CORPORATE PARTICIPANTS

Timothy K. Leveridge  
Vice President, Investor Relations, The Coca-Cola Co.

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

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

OTHER PARTICIPANTS

Dara Mohsenian  
Analyst, Morgan Stanley & Co. LLC

Lauren R. Lieberman  
Analyst, Barclays Capital, Inc.

Filippo Falomi  
Analyst, RBC Capital Markets LLC

Bryan D. Spillane  
Analyst, Bank of America Securities

Kaumil Gajrawala  
Analyst, Credit Suisse Securities (USA) LLC

Andrea Teixeira  
Analyst, JPMorgan Securities LLC

Chris Carey  
Analyst, Wells Fargo Securities LLC

Carlos Laboy  
Analyst, HSBC Securities (USA), Inc.

Steve Powers  
Analyst, Deutsche Bank Securities, Inc.

William B. Chappell  
Analyst, Truist Securities

Kevin Grundy  
Analyst, Jefferies LLC

Laurent Grandet  
Analyst, Guggenheim Securities LLC

Robert Ottenstein  
Analyst, Evercore Group LLC
MANAGEMENT DISCUSSION SECTION

Operator: At this time, I'd like to welcome everyone to The Coca-Cola Company's Fourth Quarter Earnings Results Conference Call. Today's call is being recorded. If you have any objections, please disconnect at this time. All participants will be in a listen-only mode until the formal question-and-answer portion of the call. I would like to remind everyone that the purpose of this conference is to talk with investors, and therefore, questions from the media will not be addressed. Media participants should contact Coca-Cola's Media Relations department if they have any questions.

I would now like to introduce Mr. Tim Leveridge, Vice President of IR and FP&A. Mr. Leveridge, you may now begin.

Timothy K. Leveridge
Vice President, Investor Relations, The Coca-Cola Co.

Good morning, and thank you for joining us today. I'm here with James Quincey, our Chairman and Chief Executive Officer; and John Murphy, our Chief Financial Officer.

Note that we've posted schedules on our financial information in the Investors section of our company website at www.coca-colacompany.com. These schedules reconcile certain non-GAAP financial measures which may be referred to by our senior executives during this morning's discussion to our results as reported under Generally Accepted Accounting Principles. You can also find schedules in the same section of our website that provide an analysis of our gross and operating margins.

In addition, this call may contain forward-looking statements, including statements concerning long-term earnings objectives, which should be considered in conjunction with cautionary statements contained in our earnings release and in the company's periodic SEC reports.

Following prepared remarks this morning, we'll turn the call over for questions. Please limit yourself to one question. If you have more than one, please ask your most pressing one first, and then reenter the queue.

Now, I'll turn the call over to James.

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

Thanks, Tim, and good morning, everyone. Today, I'd like to reflect on the past year and how we've emerged stronger from the pandemic, including positive performance in the fourth quarter. I'll also highlight the broader macro environment and how we're executing in the marketplace. Finally, I'll touch briefly on the accelerators for growth that give us confidence we can achieve the 2022 guidance we've provided today, with more on them to come at CAGNY later this month. John will then discuss financial results for the quarter and our outlook in more detail.

But before I get to it, I'd like to acknowledge that our ability to emerge stronger would not have been possible without the efforts of our dedicated employees and system partners around the world, and I'd like to thank them for their hard work, their contribution not only to our results but to our curious, empowered, inclusive, and agile culture.
In 2021, the operating environment remained dynamic as the pandemic continued to evolve and factors like inflation and supply chain disruptions brought additional challenges. But over the year, our organization and system continued to manage through these circumstances with focus and flexibility. We are pleased with the results, which were above 2019 across key metrics, and we remain focused on building a stronger total beverage company.

Now, looking more closely at our fourth quarter results, we saw another quarter of sequential improvement versus 2019 and we ended the year with volume ahead of 2019. Notably, it was the first quarter in which away-from-home volume was also ahead of 2019 while at-home channels remained strong.

So, recapping the quarter four performance around the world, starting with Asia Pacific, China delivered strong performance in the quarter by capturing a growing trend among consumers of Zero calorie offerings. We doubled our Zero Sugar sparkling portfolio in terms of volume compared to the fourth quarter of 2019. We leveraged RGM strategies and targeting investments to gain share in e-commerce thus driving growth for the overall business.

In India, initiatives to build omni-channel presence and marketing campaigns around key occasions by leveraging festivals and passion points through occasion-led marketing and integrated execution drove a sequential increase in market share and nearly 30% growth in transactions for the quarter. Additionally, our local Thums Up brand became a $1 billion brand in India driven by focused marketing and execution plans.

In Japan, while our system was faced with a very challenging year, we gained value share and consumers, driven by successful innovation and commercial strategies.

In ASEAN and South Pacific, there were strict restrictions and limited reopenings in many markets for a large part of the year. In Q4, acceleration of vaccine efforts and strong results from the Fanta Colorful People and Sprite Made For Here campaigns helped drive our recovery.

In EMEA, volume in Europe in the quarter surpassed 2019 despite mobility restrictions, particularly in Western Europe. Despite the recovery remaining asynchronous in the region, increased investments behind our brands in the marketplace resulted in our system driving the highest incremental retail value among FMCG players in the region.

In Africa, volume continued to be ahead of 2019 in the fourth quarter driven by our key markets with strong, double-digit growth in Nigeria and Egypt. Additionally, increased investments behind our affordability and multi-serve packages drove value share for the full year above 2019 in the region.

