09-Feb-2017

The Coca-Cola Co. (KO)

Financial Modeling Call

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MANAGEMENT DISCUSSION SECTION

Operator: At this time, I would like to welcome everyone to the Coca-Cola Company's Financial Modeling 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. Participants will be announced by their name and company.

I would like to remind everyone that the purpose of this call 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 questions.

And now I would like to introduce Mr. Tim Leveridge, Vice President and Investor Relations Officer. Mr. Leveridge, you may begin.

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

Hi. Good morning, everyone, and thank you for being with us today. I'm also joined by Lee Coker, our Director of Investor Relations.

Before we begin, I'd like to inform you that you can find webcast materials in the Investors section of our company website at www.coca-colacompany.com that supports the prepared remarks today. This conference call may contain forward-looking statements, including statements concerning long-term earnings objectives, and should be considered in conjunction with cautionary statements contained in our earnings release and in the company's most recent SEC report.

Some components of the outlook will be – we will be talking about today are on a non-GAAP basis. Please see the earnings release we filed earlier today and the schedules we posted on our Investor page for more information about these measures.

Following prepared remarks this morning, we'll turn the call over for your questions. Now let's begin.

The purpose of this call is to go over the outlook we've provided today in more detail to help you better construct your 2017 and 2018 financial models. We recognize that there are a lot of moving pieces in our business over the near to medium-term horizon, and we therefore want to be as transparent as we can as to how to help you model out the various elements in your financial models for our company.

So we'll plan to cover two main points. The first is the timing of the various structural items, and then we'll do a deeper dive into the impacts we'll have on the P&L. We have about 20 minutes of prepared remarks, and then Lee and I will open up the lines for your questions.

So turning to slide 4 on the deck, hopefully you all have that in front of you. It will be important to follow along as we're going through the remarks. So I'm going to pick back up where we left off from the earnings call earlier today. You'll recall a similar slide from that presentation with the waterfall of the various drivers of EPS.

Now we'll be happy to take questions on the overall outlook when we get to Q&A, but the focus for this morning for the prepared remarks at least will be on the middle column and focusing on the five points to six points of structural headwinds at PBT. We'll then cover off an implications for 2018 along with some commentary on the balance sheet impacts as we think longer term.

So moving to slide 5, before getting too deep into the numbers, I think it's important to level set on the timing of when the various refranchising transactions will impact our financials. So let's start with the two transactions that closed in 2016 that will be cycling this year.

In May of last year, we merged our German bottling operations with CCE and CCIP to form Coca-Cola European Partners. As that transaction closed in the second quarter of 2016, the impact from that transaction will extend through the second quarter of 2017.

In Africa, we merged our South African bottling and canners assets with SABMiller and Sabco to form CCBA at the very beginning of Q3 2016. As such, the year-over-year impact will be seen in the operating results through the second quarter of 2017.

On that note I'd like to reiterate what Kathy mentioned this morning about Coca-Cola Beverages Africa. The total outlook we provided today does not include any impact from the transition of ownership of CCBA or the acquisition of any other ABI territories. With that said we expect these impacts to be minimal as we intend to account for these as discontinued operations given our intent to refranchise as quickly as possible.

So turning on to the ongoing refranchising in North America. We closed transactions throughout last year and expect to significantly increase the transaction on closings in 2017. But as they will be closing throughout the year, you will see the year-over-year impact from the transactions extending into 2018.

Finally, we announced in the fourth quarter of last year a definitive agreement to refranchise our company owned bottling operations in China. While this transaction is still pending regulatory approval, we've modeled the transaction to close at the end of the quarter – end of the second quarter. Therefore, we would expect the structural impacts to begin in the third quarter 2017 and continue through the first half of 2018.

So now let's move onto slide 6. Let's walk through the consolidated financial impact based on what we've provided in our outlook this morning. We've said it a few times, but as a reminder, this represents our best estimates as of today and therefore the timing is subject to change. For that reason we're providing the total expected structural impact in both 2017 and 2018.

