I'm going to turn it over to James to hear more about their efforts. Thanks.

James Quincey

Chairman & Chief Executive Officer, The Coca-Cola Co.

Thank you, Bonnie. Actually, I think you're doing a great job. If you want to just carry on, you could do the whole thing. Okay. Good morning, everyone. Let's put up the traditional forward-looking statement, give you the obligatory couple of minutes to read it all.

Okay, let's, let's dive straight in. Key themes today, actually, Bonnie just hit them. We want to talk about how we believe we've got an all-weather strategy for what has come at us and what will no doubt come at us in the future. And that's really grounded on two big pillars, a really powerful and evolving brand portfolio and a strategy that's

amplified by the competitive advantages of the Coke system. And that turns into an ability to perform in a sustained way for the long term.

So, let's turn firstly to the idea of an all-weather strategy, a little bit of a retrospective combined with a look forward. So firstly, just reflecting on the journey so far, we're clearly a very different company than we were eight years ago. We've come a long way. Perhaps it was all the way back to 2016 or 2017. We started talking about a total beverage company and how we had started on a more disciplined journey of being clear on what were the leaders, challengers and explorers. And over those years, we've then added layers of execution, implementation, success and evolution to be more disciplined in our execution, really doubling down on the portfolio, roles of each brand and geography and helping the system drive forward. And then expanding that lastly into the culture of the organization, really driving forward an ever-evolving organization towards the network, towards the culture, really connecting around the world so that we can both be truly global in our scale and leverage, but execute locally.

And what has that done? I think there's just a couple of simple ways of capturing the success of that journey. The first one is just to say, we're winning in the marketplace. We are obviously not just the global market leader in beverages, but we're the clear winner. You can see in the chart on the right hand side there that over the last seven years or so, the dynamic in the beverage industry is pretty simple. There are three buckets, all the small players, a few medium players, and then the Coke system. And the clear dynamic is obvious. The Coke system has been the steady, not just leader, but winner in the beverage industry over time. The medium companies, they've been a little bit squeezed, and in the bottom, there's been much creation and innovation, but it's all turning on itself over time. And so, we believe that our leadership and our position has allowed us to continue winning by leveraging both scale and we can talk about the different aspects of scale over time, but also by leveraging our growth mindset to always seeing future opportunities and what's possible ahead of us.

So retrospectively, looking back, our strategy has been able to allow us to expand our leadership position in the beverage industry. Also, it has created an inflection point. We've got our earnings mojo back. There were many years that we were stuck in the infamous \$2 EPS kind of line of flotation. Part of that was due to kind of mid-single digit currency headwinds, but there was a prolonged – way too long period when we were stuck without being able to grow our earnings. That we've broken out of over the last seven years. In fact, we've been growing US dollar EPS high single digits despite actually the currency headwinds continuing and pretty much similar sorts of rates as they had for the previous period. And obviously, as Bonnie mentioned in the intro, last year, we delivered a good 8% EPS growth, actually off a 7% currency headwind. So, we think that the focus on the portfolio, the focus on our system and competitive advantages have allowed us to break out, continue winning, continue driving scale and returning to growth of EPS despite all the strange things that have happened in the multiverse of the world from an external point of view, whether they be economic, pandemic, geopolitical tensions, we have managed our way through them all. And we believe, by extension, that we can manage our way through what is yet to come. And what is yet to come? A huge amount for the beverage industry. We have put up versions of this page in previous CAGNYs, but I think it would be remiss not to restate the case for long-term sustained opportunity in the beverage industry and for The Coca-Cola Company.

Take the two parts of this slide. On the left hand side, you have a kind of a distribution chart of the, the rates of growth of the beverage industry over the last, God knows, what is it, 33 years. And what you can see is predominantly the industry grows at three to four, and if it doesn't, it tends to grow faster than that. So, this is an industry that has a long, sustained track record of driving growth for all sorts of specific reasons. But it's a beverage industry drives growth over a long period of time. And secondly, there is a lot of very clear reasons why that growth will continue way, way into the future. If you look at the little spot chart on the right, you can see that divided into the developed markets and the developing markets. And what you can see quite clearly is, yes, in the developed markets, we have a decent share and a decent portion of what people drink is commercial beverages.