In Eurasia and Middle East, the top line continued to expand faster than the macro environment driven by strong revenue growth management, execution, and digital capabilities. Turkey, one of our key markets, grew 7 points of value share for the year in digital as total digital commerce expanded by close to 90%.

In North America, despite COVID cases leading to business closings and some mobility restrictions, value share growth was strong in the quarter driven by pricing, revenue growth management, and strong execution in the market. The new Coca-Cola Zero Sugar continued to deliver strong results, outpacing category growth, while Sprite and smartwater grew drinker base and buy rates. Innovations also delivered strong performances led by Coke with Coffee and Simply Almond.
Latin America delivered another quarter of strong performance with mid-single digit volume growth versus 2019. This resilience of the system has been driven by years of experience navigating volatile environments through strong and effective execution.

Within Global Ventures, Costa continued to recover through the year, but was impacted in Q4 due to COVID-related restrictions. Costa Express continued its strong performance in the UK delivering results ahead of expectations. In China, the Costa ready-to-drink expansion continued with availability now in more than 300,000 outlets continuing to drive our share position ahead of our key competitor.

Finally, our Bottling Investment Group continued to focus on productivity and transformation initiatives delivering strong operating margin expansion for full year 2021.

Due to improved mobility throughout the year, our industry is growing in both volume and value. Gaining share was a key objective in our Emerging Stronger agenda, and this year, we gained value share in both at-home and away-from-home channels. Our NARTD market share is above 2019 levels at a global level and in both at-home and away-from-home channels. We will continue to identify and address opportunities to even further improve our value share driven by data-backed insights.

As we close the chapter on 2021, we emerged stronger by delivering both top line and EPS ahead of 2019 and we gained share in a growing industry. The actions we took during the pandemic have resulted in an agile and focused organization that is poised to capture the sizable opportunities that exist, and we continue to look to the future to build on our momentum and drive growth.

As we turn to 2022, while it is impossible for us to know whether this variant will be the last, what is clear is that our consumers, our customers, and our business are learning and adapting with great resilience. For example, while we are seeing some impacts from the Omicron variant through the first few weeks of the year, we're not seeing the same level of disruption as previous waves and our system is better-equipped.

Further recovery in 2022 will be determined by macro factors including overall consumer sentiment as well as supply chain challenges, labor shortages, and of course, the inflationary pressures and interest rates. We are confident we are well-equipped to navigate this environment and deliver on the guidance we provided today.

Now, I'll touch on some of the capabilities we've built to unlock the next stage of growth and will elaborate more at our virtual CAGNY presentation later this month.

We're excited about where we are today and the substantial initiatives we have in place for 2022. The consumer continues to be at the center of our strategy and through our total beverage company agenda, we're adapting to the macro and micro trends which are shaping consumer habits. We advanced our total beverage company agenda last year by streamlining our portfolio, focusing on the core, and investing behind a portfolio of brands that allows us to meet the evolving needs of consumers.

We completed much of this work on brand eliminations while being deliberate with brand transitions. This optimized portfolio will ensure we follow the consumer and win in emerging and fast-growing categories and is complemented by the recent strategic acquisition of BODYARMOR as well as relationships like the new agreement with Constellation Brands which will launch FRESCA Mixed and the extended relationship with Molson Coors which will launch Simply Spiked Lemonade in the US.
Our network marketing model with global category teams and local operating units is allowing us to focus on end-to-end consumer experiences that are data-driven and always on. Our announcement of WPP as our global marketing network partner is a foundational component of our new marketing model. This new agency approach gives us access to the best creative minds, regardless of source, and is underpinned by leading-edge data and technology capabilities.

The Real Magic campaign is the first campaign which was co-created internally leveraging this new end-to-end approach, and the campaign is showing strong results with the consumers. We have good visibility into the benefits of the new marketing model. The approach will allow us to deliver best-in-class consumer-centric marketing experiences across our categories and around the world.

We also built more discipline into our innovation process in 2021 with a key focus on scalable bets that can build momentum year-over-year. It’s still early, but the approach is working. Revenue per-launch and gross profit per-launch were up 30% and 25%, respectively, versus prior year, and we took intelligent local experiments and moved more rapidly to scale them across geographies. Sustainable packaging like refills and label-less bottles along with brands like Coke with Coffee, fairlife, AHA, Costa ready-to-drink and Lemon-Do are all examples of local winners that have been extended to more markets.

For 2022, our innovation process is increasingly supported by data and our pipeline is robust with built-in agility and consists of big bets along with many shots on goal. The system has stepped-up its RGM and execution capabilities, which is helping us navigate an inflationary environment driving value growth in a segmented way. Due to the strength of our bottling partners and the stronger than ever alignment of the system, we are prepared to address opportunities as well as challenges that may lie ahead. Our networked organizational structure is designed to better connect functions and operating units to help our systems scale ideas faster.

As we’ve emerged stronger, we kept moving forward on integrating sustainability work into our business, as it is a key driver of future growth. During the quarter, we were recognized for our commitment to transparency and action to address environmental risks by earning an A score in CDP’s Assessment for Water, an improvement over last year. We improved or maintained our score in CDP’s assessments on other important areas like climate and forests.

Additionally, to complement our World Without Waste goals, we announced a new global goal to reach 25% reusable packaging by 2030. Increasing refillable and reusable packaging options responds to consumer affordability and our sustainability aspirations, and it helps create a circular economy as refillable packages have extremely high levels of collection and are low carbon footprint beverage containers.