Therefore, you can effectively model what any changes and timing this year means for the next year. Just said in another way, changes in timing in 2017 will have a corresponding impact in 2018. In addition, for most of the guidance, we will provide, especially at segment level impacts, we will give you our estimates of relative impacts to the overall revenue and PBT ranges. This is to allow you to adjust your assumptions by segment if we ultimately need to update the total structural impacts of both revenue and PBT for the full year as we move through the year.

As things move we'll keep you updated so that you can adjust your models accordingly. Another clarification to simplify how to look at things, I will sometimes be describing our structural forecast in terms of our operating segments, or in terms of geographic segments. For purposes of this conversation, the geographic segments that I'm referring to is simply the combination of our EMEA, Latin America, North America, Asia-Pacific and Corporate Operating segments. Do not worry we're not creating a new operating segment for you guys to model. It's just simply a way to talk about it. These explanations are intended to give you a better understanding of how to factor our structural changes and your financial models at the segment level.

So now let's turn to slide 7 starting with the 2017 net revenues. As we said on the call, we expect a 18 to 19 point headwind from structural items. This headwind is composed of four elements. First, the largest contributor is the reduction to net revenues in the Bottling Investments segment or BIG as we refranchise these operations to third parties. Second, the reduced revenues in BIG come with a corresponding reduction and eliminations. Third, year one intercompany profit eliminations will flow through as a benefit in several geographic segments. And then fourth, sub-bottling payments will benefit to North American segment.

We'll cover each of these four topics in more detail as we move through the call. At income before tax for 2017, we expect a 5 to 6 point structural headwind. In addition to what I just described at the top line, flowing to operating income, income before tax will be impacted by incremental equity income, and the portion of sub-bottling payments for our North American businesses that come through the P&L at the interest income line. Building off this base of understanding, let's now take a closer look at how these refranchising transactions will impact our P&L.

Starting with slide 8. Starting first with BIG, probably the simplest to understand is when we divest bottling operations, we'll see a reduction in net revenues and operating income. In the geographic segments, the refranchising transactions will result in tailwinds at revenue and operating income. However, that tailwind in the geographic segments is really driven by three components. First, is sub-bottling payments and we also have intercompany profit elimination benefits. And then finally the deconsolidation of our canners bottling operation in South Africa.

So let me go through those in a little bit more detail. So the first is on the sub-bottling payments. For most of our North America refranchising transactions today, we've entered into sub-bottling payment arrangements for the intangible assets associated with the refranchised territories. These payments are initially flowing through the North America segment at roughly an even split between net revenue and interest income.

In addition to sub-bottling payments, the geographic segments will see a favorable impact from intercompany profit eliminations at the consolidated basis. To illustrate this favorable impact, because it's a topic that I understand can be a little confusing, but to better illustrate this favorable impact, it may be helpful to consider our 2010 acquisition of the North American operations of CCE. The benefits we're seeing today are effectively the opposite of the headwinds we experienced at the time we brought CCE onto the books.

When CCNA and CCE profit streams were combined, a certain amount of profit was eliminated in the consolidation process. That was because when we sell concentrate to our company owned bottlers, we're not able to recognize the concentrate revenue or profit until the bottling partner has sold the finished products manufactured from the concentrate to a third party. So in effect, the concentrate profit in the bottler inventory must be eliminated for consolidation purposes.

As company owned bottlers are refranchised to third parties, this elimination is no longer needed and therefore is reversed during the period in which the transaction closes. This reversal results in a one-time profit increase in the P&L flowing from revenue down to OI in the relevant geographic segment. Given the number of transaction closings in 2017, this amount will be rather significant, especially in the North America segment as we go through the year and you will see the impacts in other geographic segments coming from those transactions, albeit to a lesser extent than that of North America given the relative sizes.

Finally, the favorability in the geographic segments I've just described is partially offset by the deconsolidation of our canners bottling operation in South Africa. This operation was previously included in the EMEA operating segment and was contributed to the formation of CCBA upon closing of that transaction. The impact of the canners deconsolidation will be a reduction to both net revenues and operating income for EMEA through the second quarter of 2017.