But there's a huge opportunity for us to continue to gain share. What I think is even more eye catching and massive is the bit on the developing markets. The biggest single feature is the non-commercial beverages. So, the market's still predominantly has yet to be created in the world for beverages. So yes, we've been around a 138 years, but we are really still at the beginning of developing The Coke (sic) [Coca-Cola] Company and the beverage industry. So, there's a huge opportunity ahead of us. And we have got increasingly focused on how to execute against that. We've got increasingly granular about how we address consumer opportunities, increasingly aided by data and technology to be more granular in looking at consumer segments. And that allows us to do a better job of matching up the consumer's needs and desires with the portfolio that we need to offer them so that we can continue to drive an ever-increasing amount of consumer centricity.

And so, let's have a look at some of the pieces of the portfolio. It's an incredibly powerful portfolio. It's been a long journey. Most of that journey over the 138 years was about brand Coca-Cola. But really now it's about an expanding total beverage portfolio. Each brand, each category has a unique mission. It's not about trying to be everywhere, being everything overnight. It's about being choiceful on our journey of where we want to drive the next evolution and the next iteration of scale with a growth mindset. So, we win and we win profitably.

So, what does that look like? Well, of course, emblematically, it starts with brand Coca-Cola, clear leader in the Cola category. But this is a category that continues to grow. The cola category has been growing for the last number of years and is foreseen to continue growing. And of course, it's a category where we have clear quality leadership, not just that we continue to gain share within the category. And the reason for that is an unrelenting focus on two things: focusing on the unwavering and the unchanging part of the Coke brand, the iconography of it, something that truly hasn't changed in a 138 years, but yet making it relevant and authentic to each new generation of consumers, and then bringing with that some innovation in a way, how can you innovate with a brand that doesn't change? You can innovate in the expressions around the core central Coke Original, whether it be some of the Coke creations or some of the other things we've done bringing out Coke Spiced. But this is a way of dualizing between the unchanging and the need for innovation. And then backing that up with an everyday ability to put it within the arm's reach of desire, being able to find the right packaging solution, the right container solution at the right price point to bring everyone into the franchise. There's always got to be an affordable option and there's lots of ways of delivering premiumized packaging options. And then backing that up with experiential activities, whether that be in the physical world and now increasingly in the digital or the augmented and in the AI world. And so, really driving brand Coca-Cola forward and continuing to build that out along with Coke Zero Sugar. So, a lot of momentum behind brand Coke, lot of success being driven there.

Next, Sprite, Fanta and Friends, again, there has been strong growth in flavored sparkling and there's expected to be strong growth. It's this category where we have been – where we're leaders. We'd like to expand our leadership. We have been expanding our leadership and also a category where the zeros are really starting to expand. Actually, interestingly, if you just take Sprite, Fanta and its friends in the sparkling flavored categories, this would – those brands on their own would be the fourth largest NARTD beverage company in the world. They are a huge business in, of their own rights. And part of what we've done as we manage our organization is to stand them up so that they get the full attention they deserve, and that's helped them really take off to expand their leadership. We've gone through a process in some of the innovation of really making sure we were happy with the formulas in each country, making sure they were truly taste superior. And that's been driving mid-single real growth in those marketplaces. Also, it's actually helped restage the relevance of those brands for consumers.

Take, for example, Sprite. Sprite, in a recent survey in the US, was named the number one brand for Gen Z, number one not in flavored sparkling, number one of all brands by anyone, rated Sprite number one ahead of everything else. Also, flavored sparkling comes with a set of brands you perhaps haven't heard of all the time. Some of them have become billion dollar brands recently, one Fresca, which is, the number one consumer of

Fresca is sitting over here, John, but that has become a \$1 billion brand. Schweppes is a \$1 billion brand. Thums Up, you've probably not heard of, it's the largest soft drink brand in India, that's a \$1 billion brand. And so, that success has been backed again by some experiential connectivity and everyday relevance of the activations we're driving. But a lot of success coming on the flavored sparkling categories.