Finally, before I turn over to John, I want to say a big thank you and recognize our associates from both the company and our bottling partners, who worked with great dedication and unwavering commitment throughout another challenging year. We expect the recovery will remain asynchronous, but we are encouraged by our growing industry, our unparalleled system strength, and a strategic transformation that enables us to be agile and to adapt. Our actions drove strong results in 2021 and we have confidence in our ability to deliver another year of strong performance in 2022 and over the long-term.

Now, John will provide more details on our results and our 2022 guidance.

John Murphy
Chief Financial Officer & Executive Vice President, The Coca-Cola Co.
Thank you, James, and good morning, everyone. In the fourth quarter, we closed the year with strong results, despite the impact of the Omicron variant across many parts of the world. Our Q4 organic revenue growth was 9%. Our price/mix of 10% was driven by a combination of factors, including targeted pricing, revenue growth management initiatives, as well as further improvement in away-from-home channels in many markets.

Unit case growth showed further sequential improvement on a two-year basis and concentrate sales lagged unit cases by 10 points in the quarter, primarily due to six fewer days in the quarter. Despite commodity market inflation and the dynamic supply chain environment, comparable gross margin for the quarter was relatively flat versus prior year. Pricing initiatives and favorable channel and package mix were offset by the impact of consolidating the fast-growing finished goods BODYARMOR business, along with incremental investments to sustain momentum in the overall business for 2022.

We continued to invest in markets as they recovered and stepped-up year-over-year marketing dollars again in Q4, spending in a targeted way to maximize returns. This increase in marketing investments, along with some top line pressure from six fewer days in the quarter, resulted in comparable operating margin compression of approximately 500 basis points for the quarter.

For the full year, comparable operating margin was down approximately 100 basis points versus prior year as improved comparable gross margin was offset by the significant step-up in marketing. Importantly, versus 2019, a key measure we have focused on, comparable operating margin, was up approximately 100 basis points.

Putting it all together, fourth quarter comparable earnings per share of $0.45 was a decline of 5% year-over-year resulting in full year comparable earnings per share of $2.32, an increase of 19% versus the prior year as a strong resurgence in the business also benefited from a 3-point tailwind from currency and tax.

We delivered strong free cash flow of $11.3 billion in 2021, with free cash flow conversion of approximately 115% and a dividend payout ratio well below our long-term target of 75%.

With these results, we exceeded guidance on every metric for full year 2021. We have done tremendous work to emerge ahead of 2019 and set the stage to drive our growth agenda for years to come. We are spinning the strategy flywheels faster and more effectively. Our organization is focused on execution and enhancing our capabilities to fuel growth.

As James mentioned, the pandemic will be one of the many factors along with the dynamic macro backdrop that we face in the coming year, but our local businesses are ready to adapt and execute for growth.

With that in mind, this morning, we provided guidance for 2022 that builds on momentum from 2021. We expect organic revenue growth of approximately 7% to 8% and we expect comparable currency-neutral earnings per share growth of 8% to 10% versus 2021.

Based on current rates and our hedge positions, we anticipate an approximate 3 point currency headwind to comparable revenue and an approximate 3 to 4 point currency headwind to comparable earnings per share for full year 2022.

Additionally, due to a certain change in recent regulations, we estimate an effective tax rate increase from 18.6% in 2021 to 20% for 2022, which is an estimated 2 percentage points headwind to EPS. Therefore, all-in, we expect comparable earnings per share growth of 5% to 6% versus 2021 including the combined 5 to 6 point headwind from currency and tax.
We expect to generate approximately $10.5 billion of free cash flow for 2022 through approximately $12 billion in cash from operations less approximately $1.5 billion in capital investments. This implies the fourth consecutive year of free cash flow conversion above our long-term range of 90% to 95%. We continue to raise the performance bar across the organization and are confident in delivering on this 2022 guidance.

In summary, we expect to deliver another year of strong top line-driven growth along with maximized returns driven by the strategic changes we have made in our business. There are several considerations to keep in mind for 2022. Overall, inflationary and supply chain pressures continue to impact costs across several fronts in the business, including input costs, transportation, marketing, and operating expenses.

With regards to commodity costs, after benefiting from our hedging strategy in 2021, we remain well-hedged in 2022 but at higher levels. Based on current rates and hedge positions, we continue to expect commodity price inflation to have a mid-single digit impact on comparable cost of goods sold in 2022. However, we are taking actions in the marketplace using multiple levers including RGM in as many forms along with our productivity initiatives to help offset much of the impact.

As a reminder, for your modeling, the consolidation of the recently-acquired fast-growing BODYARMOR finished goods business will have a mechanical effect on margins. When it comes to capital allocation, our balance sheet remains strong and our improving cash flow position is allowing us to be even more vigorous in pursuit of priorities that balance financial flexibility with efficient capital structure. First and foremost, to invest in our business; secondly, continuing our track record to grow our dividend; thirdly, to seek opportune M&A; and to repurchase shares with excess cash.

And finally, due to the calendar shift, there will be one less day in the first quarter and one additional day in the fourth quarter.

Despite another year of uncertainty, in 2021 we came together as a system to emerge stronger and position ourselves to drive sustainable growth. We are encouraged by the momentum in our business and are clear on the direction we’re headed. As we look to 2022, we feel confident in our ability to deliver on the commitments we outlined today.