Finally, the last element to consider is equity income. As you would have seen over the past two quarters, the formation of CCEP and CCBA has resulted in incremental equity income. In addition, the refranchising transaction in North America with Arca Continental will also have a structural impact from an equity income perspective. This transaction, which includes the refranchising of territories in Texas and parts of certain neighboring states, will result in incremental equity income by virtue of a 20% stake in AC Bebidas an entity that will encompass Arca's entire beverage business including its Latin American and U.S. territories.

So now let's move to slide 9. Now that we've talked you through the various elements across the segment, let's put them together at the total level, starting first with revenue. What you see on the slide are two of the pieces I just referenced. The impact to BIG and the offsetting impact to the geographic segments. It is also important to consider the impact to revenues on eliminations as a result of the transactions.

When we have company owned bottlers, the sales of concentrate to those bottlers are booked in the relevant geographic segments, but then removed in consolidations through eliminations, which is presented within the segment P&L. So as you think about modeling the impact to refranchising, you will need to reduce the net revenues of BIG, but you will also need to reduce the amount of eliminations along with it.

In term of correlation between the BIG revenues and the amount of eliminations to model, looking at history will be a helpful approach. Historically the revenue offset and eliminations has run about 24% to 25% of BIG net revenues. However, this figure over the last few years has been higher than it was prior to the CCR move at the time when BIG was primarily composed of bottlers in emerging markets. So it's important to keep this history in mind as you model the structural impact in eliminations. As we complete the refranchise, we'll move back to a Bottling Investments segment that is primarily composed of bottlers in lower net revenue per case markets and that will impact the amount of eliminations that you model in.

Finally, remember that the revenue eliminations are an offset to consolidated revenues, so a reduction in the amount of eliminations is actually a positive to consolidated net revenues. The chart presented on slide 9 helps to show the 18% to 19% decline in net revenues relative to what we just said. In short, the BIG revenues will decline more than the total of 18 and 19 point structural headwind. This will be offset by the reduction in eliminations that I just referenced and to a lesser extent, the impact from the intercompany profit eliminations and sub-bottling payments. Net-net, these factors come together to form the estimated 18 to 19 point headwind.

Moving now to the bottom line, let me summarize the comments I made on slide 8. For Bottling Investments as you look at the total impact to PBT, it really reflects two components of [ph] divested (14:07) operating profit that is partially offset by incremental equity income. And the geographic segments, net favorability at income before tax will result from intercompany profit elimination benefits and sub-bottling payments, partially offset by the divestment of our canners operation in South Africa.

In terms of relative size of the structural impacts by segment, we would expect the Bottling Investments impact to be about 1.3 to 1.5 times the consolidated structural outlook we provided at PBT. Prior to moving onto 2018, let me spend just a few minutes highlighting the impacts on gross margin from refranchising for 2017 and beyond. We recognized that gross margin has been a challenge to model in 2016 and has thus complicated the ability to analyze our underlying margin trends. At CAGNY last year we talked about how refranchising would yield about 700 basis point improvement in gross margins once we finished the refranchising, which makes sense as the Bottling businesses we are divesting typically have a gross margin of between 35% to 40% relative to our much higher consolidated gross margin levels.

In 2016, we did not see this impact, primarily due to the phasing of transactions in terms of distribution rights versus production plants in North America. As we look out to 2017 and 2018, we expect to see much more of a structural benefit to gross margins as the plants in North America should transfer at the same time as the distribution rights.

Therefore, as you model the removal of bottler revenue, a 35% to 40% gross margin to pull out along with it is more appropriate. When you model out this impact, as this is very important is not to forget the intercompany sales elimination, as this will impact consolidated net revenues, but will have no impact on consolidated gross profit. If eliminations are not taken into account, the resulting reduction to consolidated net revenues will be too high, which would yield implied margin expansion greater than what you should expect.

So now let's turn to 2018 on slide 11. At this time, we estimate a 16 point to 17 point headwind in net revenues and a 1 point to 2 point headwind on income before tax. The nature of the structural impacts for 2018 are similar to 2017 in terms of segment and P&L line item impact. A notable exception is the intercompany profit elimination flowing through the geographic segments. As I mentioned before, the benefit from the reversal of the profit elimination, it's one time in nature in the period a transaction closes. Therefore, we will lap that benefit in year two, resulting in a headwind when looking at year-over-year growth rates.