Let me switch to the next one, juice, value-added dairy and plant-based, again growth in the industry, but here we're much more selective about where we want to lead. We clearly have some rights to win and some great foundations in certain countries, in certain geographies. And there are also here a more important need to discriminate between some of the subcategories. For example, value-added dairy or chilled juice is growing. It's attractive and it's profitable. Some of the nectar categories less so. So, here, our objective is to selectively expand our leadership by subcategory and certain geographies, and that's helping us really drive not just top line growth, but expansion of appropriate levels of the margins. We've been focused on our juice brands, relaunching Minute Maid, giving it a new visual identity and driving forward some of our juice drinks brands here.

You can see some of them on the top right here, Maaza, which is a mango drink in India and also driving our value-added dairy. Most emblematic obviously in the US with fairlife where we've with that driven to leadership in value-added dairy. Core Power, which is a kind of a protein milk has gone from being half the size of the leader to being leader itself, and now two times bigger than the nearest competitor. And then Nutrition Plan, which was launched more recently has gained 32 share points of nutrition plant. So, real success, if we focus selectively on the most interesting subcategories and drive for growth and profitability.

Water, Sports and Tea. Here again, somewhat, we've been really targeted more growth, but the need to be targeted and that's helped us gain share and drive acceleration. And really, we've added \$9 billion of incremental brand value to this portfolio of these categories since 2020, whether that be driving FUZE Tea, whether that be driving actually Topo Chico, another \$1 billion brand, that's being created and actually starting to see the sport's dual brand strategy. Interestingly, on a global basis, we've been actually gaining share in the sports drinks category. Our need for a restaging has really been focused on the US. So, good progress in Water, Sports and Tea.

And then lastly, it would be remiss to not cover off some of the global ventures and the emerging categories. Obviously, we have a great relationship with Monster in the energy category. That's been my driving growth and value creation for the company, for Monster and for the Coke bottlers. We've been taking a measured approach in ready-to-drink alcohol. Interestingly, we've got eight experiments out there, but if you put them all together, them together would be more than a \$1 billion of retail sales from those experiments. So, we're really trying to now say, okay, now we've seen that the experiments can work, what does – what is relevant to The Coke Company require and look like in this category?

And then in coffee, we've been relaunching our ready-to-drink coffee in Georgia with good results, in Japan with good results and we've been stabilizing post-COVID Costa and really optimizing or really driving for better as we look to go bigger with the brand. So good progress across the portfolio.

And if we have the right portfolio, of course, the next question is how do we go to market and how do we continue to raise the bar on our competitive advantage? I think, firstly, simply it goes back to Robert Woodruff, who's kind of the emblematic leader of the Coke system for many years. Coke needs to be within an arm's reach of desire, actually in a way now it's our portfolio needs to be within arm's reach of desire. So, it really is about marrying all the big brands that we have with the bottling system, here represented by a number of the big bottlers. We deliver every day, 2.2 billion servings of our brands. That's 1.5 million servings a minute. By the time, John and I have

finished this presentation, 75 million servings of our brands will have been delivered. And so, we have to orchestrate and drive this ecosystem, and it's a huge competitive advantage for us.

Just take a quick look at some of the statistics on what this system can drive and why it's a competitive advantage. I talked about the 2.2 billion servings on the left. We added 1.2 million new outlets in 2023. We provided our brands to 10 million new households. We digitized the interaction with 6 million shops. We added 60 production lines around the system, around the globe. We've driven two points more visible inventory. We've added 640,000 cooler doors, and we've added \$15 billion of retail sales for the beverage portfolio. It's a huge scale and it's a huge advantage. And we're taking it to the next level. We have limitless opportunities to use our scale, our brands and our packages and the channels we go to, to continue to drive revenue growth management, which is not just about more. It's about making sure our brands are available in lots of different ways so that we can both be affordable to keep consumers in our franchises and to drive volume expansion of the franchises, and yet also capture the premium opportunities that remain out there. There's still a huge opportunity ahead of us, not just for volume growth and creation of the beverage industry, but for value creation too. And we'll do that, of course, by continuing to layer over an ever-increasing digitization of that relationship.