With that, operator, we are ready to take questions.
QUESTION AND ANSWER SECTION


Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Hey, good morning. So, I wanted to focus on the 7% to 8% organic sales growth guidance for 2022, obviously a robust level. Can you give us a bit more detail around the key drivers there, and I'm wondering specifically how much of a tailwind is less COVID impact for 2022 than occurred in 2021 or above-trend pricing given the cost situation and limited demand elasticity, relative to a typical year. And the point behind the question is sort of why are you above the 4% to 6% long-term algorithm? Is it more sustainable factors that can sustain as we look beyond 2022? Is it more factors more specific for 2022? It'd be helpful to have a bit more detail the re. Thanks.

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

Sure. Good morning, Dara. Firstly, we're coming out of 2021 with good, strong momentum. We've seen an improvement on the growth rate relative to 2019 both in the at-home channels and the away-from-home channels, so we're coming into the year with good momentum, notwithstanding some ups and downs due to Omicron in certain parts of the world in December and January.

And I'm going to answer the second part first. The above-algorithm growth in 2022 is more primarily due to the factors of COVID and inflation, but I'll come back to that, and so as you look out into the long-term, it is much more likely we will move back into the long-term algorithm.

Just to refresh, we're in a robust industry that has been growing historically. It's coming back to growth, and if that's an industry that's growing at 4% or 5% and we have a long-term track record of gaining share in the industry, you can see why we focus attention on being in the top half of the revenue growth rate in the algorithm we've put out that allows us to then drive the business into the future.

So, we still think that is a sound, long-term perspective in terms of both the industry growth rate and our ability not just to be the leader but to be the winner in terms of share and to drive in the top half of the algorithm.

Coming back to the near-term and 2022 in particular, a couple of things that support an above-algorithm number. Firstly, there are a number of countries that are not yet back at their 2019 levels of revenue or indeed even volume, and whilst we are not expecting everything to be rosy in 2022, we do expect to see ongoing improvements around the world in terms of re-opening, in terms of reactivation, and so we think there are additional tailwinds in 2022 from a re-opening perspective that will support the volume side, and then in terms of pricing, clearly, it's a slightly more inflationary environment than normal, and as we have talked on previous calls, with our bottling partners, very much look to pricing the marketplace.

We do have a view that we have to have brands that earn the right to take pricing, and secondly, we very much are not looking to just pass through in price, but to do it intelligently because whilst it's easy to respond to inflation by putting up the prices, there is clearly, as there is broad-based inflation, going to be a squeeze on real incomes in a number of countries, and so we have very long experience in the system of managing inflationary moments when you get a squeeze on real incomes. We very much want to, yes, accompany opportunities on...
premiumization, leverage our strong marketing, leverage our strong innovation, but we do not want to lose consumers out of the industry, so we also will have affordability. And this is a scenario where we have a lot of experience, the system has a lot of experience, and we intend to push it forward.

The net of all of that is likely to mean that we see a balance between volume and price/mix within the overall revenue guidance that we’ve given you.

Operator: [Operator Instructions] Our next question comes from Lauren Lieberman from Barclays. Please go ahead. Your line is open.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Great. Thanks. Good morning. The first thing is not a question, it’s just I’m going to mention the free cash conversion and leave it at that and say my goodness, how much things have changed.

My question though was that I wanted to talk a little bit about North America supply chain. My understanding is there’s – that’s still been pretty challenged, and I just was looking for any kind of update you could offer on fourth quarter and outlook into next year, because clearly the market share performance, everything is great, but that's still with these supply chain constraints, and I was wondering how that’s shaping up. Thanks.

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

Yeah, sure. So, I think, the system in the US has done an exceptional job in trying to manage through all the different needles that needed to be threaded in terms of the supply chain to provide the brands for our consumers and our customers and have availability of the product. Was it perfect last year? No. Is it likely to be perfect this year? No. But we are doing the maximum we can to optimize our full availability.

And there are issues across a number of dimensions. I would say two things underlying – underlie this, and we can take some examples. There is two effects going on. One, which I've talked about on previous calls which is the kind of the temporal supply shop. When you have a crisis, things whip around. You suddenly sell less fountain and you want to sell more cans, and the system is not set up for that, and so you get these kind of big swings a bit like the famous case study of the Beer Game business school, and there you get the shockwaves that are like an earthquake that continue to ripple through the system. And so, we saw that last year and we will see some of that again in 2022. But they're temporal.

But also, there I believe were a set of underlying structural squeezes going on in the supply chain that perhaps had not been fully addressed by ourselves or by the industries involved pre-COVID, and the advent of COVID just doubled down the pressure on them.

So, examples of that would be trucking and freight in the US. There's been a long-term squeeze on the availability of trucking whether it be the hours, regulations, the aging out of the drivers. You had COVID where people didn't take the tests, and so some of these structural problems are coming home to roost. Everyone, including ourselves, are very involved in fixing them.

Similarly, for example, on cans, can capacity, manufacturing of cans have been flat for a decade, but really, can use and attraction with the consumer have been creeping up and that just got squeezed as the away-from-home closed and the at-home spiked up in COVID. People are building new canning plants, new capacity is coming
online, so I think what you’re going to see play out through 2022 is the reduction in the kind of temporal
amplitudes from the swings from COVID and the steady fixing of some of these structural issues that will still take
some time through 2022.

Obviously, we are going to do the maximum possible to leverage our portfolio of brands, our portfolio of
packaging options to maximize our ability to put the drinks into the hands where the people want them and the
customers want to sell them.

