The Coca-Cola Co. (KO)
Barclays Global Consumer Staples Conference
CORPORATE PARTICIPANTS

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

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

OTHER PARTICIPANTS

Lauren R. Lieberman  
*Analyst, Barclays Capital, Inc.*

MANAGEMENT DISCUSSION SECTION

Lauren R. Lieberman  
*Analyst, Barclays Capital, Inc.*

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.

Announcements in just the past few weeks have complemented what we think is a Version 2.0 of its approach. So really excited to have CEO, James Quincey; and CFO, John Murphy with us for our Q&A session today.

James and John, thanks so much for being here 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.
QUESTION AND ANSWER SECTION

Lauren R. Lieberman  
Analyst, Barclays Capital, Inc.

So you both know I love — prefer frankly talking about the strategic, but I do think it's important for investors that we 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 since 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 has 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.

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

Yeah, sure. Yeah, look, I have to say April was the amount 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 lockdowns globally all at the same time. And we were volumetrically at least down 25% that then improved through May and June through the teens, so kind of in the minus 10s. So far over the last couple of months that's continued to improve. It's now on negative mid-single-digits globally for July and August. And so we are seeing 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 the country levels. In the second quarter, if you're coming out of that, Japan got much better, but then recently in the third quarter, the governments brought in more lockdowns; Japan has softened again in terms of volume whereas India, which had one of the strictest lockdowns has got much better.

So this overall general trend of the deepest trough in April and then steady improvement back to this negative mid-single-digit 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.

As we look out from here, again, there's no guarantee it's going to steadily improve from mid-single-digit. I think that's particularly important to us. And 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 2021; some of the health and vaccine treatments improve and the economies adjust, et cetera, et cetera. The winter can see some choppy times around the world, particularly by country and then maybe overall we'll have to see. So I think that's worth bear in mind, too.

Lauren R. Lieberman  
Analyst, Barclays Capital, Inc.

Okay. That's great. And then [indiscernible] (04:16) also with from the second quarter call [indiscernible] (04:18) more strategic. So on the call you sort of talked about strategic updates coming out of this crisis, or through the
crisis. You're 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, anything in particular that you're really prioritizing and also just how quickly you're able to move on them?

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

Yeah. So just laying out the overall umbrella of how we thought of merger. 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 more engagement with organizations. Were we stronger even as the global economy was just back to where it was?

And so we set that as our North Star. And in order to drive that, what we – 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 SKUs, but this is also a golden opportunity for us to accelerate the curation of the portfolio that was anyway an ongoing need, and actually, bring all of that to fruition at a much shorter timeframe.

I think what I'm going to say about the strategy is that actually where lots of things that we knew we needed to fix over the coming years, and while the company was at the kind of the top end of the long-term growth model, we knew we had time, perhaps, to fix them while the engine was – the flame was still flying. With COVID, we said, no, we just need to accelerate once the – the curation of the portfolio. 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, so it has the scale and the margin.

And we gained it up with 500 brands. We were getting good at entry and experimenting, and innovating, and it was driving growth, we just not had been disciplined enough in converging on a few winning (indiscernible) in the categories.

So we're going to accelerate in that world. We had 500 brands; some of them are allied brands, but we're going to – more than half a number of brands, so really focusing. That was pending anyway. And then we're going to marry that with getting – accelerating the transition for how we do marketing. Anyway, there was an ongoing trend to digital or to experiential. Essentially, the way the consumer was being engaged, wanted to be engaged, was willing to engage and [ph] our blocking (07:30) engagement has been evolving and 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 consumers.

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 will affect the organization and then 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.

And then, there were other things, particularly on the platform services and the digital side. We've made good progress. We've had number of [indiscernible] do shared services. I think the team has made across the
kind of final bridging getting 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 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 backbones that work for the whole system that are very highly digital and we call those platform services.

So driving really ultimately a set of [indiscernible] (08:57) items that were pending and we saw that [indiscernible] (09:02) where we had active [ph] ball league (09:04) 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 R. Lieberman
Analyst, Barclays Capital, Inc.