We're starting to see much more connected packaging, not just barcodes, but QR codes starting to be portals. Those 2.2 billion servings every day. If every one of those is a portal to our digital content, it helps deepen the consumer relationship. And similarly with the customer, over 50% of our sales still go through the fragmented mom-and-pop trade. And we have been digitizing those relationships around the world and helping them drive their businesses. And that's allowed us to continue to optimize the performance marketing, the right packaging, and continue to build the ways of delivering it with a whole set of backbone capabilities within the company like StudioX, which we can talk about other times.

So, one of the key takeaways here, before I hand over to John, we've been delivering through a dynamic environment. We've been pursuing these vast opportunities with discipline, scaling, fortifying choicefully so we have staying power, advancing our total system agenda and really strengthening our capabilities to continue to be at the forefront of growth. So with that, I would say, we are primed for sustained performance.

John, over to you.

John Murphy

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

Thank you, James. And before I get into my content, I'd like to offer a special call-out to a viewer, Charlie Polivka is his name. Charlie is two days old and his mother happens to be [ph] Taylor, (00:21:37) who was one of the chief architects behind our work that we're sharing with you today so big congratulations to both [ph] Taylor and to Charlie. (00:21:47) Sorry, she's not here to enjoy the fun.

Let me take the baton from James and talk a little bit how we're translating the overall strategic agenda into performance. And there's no better place to start than at the top line. We've talked for many years about the importance of the top line. And over the last few years, we have delivered consistent volume and revenue growth. Volume growth has been – we've had volume growth in 16 of the last 20 quarters and revenue growth ahead of our long-term growth model in 12 of the last 20 quarters. And included in those quarters was the conflict in Russia-Ukraine and indeed the COVID period that we all remember so well. This top line is helping to transform our ability to deliver on the bottom line. We are expanding margins. We are delivering, as James says, a higher run rate on EPS growth out of the \$2 rut that we were in, even through persistent FX pressures. And we are well positioned to continue to grow the top line, to expand margins and to reinvest for further growth. And so, somebody here wrote recently the proof is in the P&L and I couldn't agree more.

A key driver has been a really fresh approach to looking at how we invest our resources. And this is a busy chart, but I'd just ask you to take away three important points. First of all is that, each of our country category combinations now has a distinctive role to play in the portfolio. Each of those roles has got a very specific job description, and we have now in place a very rigorous cadence to track how we are doing, to learn, in some cases to relearn, so that we can continue to iterate this allocation agenda to help sustain the overall performance. So, for example, in the case of a leadership role, take Coca-Cola in Spain, very strong leadership position. The intent would be to grow gross profit ahead of our marketing investment growth. In the case of build, our sparkling business, flavors business in Vietnam, where we would actually want to drive marketing investments somewhat ahead of gross profit. In the case of, let's say, our fledgling alcoholic ready-to-drink business in Mexico, it's a selective play, very focused on just been super clear on where to – what to do in that market with the emerging portfolio. And again, being willing to have the patience to build a scalable position.

We've also, in parallel to our improving P&L performance, been super focused on the balance sheet. If I take a step back and I think about the various phases we've gone through over the last many years, traditionally our balance sheet was actually a pretty simple equation because we were primarily investing to grow our concentrate business. That is – that does not require significant amount of capital. We went through a period from the early 2000s to the mid-teens, in which we invested heavily to reshape the bottling landscape in many parts of the world and to acquire a number of brands and businesses to support our long-term total beverage portfolio agenda. And we're seeing the results of those investments playing out in recent times. And while we are seeing that, we're also taking action to reshape the balance sheet. So, it's fit-for-purpose for what we need going forward.