**Operator:** Your next question comes from Nik Modi from RBC Capital Markets. Please go ahead. Your line is
open.

**Filippo Falorni**
*Analyst, RBC Capital Markets LLC*

Hey. Good morning, guys. This is Filippo Falorni on for Nik. So, first, on your outlook, can you discuss what level
of global consumer mobility are you assuming relative to 2019 levels, and whether the lower impact that you saw
from Omicron compared to prior waves gives you more confidence that your trends are decoupling from COVID
cases on the away-from-home business?

And if you can comment on the benefits from your recent reorganization in terms of better market share and
better top line growth performance. Thank you.

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

Well, clearly, we've been gaining market share and my favorite metric is market share versus 2019. Both in the
away-from-home and at-home channels, we've gained overall. We've gained in the away-from-home and we've
gained in the at-home. And we are – in terms of consumer mobility, we are assuming a greater degree of re-
opening. We can certainly begin to see that in Europe as the Omicron variant has moved through. The US, just
this week, mask mandates are coming down, so there is going to be an improvement in mobility across the world.
It's not going to be back to 2019 fully in 2022. And I think that's going to be true both in terms of domestic mobility
and international mobility. I don't know if you meant per-country or people moving around the world, but anyway,
the answer is basically the same, which is we're assuming an improvement in mobility, but we're not assuming a
return yet to the full 2019 levels.

**Operator:** Your next question comes from Bryan Spillane from Bank of America. Please go ahead. Your line is
open.

**Bryan D. Spillane**
*Analyst, Bank of America Securities*

Hi. Hey, good morning, everyone. John, I had a question just about the guidance. And if we look at the currency-
neutral spread between earnings growth and organic sales growth, can you just give us a little bit more color in
terms of where the leverage in the income statement will be, because the tax rate is moving up. Interest expense,
net interest expense, I guess, will be higher because of the BODYARMOR deal. So it didn't seem like there's a lot
of leverage below the operating income line, so I was just trying to get a better understanding of just where the
leverage is in the net – on the P&L.
John Murphy  
*Chief Financial Officer & Executive Vice President, The Coca-Cola Co.*

Thanks, Bryan. Yeah, on the – as you walk down through the P&L currency-neutral, I think, on the first point is top line is very robust. We have done a really nice job I think going into 2022 on optimizing to our RGM efforts and the innovation pipeline that we have at play. And then secondly, coming out of the reorg work that we've done over the last couple of years, we are doing I think a much tighter job on overall resource allocation, finding the good balance between investing as we need to support the top line, but also taking into account the opportunities that we have driven in the efficiency work that we have done.

So, I guess, I feel confident that we have some flex from the gross margin line down in the currency-neutral basis. And below the operating line are actually our net interest expense, given the tremendous work we've done to completely restructure our debt portfolio is actually a net benefit for us in 2022.

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**Operator:** Your next question comes from Kaumil Gajrawala from Credit Suisse. Please go ahead. Your line is open.

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**Kaumil Gajrawala**  
*Analyst, Credit Suisse Securities (USA) LLC*

Hey, everybody. Good morning. A couple of things on just kind of understanding the balance between the pricing needs of your own and the commodity inflation you're seeing versus the kind of pricing needs of your bottlers. Certainly understand that you work as a system, but you're obviously different businesses and different regions and such, so how do you work that balance between the two?

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

Let me separate the businesses into the vast majority of the business, which goes through the bottling system, and then some bit that go in parallel. When we're talking about pricing needs of the concentrate business, the bit that goes through the bottler, in almost all cases, we have a system whereby we operate what's called incidence pricing, so we have agreements with the bottlers where our revenue will be a percent of the revenue that they achieve in the marketplace. So, therefore, we're both incentivized to work diligently to increase the total size of the pie in a much more aligned way in terms of both trying to drive the same outcome.

So, in that sense, the bottlers, we work together and the bottlers take the pricing in the marketplace, whether it's rate pricing or working on the mix between the brands and the packages and the channels, and then we take a percentage of that. And of course, we're both looking at the various input cost challenges that we have and we work through and come up with a pricing plan, and the bottlers take that to the marketplace and gets it done.

We do have a few businesses where we sell the finished goods, whether that be some of the, for example, the chilled juice businesses here in the US or in Europe, or the Costa business or the BIG business. Clearly there, we're operating the vertically integrated businesses and we're doing very much what we do with the bottlers. We do on our own for those businesses and we work it all through.

So, I think, you can take it as we work very much in alignment, working back from the consumer, trying to drive value for the customers and we manage the portfolio of all different input costs, including our needs to kind of invest in marketing, invest in innovation, and invest in execution capacity as the bottlers would do.
Operator: Your next question comes from Andrea Teixeira from JPMorgan. Please go ahead. Your line is open.

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Good morning. My question is on the pricing that you embed in your guide, and is it pricing actions yet to be implemented, or already in the market? And can you elaborate a bit more on, James, on your commentary about balancing volumes and pricing in 2022 which implies you probably expect an additional low-single digit volume growth in 2022? And is that predicated mostly on the on-premise recovery, as you pointed out, and an improvement in supply of cans, and how we should parse it out. Thank you very much.

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

Sure. So, yeah, the – clearly, the – by saying we’re expecting a balance between volume and price in our overall revenue guidance, there is an implicit volume growth that is broad-based geographically. Obviously more tends to be faster – rather, tends to be in the Emerging Markets and slower in the developed markets. Yes, it is predicated on improvements in away-from-home, particularly in those countries which are not yet back to 2019 levels. Whilst we have emerged stronger and our total business is bigger than it was in 2019, whether that be volume, revenue, or profits, that is not true in every country, and so, and actually in total, away-from-home is not back to where it was in 2019.