Okay. And with that, right, there’s been new announcements in the change of the organizational structure last week or the week before. You love announcing stuff right before Labor Day. So I was just curious if you could – a little bit more on how these changes in the org structure accelerate all the things that you’re talking about. It's tough on the outside to understand those moving pieces sometimes.

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

Yes. 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 back that done. In essence, if you want to drive that agenda, you can’t have as many people making as many decisions. Essentially, kind of [ph] globally to (10:06) simplify the case, you have – every country has the right to invent a brand in any category [indiscernible] (10:14) launch the one that's coming from the country [indiscernible] (10:19). I'm exaggerating for a fact. And that's just too many decision notes.

And so in order to bring to life the strategy, in order to be able to do justice to the portfolio, we need it to drive some more of our networked organization that really was capable of still experimenting, still being able to connect the local opportunity both to converge on the biggest opportunities regionally or globally. 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 let Coke [indiscernible] (10:59) sparkling beverages because the person in charge of sparkling spends a lot of their time on Coke will never do justice to Fanta and Sprite.

Fanta and Sprite would be number one brands in any other company. They just have to be number two and three for The Coca-Cola Company. And so really drive – and that also allows us to be much more clear with each of these category [indiscernible] (11:23), just like what is the business imperatives they’re driving? So recall, we have 50 plus share of 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 the amount of share. So there’s a different order of mandate for those category [indiscernible] (11:43). So breaking them out, so the due justice is done to the mission of each category is important. And once you start driving that [indiscernible] (11:51), so you're going to still look for experimentation locally but want to drive convergence on the best answers globally, you just don’t need as many marketing organizations as we have out there. We have upwards of 20 business units. And they all have full marketing teams.

We see an opportunity to really organize, essentially the marketing around the biggest agglomerations of consumers. In Europe, in a way, we had historically, the company organized around that bottling partners. And so flick the – the model as I look at, 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, deliver against consumer choice [indiscernible] (12:44) 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 driver of how to put together the operating units. 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 [indiscernible] (13:09) splitting it up.

Similarly, Latin America, there are many similarities. And we know we're having four business units, we've 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. 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 units around these bigger agglomerations of consumers; North America, Latin America, Europe, Africa, Eurasia, Middle East, India, China, ASEAN, and Japan and Korea, because that's where the company role starts. 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 flapped it out 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 [indiscernible] (14:14) we need to deliver more value by standardizing on certain platforms with additional services directly or digitally [indiscernible] (14:25) services so we can add value, not just at the company, but potentially, work with our bottlers to do something collectively where it works for all of us.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Great. So, John, we're 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 manifest inorganic revenue, profitability, and really, the long-term algorithm. And this more networked organization, how you balance the reinvestment and then the flow-through of some of this to the bottom line?

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

Yeah. Thanks, Lauren. And 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 at CAGNY to talk about the Beverages for Life strategy and how we convert the top line into the value creation, that's implicit in the long-term growth algorithm, remains very much the focal points as to how we generate momentum on those flywheels during an environment that's very different to where we were [indiscernible] (15:44) is at the heart of what James has talked about.

The long-term growth algorithm remains central to our agenda. The emerging stronger prioritization that we've done is designed to get us back to that long-term growth algorithm as fast as possible. 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 there. 2021, clearly will have cycling benefits given what we're cycling in Q2 onwards that will have its own sort of mathematical impact on the year-on-year trends. And 2022, we see it's been a year in which we should be back to the more normal type of growth agenda that we aspire to have 4% to 6% get into the high-end of our revenue line and to 4% to 6% and that flowing all the way through for the algorithm.

The savings that will come from the restructuring are, I would say, a secondary objective. Clearly, there is an opportunity, as James has outlined, there's [indiscernible] (17:13) opportunities 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 improve. But we're not as fixated as to how much will fall through this year or next year as we aren't getting the balance right to get those flywheels working in the way that they need to. So, we're more confident that the steps we're talking will allow us to get to that back to the algorithm faster than – than if we were to have sort of sat around and discontinue to operate as nothing had changed.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Okay. That's great. And James, I wanted to just spend a little more time on innovation. You talked in the past [ph] about (18:04) the importance of agility, embracing in iterative process to kind of address opportunities with speed, getting into market for the 100% right and then perfecting it. So, how do you sort of balance that mindset and approach with putting more discipline in the process? Like what are the checks and balances that come in that change that innovation iterative process that you've worked hard to change?