Let's flip to slide 12. A couple of other points to consider as you model 2018. First, based on our current hedging programs on hard currency that extend into 2018 and assuming no change from today's spot rates, we would expect a low single digit currency headwind on income before tax in 2018. Second, given changes to our geographic business mix, the impact of currency and Bottling transactions, we're currently forecasting a 2018 underlying effective tax rate of 26%. Similar to our 2017 tax rate forecast, this outlook does not take into account any potential tax reform in the U.S. or in any of our other taxpaying jurisdictions.

Now moving to slide 13. Before we move to Q&A, I'd like to give just a few considerations for 2017 balance sheet purposes. At CAGNY in 2016, we presented a way to think about our invested capital balance going forward as we progressed through refranchising. Specifically, we referenced the impact in terms of the CCR asset base, the China transaction, CCEP and CCBA. Let me provide an update to that perspective through a reminder of what has happened today and what we expect to happen over the next couple years.

For CCEP, that transaction closed in the second quarter of 2016. As a result of that closing, we recognized a net gain of approximately $1.3 billion, which was added to our investment in equity affiliates. The CCBA transaction closed at the very beginning of Q3 2016. Upon closing, we recognized a relatively minor net loss. As a reminder, this does not include any impact from the transition of ownership of CCBA or any of the other ABI territories.

During 2016, we moved a portion of the CCR asset base off of our books in the closing of refranchising transactions, and we'll continue to do so as we complete the refranchising in North America. For 2016, we reduced the CCR asset base by approximately $2.5 billion. This is in addition to the $2 billion we moved off the books in 2015. It is also important to consider the impact of the Arca transaction on that CCR asset base. As part of this transaction, we will effectively swap our Southwest operating unit assets for a 20% stake in the newly-formed AC Bebidas, the beverage business of Arca Continental.

So while refranchising of the Southwestern U.S. territories to Arca will reduce the CCR asset base, we will be recording an incremental equity investment on the balance sheet in their place, similar to what we did for CCEP and CCBA. This investment will be determined by the market price of Arca's stock at the time of closing, so until the transaction closes, we cannot accurately estimate what the net impact to invested capital will be. However, the best way to think about it is the removal of $12 billion of CCR net assets that we referenced at CAGNY last year will come down by the amount of equity investment we book for AC Bebidas.

Moving on, the refranchising of our company-owned Bottling operations in China will have an impact on the balance sheet and invested capital. We currently expect these transactions to close in the first half of 2017, depending on regulatory approval. We expect the cash proceeds of this deal to amount to approximately $1 billion and will be part of the company's cash prioritization process going forward.

So prior to opening the lines for Q&A, I'd like to remind you that these slides I've gone through can be found in the Investors section of our company website. Also included in the slide deck posted on our site will be appendix slides that present summary charts of the total outlook we provided for the full year 2017, first quarter 2017 and full year 2018. We hope that you find these resources useful as you work through your financial models following this call.

Operator, we are now ready for your questions.

QUESTION AND ANSWER SECTION

Operator: And your first question comes from Vivien Azer from Cowen & Company. Your line is now open.

Vivien Azer
Analyst, Cowen & Co. LLC

Q

Hi. Good morning. Thanks for the question.

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

A

Yeah, hey, Vivien.

Vivien Azer
Analyst, Cowen & Co. LLC

Q

So as I look at slide five, in particular, North America, we're going to have to build out quarters, not just for 2017, which you already have, but obviously for 2018 as well. Given some of the announcements that we heard in the fourth quarter where you guys were accelerating some of the refranchising in North America, is it fair to say that that should be weighted to the first half of 2018?

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

A

Well, to be clear, the announcement that we talked about, a lot of those have to do with signing definitive agreements. The actual impact on the P&L is going to start impacting when we actually close the transactions. And the outlook that we gave today is reflective of our best estimates of the closings of those at this point in time. So said another way, there's not – the flow is not different than what we've discussed and what we would expect given the outlook that we gave for the first quarter and then for the full year.