So, there’s clearly more left to come back which is why effectively implicitly, there’s a little more volume in the 2022 guidance than in the normal long-term algorithm. And similarly, with price/mix, as I commented earlier, it’s going to be implicitly a little more than usual, and I think you’ll have to kind of look at. I would encourage everyone to look at some of the two-year stacked rates in terms of volume and price to look at how it’s been moving by group and by business segment as you think about your modeling going into 2022.

Operator: Your next question comes from Chris Carey from Wells Fargo Securities. Please go ahead. Your line is open.

Chris Carey
Analyst, Wells Fargo Securities LLC

Hi. Good morning. Thanks so much. Just following up on that line of – that line around channel mix is going to next year, then how that factors into volume, certainly channel mix should be a pretty good story for gross margins going into next year. Would you expect sequential improvement from the Q4 level with the away-from-home being ahead of 2019 levels for the first time? Would you expect, barring some geopolitical risk or otherwise, that that sequential improvement should continue, and can you just frame how we should be thinking about how that might benefit your gross margin rate for the year? Thanks.

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

Thanks, Chris. And just to confirm, you’re talking about sequential improvements in gross margins?

Chris Carey
Analyst, Wells Fargo Securities LLC

Sequential improvement in the away-from-home business from the Q4 and how that can impact and benefit your gross margin as you get through the year.
James Quincey  
Chairman & Chief Executive Officer, The Coca-Cola Co.

Yeah, okay. Clearly, as we talked about on the last question, we're expecting some extra improvement in the away-from-home going into 2022. As I said, as it's not yet back to the 2019 levels, and that is a plus from a gross margin point of view. I would not want to characterize that as the biggest thing happening next year. There's a lot more moving pieces going on, so I think it is a factor, it's probably more important in the overall growth of the business and the reopenings in the different geographies, but I think that's the key.

I think, John, do you want to add something?

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

Yeah, no, I think, it's a good juncture maybe to just say a little bit about gross margins because I know there will be questions on what we expect. And I think I'd like to sensitize there's really several factors are playing into the 2022 picture. We do have the mechanical effect of the BODYARMOR acquisition that I think is important to take into account. We had a slight currency tailwind in 2021, and that's going to be kind of negated with a similar expected headwind in 2022.

I think, it's important to keep in mind what we discussed on the impact of the commodity pressures. There will be, I think, offsetting against that, the benefit of some of the pricing power and brand leadership that we have that James has mentioned, and that will, I think, also be complemented by an improving channel mix outlook.

But I think, it's important to take into account all of the factors and hence that feeds into the guidance that we provided this morning.

Operator: Your next question comes from Carlos Laboy from HSBC. Please go ahead. Your line is open.

Carlos Laboy  
Analyst, HSBC Securities (USA), Inc.

Yes, good morning, everyone. First of all, congratulations on this 25% refillable goal, because it redirects the industry discourse completely for investors on PET waste solutions.

My question is about marketing and innovation. What might worry you about readiness for normality and about these new marketing and innovation processes for creating new demand and new brand equity for pricing power?

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

Well, thank you for calling out the reusable goal, Carlos. Clearly achieving it will mean using much less of virgin PET and make it easier to achieve our objectives of a World Without Waste where we intend to collect back a bottle or can for every one we sell by 2030.

In terms of the marketing and the innovation, of course, I'm not quite sure I completely capture what you're going for there, but let me throw out some thoughts and I think it will help.

The consumer elasticity and pricing power, yes, I think a lot of people have noted it's been relatively inelastic in recent times. It's certainly our historical experience that when multiple categories go off at the same time that
there is less elasticity, but it is also our experience that often that is in an environment of crisis where there's a support of a lot of injection of money into the economy, which I think is what has been happening over the last couple of years.

Eventually, it moves to another phase where there's inflation and a squeeze on the incomes, and so we are very attuned to the need to be, to earn our pricing as we go forward, and earn it whether it's with the marketing that really engages with the consumers, whether it's with the innovation that again engages the consumers and gives our customers the opportunity to do different things and more interesting things in the stores, or whether we earn it through the excellence in execution and the in-store presence that our bottling partners are so good at because the next phase is much harder than the previous phase.

It's easier to do pricing in a stimulus environment where everyone else is going up. It's much harder when there's a real squeeze on income. So, we're very focused on winning in the next phase. It's something that we and our bottling partners have a lot of experience with, and it will certainly be an opportunity and a necessity to deploy the whole toolkit from marketing innovation through execution to continue winning as we go forward.

Operator: Our next question comes from Steve Powers from Deutsche Bank. Please go ahead. Your line is open.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Yes, hey, thanks, and good morning. I guess it kind of builds on that theme, I'm thinking about it in the context of the 2022 outlook, and I missed all the cost pressures that we've spoken about and your plans to drive forward operating leverage and continued progress on operating profit. I guess can you just talk a little bit more about the embedded flexibility you have in your plans around strategic investments in 2022 specifically, where those are targeted, what level of strategic investment, whether it's A&P or capabilities building, just to give us a little bit more context about your ability to support the volume momentum, justify pricing not only in 2022 but to set yourself up for 2023 and beyond. Thank you.