The refranchising process that you're very familiar with is well underway. And even since our call last week, we have closed our – the refranchising of Bangladesh to Coca-Cola İçecek. And it's just another important step on this journey that we're on. We are improving our return on invested capital in a very steady manner, and we are driving a net debt leverage number well below our long-term goal, giving us a tremendous amount of flexibility to meet the needs that we see ahead of us. And those needs ahead of us are in the context of a very consistent approach to prioritizing capital allocation. We have – last week, we announced the 62nd consecutive year of dividend increases, reinforcing our commitment to the dividend. We talked about further reinvestment in the business to support the growth ambitions that we have. One-third of that is related to the remaining franchise that we currently hold in Africa and in Asia. And when it comes to the M&A agenda and our repurchase, share repurchase agenda, as we discussed recently, we want to be as – stay dynamic, stay agile, stay opportunistic, and think about decisions that will, again, set us up best for the longer term.

And our 2024 outlook, we expect to deliver \$11.4 billion from operations. The CapEx number, as I mentioned, is higher. But keep in mind that there's a good chunk of that is related to our remaining franchises, which over time we will continue to look for new partners to help continue to grow in those markets. And one of the key points that we – that's worth repeating is that we're thoughtful in how we approach the refranchising program. The ultimate objective is to use it to continue to drive higher performance. And I think, we've demonstrated over the last few years in the United States, in China, in Europe, and most recently in some of the Asian and Vietnam, that this is exactly what is playing out.

That's my marketing chart there, but it's an important one because what I think we've – we continue to appreciate and learn is that the whole needs to be greater than the sum of the individual parts. And so, there's been and continues to be a tremendous focus on the synchronization that's needed across a system of our scale and magnitude and the cohesion that's required for these pieces to actually come together. Our focus is very much on what's in the center, but each of the component parts are playing a tremendously important role. And you have heard us talk a lot about our network model. So, I'd encourage you to please think about the network model as

creating the agility to enable the synchronization and the cohesion that is incumbent upon us for this value creation algorithm to continue to deliver tremendous value.

James mentioned the strength and the pervasiveness of our bottling system. Let me just complement that, that a lot of that is not happening by accident. There has been a tremendous uptick on a sustained basis over the last few years to invest ahead of the curve, to build capacity, to enable our marketing agenda and to digitize our system end to end.

And you can see on this chart here, it's just representative of our top – I think, there's about 20, maybe not exactly 20, almost 20 bottlers that represent the lion's share of our business around the world. And as I said, those investments are not happening in a haphazard or happenstance way. They are underpinned by an increasingly shared growth ambition to deliver at the high end of our respective algorithms, with a much greater focus than ever before to grow the overall pie versus internal debate on how to share it, supported by new cooperation agreements to provide greater certainty to all of us as to how we can benefit from the investments we're putting in. And culturally – and James has talked about this over the last few years, culturally a much greater willingness to explore, to experiment, to sometimes fail, but most importantly, to learn together. And we have, I think today, in place a laser focus also on building the capabilities and the talent that is required to sustain this massive machine as we go forward.

And so, as we – as the headline says, we think we're primed for sustained performance with the momentum that we have been building over the last few years, with the massive growth opportunity that is ahead of us, with the all-weather strategy that we see working in any kind of environment and with an inner confidence across our system in our ability to deliver at, above the high end of our long-term growth algorithm.

So, to close out, we're step changing the financial profile of The Coca-Cola Company through a multi-faceted transformation. We're investing with discipline and with some courage to drive quality growth for the short and the longer term. We have a network model that's helping us to synchronize better than ever before the pieces that are needed to create sustained performance. We need at the same time to have the flexibility to pivot and adapt because there is going to be a surprise, I just don't know what it is yet, sometime in the coming months. And I think that we've learned that the best way to deal with a surprise is to have resources available when the time comes. And last but certainly not least, there's an orchestration of the Coca-Cola system underway that is demonstrating an ability to capture the many opportunities that we see out there.

So, thank you for your time and attention. Thank you.

QUESTION AND ANSWER SECTION

Bonnie Herzog

Analyst, Goldman Sachs & Co. LLC

Q

Okay. I think that gives us time for a couple of questions before we head into the breakout. Bryan, do you want to kick it off?