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

Yeah. Absolutely. So, look, I think firstly we're focusing what does innovation need to do to us, right. It needs to bring new drinkers, it needs to engage current drinkers more frequently or it needs to do something for us on the pricing. So, it's like gaining clarity on which of those – which of the missions is this innovation actually targeted at, sharpening that up is an important part of what we've learned over the last few years. And absolutely we need both the discipline and agility, sometimes they can be seen as competing against each other.

So, they work together when they drive a learning cycle. And we act – if we do something we need to learn and then move on to the next iteration. It's a bit like an (indiscernible) (19:25) the kind of political philosophy, no one wants too much complete decentralization aka anarchy and you can't have complete centralization aka dictatorship, because [ph] you can't (19:35) know everything from the center. The bit in the middle is democracy and that's – that is messy and if those require a constantly coming back and refining the processes to strike that balance between agility to diverge and find and experiment and yet disciplined to converge around the answers [ph] they're going to (19:56) generate scale, market share and therefore and [ph] that will be (20:00) economics and the margin [ph] or drive (20:02) the scale.

And you can see that in the ways that we've done things recently, leveraging a trademark to expand the category. We use Coke Energy, yeah, I mean, timing wasn't the ideal, coming only a few months before the corona crisis. But there's an idea where we're using innovation to try and take an existing trademark and make it more appealing so more consumers for Coke brand. So, you've got a tremendous leverage and tremendous debts of equity to potentially use on innovation to do something interesting, to bring in more drinkers.

All with the [ph] half (20:46), where it's done – it's done really well. It's got some double-digit retail value share in the first wherever it is 18 weeks, 20 weeks. Of course again, it's running to the COVID (indiscernible) (21:00). But there is – by getting more disciplined, we've been able to stopping more (indiscernible) (21:05) experimenting things like Coke Energy or experimenting with the – or even things that have already drawn attention and they're not even in the marketplace like Topo Chico (indiscernible) (00:21:16).

So getting – using that we can – I think we can really expand the degree to which we're using interaction, 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 only incremental it's – the risk of just being (indiscernible) (00:21:47) and adding (indiscernible) (00:21:48) momentum to the business. We [ph] need to (00:21:51) converge our answers that are truly disruptive and are ultimately
The Coca-Cola Co. (KO)  
Barclays Global Consumer Staples Conference  
Corrected Transcript  
10-Sep-2020  

capable about immaterial [ph] scales (21:56). [indiscernible] (00:21:57) I mean one of the great benefits of being big is you have the resources to do things that this is not just 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 out of scale just relevant to the Coca-Cola Company and bringing that together is really important.

And of course you know 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, we can never let off 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 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, [ph] everyone’s seeing (23:06) 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 [ph] by starting (23:14) to introduce different pack sizes and really create value even within the same brand again from 500 milliliters [ph] breaking that off to 700 milliliters and 300 milliliters (23:24).

So, yes the thing that always gets more attention is the brand, the category, the formula, positioning. But for us it's always [indiscernible] (23:32) remember the central role the packaging has played in innovation and the creation of Coke and will create that for other brands categories [ph] platform (23:43).

Lauren R. Lieberman  
Analyst, Barclays Capital, Inc.

Okay. I can't talk about innovation and not ask about the [indiscernible] (23:48) conversation. So, it may be a long story, but anything you can offer just on kind of [indiscernible] (00:23:57) may be debated and anything at this point you can share on aspiration. How does this play the next three to five years in terms of portfolio evolution?

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

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

Lauren R. Lieberman  
Analyst, Barclays Capital, Inc.


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

Just stand back for a second, there are two objects which we look through the Coke system business. One is the consumer and consumers' interests. 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. So, over the years we have expanded from Coke to other flavored sparkling to other categories such as nonalcoholic ready-to-drink [indiscernible] (24:46) coffee and now that we're talking – we're talking about [indiscernible] (24:49).