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

Yeah, sure. I mean, we have a kind of approach where we've come, we switched during the crisis and leaning into growth so a bias to invest. As you can see through the course of the crisis and into 2021, we steadily increased our level of investment in our marketing, restarted the engines on innovation, and similarly, the bottlers were doing so on execution and actually investments in supply chain. So, that's our bias going into the year. We're going to invest for growth.

We've got a lot of ability to drive not just the marketing innovation, I would also underline the advances in the digitization of the business, whether it's the connection with the consumer, whether it's the connection with the retailers and what the bottlers are doing to digitize that part of the business. So, we are leaning into growth, but what we have achieved over the last few years is to increase our degree of flexibility or adaptability, better said. It's not that everyone's sitting out there with pots of flexibility. It's more that we can adapt as circumstances change.

We doubled down on our ability to make quicker, clearer decisions coming into the crisis, and with the reorganization that we did recently, have a more networked organization, we feel good about our ability to prioritize and redirect resources as and when needed during the year whether that's to move from one part of the
The Coca-Cola Co. (KO)
Q4 2021 Earnings Call
Corrected Transcript
10-Feb-2022

world to the other or one brand to another, or even to pullback where the growth is not there. So, we feel we've got the levers, the hand and we feel we've become more agile in using them.

Operator: Your next question comes from Bill Chappell from Truist Securities. Please go ahead. Your line is open.

William B. Chappell
Analyst, Truist Securities

Thanks. Good morning. Hey, just wanted a quick question on Costa – or not quick, but a question on Costa and kind of how you're viewing it going forward. I guess two, three years ago when it was purchased it was kind of a thought there was going to be a big splash or a bigger splash into coffee for the system, and obviously, the pandemic showed up, but at the same point you've kind of moved more aggressively into alcohol, into BODYARMOR, and to other things, and so didn't know if the thought process had changed or evolved in terms of wanting to move forward and expand that kind of worldwide, or if it's another kind of arrow in the quiver, which was always part of the plan. Thanks.

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

Sure. Hi, Bill. I think the short answer first, it was always intended to be one of the arrows in the quiver. The longer version of that answer is clearly, COVID impacted not just our total business, but it impacted the Costa business, which is an almost entirely away-from-home business and so it was very much a bit like this – our fountain business in the US. It was very much in the crosshairs of the COVID impact particularly in 2020 at the beginning, when the lockdowns were very severe, and in fact, most of the coffee shops were all closed in 2020, so it was very hard on the Costa business.

In 2021 made a lot of progress, reopenings, not back to where we were yet, so the coffee stores are bouncing back but not back to where they were yet. The vision we had for coffee included a number of the components. One was the express machines, the digital kind of barista. Obviously 2020 was hard to install new machines, but the performance of the existing machines was extraordinary and very positive. And then last year, we began to install thousands of new machines, and then we've launched – partnered with our bottlers to have proud to serve where they provide the beans and machines to the HoReCa channel and we've launched ready-to-drink where it's done really well in certain parts of the world.

So, the vision is still there. We see it as one of the arrows in the quiver. Clearly, we've lost a couple of years. I mean, there's no beating around the bush. And we're going to have to bounce back from it. But the learnings we had and the experiences where we were able to do things give us some confidence and belief that we have an opportunity to execute against the vision, which of course we still need to do.

Operator: Your next question comes from Kevin Grundy from Jefferies. Please go ahead. Your line is open.

Kevin Grundy
Analyst, Jefferies LLC

Great. Thanks. Morning, everyone. A question for John on share repurchases, and I'd also like to tie it into the bottling divestitures and potential proceeds there because the topic is related. So again, to echo sentiment earlier, great job on improving free cash flow conversion. That's outstanding. As you sit here now at $10 billion in share buybacks, in addition to the fact that you have the CCBA offering coming up later this year, you've been very clear about your intent to divest the remaining bottling assets, so kind of tying this together, number one, what are
thoughts, what’s embedded on repurchases? When can you get back to that? The company has been fairly inactive, for reasons that we understand.

And then relatedly, with the proceeds from CCBA and what potentially may come in the near – intermediate term around further bottling divestitures, does it seem likely that you would put that – put those proceeds towards buybacks? So, thanks for your comments there.

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

Thanks, Kevin. Yeah, there was a reason we used the words sort of a more vigorous pursuit in the script, because, as you said, our situation today is very different to where it was not that long ago with our free cash conversion gone from 70% to over 100%. Our net debt leverage has gone from outside of our range to at the low end of it, dividend conversion is now at 70%, more or less, and, as I mentioned it earlier on the call, the restructuring of the debt portfolio has been a very robust piece of work.

So, as we look to the future, I think, to your question, we need to couch it in the context of the broader capital allocation agenda. We continue to prioritize growth of the business. We touched upon some of that in the earlier questions, both in terms of the capital that we need to drive some of the businesses that we're in and the marketing that we need to support the brands.

Secondly, we don't waiver from our ongoing support and objective to continue to grow the dividend.

And then we're left with the two more dynamic areas, the M&A agenda, and share repo. So, on both of those, we – I think, on M&A, we'll be opportunistic. There's not a lot of obvious candidats out there, but we will continue to be very open to that whole area. And not on this call, on the whole topic of share repurchases, but it's certainly an area that with excess cash, that's – as we have communicated in the past, we will look to leverage. So more to come on those topics as we go through the year. Thank you.

Operator: Our next question comes from Laurent Grandet from Guggenheim. Please go ahead. Your line is open.