Bryan D. Spillane

Analyst, Bank of America Securities

Q

Hi. Thanks. Bryan Spillane, Bank of America. James, if you go back to 2016, anybody sitting in this room would have never believed that sparkling would have driven as much of the growth, both in profits and in volume [indiscernible] (00:36:56) between now and then. So, I guess, as we look forward to kind of looking at slide 8, the opportunities, as we look forward from here, how important is sparkling in that or how big is the opportunity in sparkling there? And, can it effectively contribute as much growth going forward as it has over the past seven or eight years? And I think underlying that is, if not, is there a mix implication?

James Quincey

Chairman & Chief Executive Officer, The Coca-Cola Co.

A

Yeah, sure. I mean, clearly, Coke, Coke Zero, Sprite, Fanta, the other sparkling flavors have been a key mode for growth over the last seven years, but not just the last seven years and less recently, including 2022 and including 2023. And I think, the work we've done to provide a full range of sparkling brands with and without caffeine, with and without sugar, with all sorts of flavors, has allowed the growth to be unlocked for the sparkling category. And obviously, given our scale, we can offer it at lots of different price points. So, we see actual – we see that actually there's sustained momentum coming through on sparkling and that's projectable well into the future. Coke Zero Sugar continues to be an above-average grower. Some of the zero sugar sparkling flavors too. But there's underlying growth in the core original formulas as well. So, we – look, we think – we see it there. Now, in the end, we are going to do – the other thing that was being said in 2016 is you should set an objective on the percent of the portfolio that is X or Y. And we also turned that one down because that's then telling the consumer what they want to drink. We are very much focused on the consumer centricity of our portfolio, doing justice to each brand, making it relevant for each generation, and then having the consumer have the ability to choose within the portfolio. And with that, we see the continued relevance of sparkling, backed by the ability to have a range of packaging options from affordability to premium. It's strong growth and it's still there, maybe in 2030, your successor will be asking the same questions [ph] the other day (00:39:13) and we'll say, no, it's still growing. Yeah.

Bonnie Herzog

Analyst, Goldman Sachs & Co. LLC

Q

Robert.

Robert Ottenstein

Analyst, Evercore ISI

Q

Thank you. John, you talked about the balance sheet being fit for purpose. Can you elaborate on that a little bit? And is that purpose different today than it was before? And then related to that, a question on M&A and not looking for targets or timing or whitespace, but more how you think about a successful strategy where you create

value, where you get the entrepreneurs on, they don't leave, the momentum continues and maybe what you've learned, there's been Monster, vitaminwater, Costa, BODYARMOR, some better, some worse.

John Murphy

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

Sure.

A

Robert Ottenstein

Analyst, Evercore ISI

But is there a path to a M&A model that makes more sense today and which gives you more confidence going forward than perhaps some of the examples in the past?

Q

John Murphy

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

Sure. I think the two parts are actually interconnected. So, on the first piece, as I mentioned in my remarks earlier, having a balance sheet that allows us to continue to invest ahead of the curve whether it's in our organic business or inorganic, allows us to fulfill our capital allocation priorities with ease and at the same time give us the flexibility that is needed in this world that we're living in, I think, is super important. And as I mentioned, we've gone through a number of really different phases over the last, I'd say, 30 years, not just going back – not just in recent times, when – there was a time when we had no debt, we had a very kind of passive type of balance sheet. And it worked at that time because we were driving a concentrate business that was very capital light. And the – as I said in the early 2000s, there were good decisions made for the longer term to reshape the bottling landscape and to accelerate our journey into the total beverage company. Not all of those worked, as you just said. Some have worked better than others. And I'm not sure I know of an M&A model that is as perfect in its predictability. But going forward, it's having that flexibility to deal with stuff that may come at us. So, for example, we know we have an overhang with the – with our tax situation and we feel we have built flexibility to be able to deal with that without interfering with the ongoing ability to invest as needed in our business. When I think about the M&A agenda going forward, we've made I think a pretty significant pivot over the last few years to make sure that inorganic plays have got a higher probability for a scalable impact. There was – there were a number of initiatives in the past that were designed to meet the needs of one or two markets. And when we think about the opportunity that – and that's the highest opportunity that scale offers, I think, having a more singular focus on opportunities that can give us that has, I think, become a much higher priority for us. And as we think about opportunities in the future, you got to tick the box there before you go to the next phase.