We start very much from the idea of – we got to provide the portfolio brands that consumer wants and we need to start from what we know [indiscernible] (00:24:56) best. But, our business system and our bottlers sell those brands to 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 even when we start with consumers.

Over the years and decades in the past, we have teamed up with people in different ways, [ph] brewers (25:26) have often been beverage partners for us in different parts of the world, because in those countries either the scale of distribution is underdeveloped 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 economics of a distribution system that are more [indiscernible] (25:50). So, those two lenses always sit out there. And so, there's always been a [indiscernible] (25:56) of the Coke system in the alcohol space but that comes to the customer lens, [ph] not on (26:00) the distribution lens rather than the consumer lens.

What we've seen over recent years is that blurring of categories of 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 brand, they started to create new categories and they started 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 [ph] optic (26:37) and the local customer or channel competitive [ph] optic (26:42) where actually alcohol [ph] makes sense (26:44). So in Japan, we had Lemon-Do which is the alcoholic lemonade drink which is doing super well there. We did it for reasons that [ph] abate (26:54) the Japanese market dynamic as much customer competitive [ph] as consumer (27:00) is clearing being a consumer opportunity on ready to mix drinks. We have [indiscernible] (27:06) led by the alcohol drink. So, it's someone else's alcohol brand with a no name [indiscernible] (27:12) rather doing a Rum and Coke which will be very linked to where consumer [indiscernible] (27:18).

So, we've looked at some of those premix drinks and in the case of Topo Chico, [indiscernible] (27:24) it's a fabulous sparkling water brand, a lot of it is [ph] drawn (27:28) in the channel of alcohol or in away from home where alcohol is served in cafés and restaurants. So, there is a huge opportunity and huge permission from consumers of Topo Chico to look at [indiscernible] (27:42). So, we're experimenting in it and our experimentation really is going to obey the logic both of this looking through the consumer lens, looking through the customer that the sales [indiscernible] (27:57). And also from the perspective of can we achieve quality leadership, because [ph] just as there's (28:04) an opportunity and the ability to launch in [indiscernible] (28:08) 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. And back to the organizational structure, we've organized, said look we're going to keep driving Coca-Cola, Coke has quality leadership, has 50% market share, how are we going to drive that with next level of leadership, how we're going to keep it relevant not just in the cola category which obviously it is, but how we're going to keep it relevant and gain share in the total beverage industry because that's the relevant set as we start to think about competition. But we have clearly [indiscernible] (28:57) and we have a set of categories where we have leadership or some challenging positions depending on where you are enrolled with our flavored sparkling or juice or [indiscernible] (29:07), 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 in 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 – [ph] this other insight (29:30) on opportunities where we don't even have a vision of what it can be, but we want to learn about what it would take to compete in those categories [ph] whether a vision that's worth (29:41) chasing for the long-term comes out [ph] of you (29:42) or not, it's way too early to say.
Lauren R. Lieberman  
Analyst, Barclays Capital, Inc.

Okay.

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

That [ph] was a long answer, sorry (29:48).

Lauren R. Lieberman  
Analyst, Barclays Capital, Inc.

I knew it – I knew it when I asked because [ph] it's a just – because it was a lot (29:52). We sneak in one more, John, this won't take you by surprise, I'd love to just wrap up with an update on cash flow. So, just how should we think about cash flow generation capacity kind of going forward and then capital allocation plan both this year and looking further out?

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

Yeah. Not a surprise that you wanted to slip that one in. So, the objectives really stays the same, Lauren, [ph] to really to grow (30:19) cash flow 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 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 that, 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. 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 [indiscernible] (31:43) how we're thinking about [ph] us (31:44). 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 just, that's about where we are and don't expect us to deviate from that significantly as we navigate ahead.

Lauren R. Lieberman  
Analyst, Barclays Capital, Inc.

Okay. All right. That's great. We are out of time, right. James and John, thank you so much for doing this. And like I said [ph] hopefully we do it (32:16) in person soon.

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

Thanks, Lauren.
Okay. Thanks.

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

Thank you.