Now what we'll do as we have been for each quarter, so as we get to first quarter call and we give outlook for the second quarter, we'll provide an updated second – we'll give a updated – or give a second quarter outlook on the refranchising impacts and the structural impacts at that point in time. So you'll be able to flow through it. And then if there's any changes to the full year structural impacts, as we get to the quarter, we'll update those as well. Does that make sense?

Vivien Azer
Analyst, Cowen & Co. LLC

Q

It does make sense. That's perfect. And I appreciate the transparency on this going forward. Have you guys provided an updated number just in terms of like what percent of North America like you at least have a definitive agreement on?

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

A

So right now, we have on the definitive – well, all-in, if you look at the transactions, and we announced, this was out in a press release today. So if you look at the territories that have closed, that we've signed definitive agreements and LOAs, that amount is roughly about 70% of the territories for CCR. In terms of transactions that have actually closed, it's roughly about 30% of our distribution territories.

Vivien Azer
Analyst, Cowen & Co. LLC
Q

Understood. Helpful. Thank you very much.

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

Sure. Thanks, Vivian.

Operator: And our next question comes from Kevin Grundy of Jefferies. Your line is open.

Kevin Grundy
Analyst, Jefferies LLC
Q

Hey guys. Thanks for the question.

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

Sure. No problem. Hey, Kevin.

Kevin Grundy
Analyst, Jefferies LLC
Q

A few from me. Tim, just going back to CAGNY slides where you guys sort of grounded up, it's like 68% gross margins and 34% operating margins. And then given all the moving parts as we're looking out here to 2017 and 2018, how should we be thinking about that, I guess, underlying improvements, structural changes, anything that you can sort of help us with there to sort of ground us with those two guidepost? And then I have a handful of follow-ups.

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

Yeah. So I mean I think the simple way to think about it, the headline on that with the expansion in gross margins and expansion in operating margins will absolutely flow through, and you'll see that happen, frankly, a lot more in 2017 and 2018 than you did in 2016, because of what I said around how North America flowed at that point in time. And so it'll really start ramping up as we move through that. If you think about the CAGNY deck, what we gave was a 2015 pro forma as of those numbers. So we have not updated because obviously 2016 moved from the overall consolidated level, so we have not updated those numbers as of now. But the bright way to think about it is, the overall magnitude of the change in both gross and operating margins, we would see that continuing to play out in 2017 and 2018.

Kevin Grundy
Analyst, Jefferies LLC
Q

Okay. All right. That's helpful. The tax rate, Tim, for 2018...

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

A

Yeah.

Kevin Grundy
Analyst, Jefferies LLC

Q

...is up to 26%, so understanding there's a lot of uncertainty with respect to what's going on in Washington. But barring that, is that sort of the right go-forward rate and what's driving that? Is this just geographic mix in terms of where profitability is derived?

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

A

That's correct. So the answer to your first question, yes. At this stage, the 26% is a rate that we feel like we can manage moving forward. The reason that it's stepped up is, as Kathy said on the call is it's primarily coming from the geographic mix, predominantly driven by the strength of the dollar. So as our foreign earnings have actually moved down because of the foreign currency translation in U.S. dollars, the overall U.S. dollar tax base has shifted to the U.S. tax jurisdiction at a higher effective tax rate for the consolidated business.

Now we have worked and leveraged strong tax planning strategies that have helped to mitigate some of those. But the cumulative effect of the overall pressure coming from the dollar has – and the limitation of those tax planning strategies moving forward is forcing the tax rate up in 2017 and then again in 2018.

Kevin Grundy
Analyst, Jefferies LLC

Q

Okay. One last one for me. Just broader, the industry – so you guys are guiding out of the 3% organic, you started off about a year ago down in CAGNY. You guys suggested the industry growth rate was 5%, the guidance is 4% to 5%. I'm just trying to – what is the industry growth rate that is embedded in your guidance for fiscal 2017? Is it 3%? Is it something sub 3%? Because you guys generally have a pretty good track record of gaining market share. I'm just trying to understand how this category growth rate has trended, understanding that the macros is difficult, particularly in LatAm where you guys had a lot of leverage. So just some commentary there to help me understand the industry growth rate and what's embedded in terms of market share? And how much of the industry growth rate has driven the downward revision? Is it all of it? Is some of it execution? And that's it for me. Thanks.