A

Bonnie Herzog

Analyst, Goldman Sachs & Co. LLC

We'll take one more question before we move into the breakout. Lauren.

Q

Lauren R. Lieberman

Analyst, Barclays Capital, Inc.

Thanks. One of the things you guys don't talk about that much anymore is cost. There seems to be – on the slide, there's operating leverage as part of the financial model. But you don't actually talk very much about how and why that's possible? It's just sort of this is natural operating leverage in the business, it seems to be more and more apparent. So, it'd be great if you could just spend a minute or two talking about where that comes from, right? Are there guardrails in place on cost? Is there anyone that sits around the organization who is screaming for more money? And there's no, you can't have the money because you need the operating leverage. But what is it inherent in the business model today that's allowing that to come through?

Q

John Murphy

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

Do you want me to go ahead and answer?

A

James Quincey

Chairman & Chief Executive Officer, The Coca-Cola Co.

Let me just start with one thing and then I think I'll hand over to you. It's a bit like Bryan's question of, well, in 2016, you were talking about it. I would kind of say that in 2016, people didn't think we could take cost out. And so, there was much more conversation of could we exercise cost control or resource allocation within the overall P&L that would both drive growth and provide some operating leverage. Frankly, I think, it was a more intense focus across the whole CPG industry and including Coke. And so, I think, it was more of a conversation then and it was more of a conversation about us, but maybe I'll let John talk about how we actually go through it. But I think also contrast it to where the world was and now as part of the algorithm. Not dissipated by the algorithm, but part of the algorithm.

A

John Murphy

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

Yeah. So, Lauren, I think, of cost, we've got three big buckets of costs. We've got our supply chain costs, we've got our marketing, whether you call them costs or I would prefer to call them investments. And then, we've got our operating – the operating costs of running a company. And the approach to our marketing and operating agenda has really been to, we talk about transformation and it sort of rolls off our lips a little bit as something that's everybody understands exactly what's embedded in there. One of the key drivers of the marketing transformation that is now delivering the kind of fruit on the effectiveness side that we wanted was to bring greater efficiency into that world. And when I talk about having the flexibility to manage surprises coming at us, you can almost substitute the word productivity for, as you can – not substitute, but you can marry the word productivity with flexibility because you can't – it doesn't come out of thin air, as you – we all well know, it has to come from somewhere. And so, I think a big part of what we have been able to unlock is a substantial productivity agenda in our marketing investment base that heretofore we knew was there, but we did not have the ability to do so. The emerging stronger initiative that we had and we started in 2020, the year of COVID, was designed to do likewise with our operating cost structure in the sense that it presented an opportunity to take on some really hard tasks like getting to an optimal number of spans and layers in an organization is not an easy task for people to go and stay the course and do and this opportunity gave us that. And it allowed us to rebase our cost structure. And on the supply chain front, we're blessed that we have these – see the cross-enterprise procurement group that helps not only The Coca-Cola Company, but our bottling system also to achieve a cost per unit model that is as competitive if not more than any other player. And yet within that too, within the supply chain, I think there's an even greater rigor on innovating to deliver productivity, to go hand in hand. And so, that's what's happening. And it's not a project. It's a mindset, and it's something that we expect to have as a tailwind for a long time to come.

A

Lauren R. Lieberman

Analyst, Barclays Capital, Inc.

Okay. I think...

Q

Bonnie Herzog

Analyst, Goldman Sachs & Co. LLC

Okay with that. We're going to pause and take things over to the breakdown, but please join me again in thanking Coke for a wonderful presentation and providing the refreshments all week.

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