Laurent Grandet  
Analyst, Guggenheim Securities LLC

Hey, good morning, James, John. I'd like to focus this morning on BODYARMOR. So, if I'm correct, BODYARMOR manufacturing is not expected to migrate through the concentrate model this year in the US. But wherever you are launching it internationally, I mean, the brand will be in the concentrate model. So, if I'm correct, and please correct me if I'm not, when are you planning to migrate the US manufacturing to the concentrate model? Obviously, it has a significant impact on top line margins. And also, any indication of your launch plan outside of the US will be great. Thanks.

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

Yeah, thanks, Laurent. I mean, as you say, it's – and John has noted, it's a finished product business that we are integrating into our company. And that has some mechanical effects. And, as you say, we have not chosen to change it to a concentrate model. In fact, to be more specific, we're keeping the current operating model where the manufacturing of the product is largely done with co-packers and that is what has been driving the momentum. And we have no plans to change the model with using the co-packers at this stage. They're doing a
great job. And then obviously, the distribution of the product is done through the Coke bottling system here in the US.

If we were to try and change to a concentrate model, that we would let you know in due course, but we have no immediate plans to do so. Again, it would be a mechanical effect on the revenue and the gross margins because it wouldn't be changing the profit coming from BODYARMOR. It would be more of a mechanical effect on the top and the gross margin for operating model reasons.

But, as I said, our intention is to operate it very broadly as we do, at the moment, connected, but not integrated, so that we can continue to drive the growth of what has been a very successful brand. They tripled sales in the last three years, gained a lot of share in the sports drink category, actually expanded the category, and has done a really good job. So, we're going to kind of keep focused on driving that into more success in the current years.

And as we expand internationally, we have not decided where and when, as of yet. We will be doing that work this year. And then, as we get there, we will of course in that process look at the appropriate operating model, whether there's any, whether it should be finished product or concentrate. Clearly, our preferred route-to-market is with the bottlers and it would certainly seem to make more sense to organize it as a concentrate model, whether that's then co-packed or produced by the bottlers is very situational and capacity-driven. But it's either concentrate versus finished product as a mechanical effect on the top line rather than an impact on the bottom line, but our focus is driving the growth of the business.

Operator: Our next question comes from Rob Ottenstein from Evercore. Please go ahead. Your line is open.

Robert Ottenstein
Analyst, Evercore Group LLC

Great. Thank you very much. James, you've done a lot over the last couple of years in terms of the organization and the culture to drive more agility, accountability, leaner, reward risk-taking. Wondering if you maybe can talk about how that has played out in your mind, maybe kind of benchmark or kind of give yourself a report card on that, and any new moves or further evolution of that this year?

And then more specifically, one of the actions that you took was the brand and SKU rationalization. Can you quantify the impact of that on results in 2021 and any potential results in 2022? Thank you.

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

Sure. I'm going to go with the back half of – or we'll call it one question. I'll go with the back half of the expanded question first, and then come back to it.

The rationalization of the brands and the SKUs, and remember that that rationalization, some of the brands we stopped, some of them we transitioned into other brand names and some of them, actually a couple of them we either discontinued or sold.

My take is the impact in 2021 was minimal, and the impact in 2022 is going to be negligible, and the reason I say that is firstly, the sum of all these brands was a relatively small low-single digit percent of sales and contribution, but was a high, much-higher number in terms of occupation of SKUs and mind space and supply chain, and so we've removed the slower-growing or declining brands with the least long-term potential to be leaders in their
categories to free up more space for the brands that really are moving and for future innovations and future brands.

So actually, I'm entirely comfortable making the argument that even just stopping them actually could have been positive to sales and profit because it freed up space for those brands and those SKUs that are doing much better. So, I think it was, if you like to say it, it was pruning the garden to let the better plants grow, and so I actually see it as positive for the business even though you're cutting off something that in theory has some sales and profits.

And we are largely complete with our process. We've – the brand eliminations is about 75% and we're not quite halfway with the brand transitions, so we're in good shape, but I wouldn't, if you're thinking about it from a modeling point of view, I would just like to assume it's negligible.

In terms of the culture and the organization, clearly, we made a lot of moves. We're very focused on driving agility of the organization in terms of the culture and the growth behaviors and staying constructively discontent about the future and looking for the opportunities.

I think, we still have another year to bed down what we've done over the last couple of years. Big changes in the marketing model. We've got some campaigns coming out already. They're doing very well in the marketplace. We're pleased with consumer impact and the effectiveness of them. We've obviously got our platform services. They're up and running, but there's like – you have to do X before you can do Y and before you can do Z, and so we still have things left to do to bring that to the kind of level of performance that we're looking for, similarly, in terms of the some of the supply chain stuff.

So, I think, we should see 2022 as a year of really fine-tuning and optimizing the work that we've done in terms of the organization over the last couple of years and continue to really focus the culture on a growth mindset.

Operator: Ladies and gentlemen, this concludes our question-and-answer session. I would now like to turn the call back over to James Quincey for closing remarks.

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

Great. Thanks very much, everyone. To summarize, as we move to 2022, our flywheels of growth are really working in unison, propelling the organization. We're going to drive top line growth, maximize returns, and again, it's an attractive and growing industry.

Our innovation pipeline is robust and scaled for impact. Our marketing agenda is designed to deliver the most effective consumer engagement with agility and speed. Our bottlers are engaged and executing in the marketplace, and we're bringing this vision to life.

So, thank you for your interest, your investment in the company, and for joining us this morning.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.