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

A

Yeah, Kevin. Great question. And I think number one, it's important to be really clear about the 3% target for 2017, and recognizing that that is a consolidated number. So it includes both BIG and then our core business. And very similar to 2016 where the consolidated revenue grew 3% and our core business grew 4%, we expect in 2017 the core business to outpace the overall consolidated number of 3% again in 2017. So now if – and think in terms of comparing that from an industry perspective, it's more appropriate and it makes more sense to use the core number because obviously the mix of business and the revenue per case of BIG relative to the rest of our business skews that number.

So using the core and looking at that relative to industry growth rates is a more effective way to think about it. And if you look at the growth rate in 2016, that number was right around 4% and we expect in 2017 for it to again be in that 4% range, driven primarily because of the macro environments, especially in developing and emerging markets that that's how we're going to – that's how we see 2017 playing out. So embedded in our assumptions is a level of market share expansion, but overall growing relative to that 4% is the right way to think about it.

Kevin Grundy
Analyst, Jefferies LLC

Q

Okay. Thanks for the time, guys. Appreciate it.

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

A

Sure. You got it.

Operator: And our next question comes from Lauren Lieberman of Barclays. Your line is now open.

Lauren Rae Lieberman
Analyst, Barclays Capital, Inc.

Q

Thanks. Good morning.

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

A

Hey. Good morning, Lauren.

Lauren Rae Lieberman
Analyst, Barclays Capital, Inc.

Q

Just wanted to ask about phasing of productivity. If you can provide any color on what's remaining and how to think about that over the next three years and also reinvestment rates of that phasing?

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

A

Sure. So if you look at what we've announced to-date and Muhtar referenced that is, we have about, call it – we did a little bit more than $500 million in 2014, another $600 million in 2015 and another $600 million last year. So that gets you to a little over more than $1.7 billion on our $3 billion program. So that gives you kind of, call it, $1.2 billion, $1.3 billion remainder for the balance of the next three years. So you're talking a run rate of about $400 million a year. That's what we expect and built in as we think about 2017.

In terms of reinvestment rates, obviously we've talked a lot about the step-up in marketing we did from 2014 through 2016. We feel like we are now at a space where we do not need to drive incremental marketing moving forward against our base level, and therefore, you're going to see more of the productivity in 2017 drop to the bottom line and that's built into our overall guidance as you think about our outlook for 2017.

Because probably the simplest way to think about it is you take that net revenue number and drop it down to an OI growth rate, that is we guided to 7% to 8% PBT, but recognize in that PBT number was a couple points of headwind below the OI line. So probably the most effective way or the best way to think about OI growing, call it, 9% to 10%, so you've got 3 points of net revenue driving roughly 9 points to 10 points of OI and so you're seeing a lot of that productivity flow to the bottom line.

Lauren Rae Lieberman
Analyst, Barclays Capital, Inc.

Q

Okay. And then Kathy had mentioned also that overhead – so the structural – the stranded overhead that's being worked on concurrently.

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

A

Correct.

Lauren Rae Lieberman
Analyst, Barclays Capital, Inc.

Q

So that's like another $200 million incremental to that $400 million we should think about another – I think she said what, 200 basis points of benefits here?

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

A

Yeah, the $400 million that I just referenced does not include the $200 million of stranded cost removal.

Lauren Rae Lieberman
Analyst, Barclays Capital, Inc.

Q

Okay. Okay. Great.

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

A

But in terms – I just want to be abundantly clear, not just for you but for everyone on the call, the 9% to 10% OI growth that I referenced would include the couple points of stranded cost removal as well, just for abundance of transparency.

Lauren Rae Lieberman
Analyst, Barclays Capital, Inc.

Q

Okay. Great. And then on the 34% – again grounding at 34%, just to make sure I was clear on your explanation there. So one, is that – that was off of a different base that didn't include any kind of margin progress or productivity benefits experienced in. So when you meant rate of change, it was sort of apples-to-apples 2015 to today. But I should theoretically adjust that higher for any kind of operating margin progress you've seen outside of structural?

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

A

Yeah. That's correct. You also have to factor in FX into that assumptions as well because FX, as you know, has been putting a lot of pressure on margins because of the differential of our international versus North America operating margins. But the fundamental point of what you said is accurate in that, when I said the magnitude of change, meaning the magnitude is – again the CAGNY presentation was assuming we took the business as of 2015 and pulled out the businesses we were selling. So that base number, if you will, is going to continue to grow at an underlying – you've got to factor in currency and all of that within that. But you're still going to see a significant step up in operating and gross margins as we pull the rest of those businesses out.

Lauren Rae Lieberman
Analyst, Barclays Capital, Inc.

Q

Okay. And then last thing. Sorry, if I was grounding myself to that 34%, and then also knowing all those things you said that I then need to go back and adjust for, if you will. Would I be thinking about that end state now being at the end of 2018 or is it kind of like mid-2019 because there's still flow through and perhaps a structural, just given the timing of closers in 2017?

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

A

No. The right way to think about it is, is that we intend to be done with the refranchising as of the end of 2017. So starting at 2018, the operating margins are going be on that steady state basis. The year-over-year growth rates are going to continue to be impacted, but the margins are going be at the steady state in 2018.

Lauren Rae Lieberman
Analyst, Barclays Capital, Inc.

Q

Okay. So my full year 2018 can ground to 34%.

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

A

Yes.

Lauren Rae Lieberman
Analyst, Barclays Capital, Inc.

Q

Okay.

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

A

You got it.

Lauren Rae Lieberman
Analyst, Barclays Capital, Inc.

Q

All right. Thank you so much.

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

A

You got it. Okay.

Operator: Your next question comes from Caroline Levy of CLSA. Your line is now open.

Caroline Levy
Analyst, CLSA Americas LLC

Q

Thanks. Good morning.

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

Hey, Caroline.

Caroline Levy
Analyst, CLSA Americas LLC
Q

Thanks. Can you tell me what the gain in 2017 will be from the writing up of the concentrate inventories?

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

So the simple answer is, it's about a – it's a couple points that are going to flow through at the consolidated level.

Caroline Levy
Analyst, CLSA Americas LLC
Q

A couple of points of earnings growth? Operating growth? What...

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

Yes. Of operating income growth.

Caroline Levy
Analyst, CLSA Americas LLC
Q

Okay. And that...

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

And when as I mentioned on the call, that's primarily going flow through the North America segment.

Caroline Levy
Analyst, CLSA Americas LLC
Q

So it would be multiples of that in North America?

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

Yeah, exactly. That's exactly right.

Caroline Levy
Analyst, CLSA Americas LLC
Q

And...

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

And that's one of the reasons, frankly, we wanted to call it out because as this starts playing out, you're going to see growth rates in North America, the OI and PBT level, much higher than the run rate's been. And so we just wanted to ground people to expect that. So, because we knew eventually we were going to have to explain it...

Caroline Levy
Analyst, CLSA Americas LLC

Q

Yeah.

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

A

...so we wanted to take the time to explain it upfront.

Caroline Levy
Analyst, CLSA Americas LLC

Q

And there are no other markets like China or South Africa, whatever, where you'd have the same thing?

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

A

There are. You'll see it in China. And it will flow through in China. It's going be a much smaller because obviously the relative size of the transactions are much different. In the other territories you'll see it. Africa is a bit unusual because the benefit you would have seen is offset by the canners deconsolidation or more than offset by canners. And then for CCEP, that's actually already happened. That was booked in 2016.

Now we didn't get onto this in detail on the script because it gets even a little bit more confusing. But in the case of CCEP, not only did – we did benefit from the Germany refranchising, but it was more than offset by having to do a similar type of elimination for all of CCEP. Because you basically have to do the same thing for equity investees and so the benefit from Germany was offset by the overall impact for CCEP. So that's why you didn't see it really hit the P&L at a significant level when you looked back at the 2016 numbers for EMEA.

Caroline Levy
Analyst, CLSA Americas LLC

Q

Okay. Just to clarify, with Arca, will you be at 27.5% ownership or 20.5% ownership total?

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

A

So we'll have a 20% ownership in AC Bebidas and we'll still continue with our existing ownership at the parent company level, which is 8%.

Caroline Levy
Analyst, CLSA Americas LLC

Q

Okay. And then could you just break up interest expense which moved up a lot even though there is some income from the bottle sub-payments. So what happened in the quarter so that we can understand what to expect going forward? And what should we look for interest expense net in 2017?

Lee Coker
Director, Investor Relations, The Coca-Cola Co.

A

Hey, Caroline. It's Lee. Yeah, I think if you look at Q4, I don't think that's a good number to use as sort of a run rate for 2017 on a quarterly net interest expense. Part of what you saw in the fourth quarter was – for lack of a better word, sort of a one-time impact related to some hedging activity and swaptions. And so I think going forward, I'd look at – it's hard to say exactly what the interest expense is going be. It will definitely be a couple points of headwind, or I'd say one to two points of headwind. But I would not look at the Q4 as a good proxy for next year. I'd say maybe booking at about half of that was one time and half of it was sort of ongoing interest expense.

Caroline Levy
Analyst, CLSA Americas LLC

Q

And that 1% to 2% headwind in interest expense is net of -going forward would be net of the sub-bottling payments coming in there?

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

A

Yeah, that's a – that is a – no, excuse me. To be clear. So the two point headwind, and this is what I talked about when we got to the differential between the seven to eight PBT ex-structural number, and we said there's about 2 points from below the line coming from net interest and the all other line item. So as Lee mentioned, call it 1.5 points of that is coming from net interest. That does not include the benefit from the sub-bottling payments in the period that they come in. That is in structural impacts which we just walked through on the call. So in the 5 to 6 point overall PBT headwind, there is a benefit from the sub-bottling payments in the year that they come in.

Now the growth – once they're in the base and they keep growing, that does impact the underlying net interest number. But the one-time step up is actually flowing through structural impact.

Caroline Levy
Analyst, CLSA Americas LLC

Q

Thank you so much.

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

A

You got it.

Operator: And our next question comes from Amit Sharma of BMO Capital. Your line is now open.

Amit Sharma
Analyst, BMO Capital Markets (United States)

Q

Hi. Good morning, everyone.

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

A

Hey, Amit. How are you?

Amit Sharma
Analyst, BMO Capital Markets (United States)

Q

Good, thanks. Just a couple of quick questions. As we are looking at 2018 and perhaps even beyond that, what should our revenue we should be modeling for the BIG division once all of the three franchising has completed in North America and in China as well?

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

A

We haven't broken that out because obviously those base businesses are going be growing between now and let's call it 2019 as we get to year-over-year. But I think we've given you enough at this structural impact line at the headline numbers to get to a pretty good ballpark range. So I think if you take the structural impacts we've given plus the incremental details we gave on the call with the fact that obviously the BIG segment impact's going to be above in 2017. It's going to be above the 18% to 19% impact. It's going to be more than that. And then you factor in another impact in 2018. That will get you to a pretty good – that should get you in the ballpark of what the numbers should be.

Amit Sharma
Analyst, BMO Capital Markets (United States)

Q

Okay. That makes sense. Then if I'm taking the OI margin for BIG is the elimination of the North America business, does that depress that margin structure even more? Or should I still be looking at a relatively flat margins here?

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

A

Yeah, I mean, Amit, I think probably the better way to think about it is what's going be left...

Amit Sharma
Analyst, BMO Capital Markets (United States)

Q

Yep.

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

A

...primarily India is the biggest driver in that, and then Southeast Asia. And you would imagine in territories where we're in a growth mode overall, that margins are going to look different than they are in more developed territories, as they're reinvesting in the business and growing it for the future.

Amit Sharma
Analyst, BMO Capital Markets (United States)

Q

Got it. And then one just on the call, James, sort of talked about trying to overcome the strong dollar. What should we read from that statement? Is that something you're going to do something differently if we are in the structural stronger dollar environment?

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

A

Yeah. It's a great question. And I think the simple answer is, is that – the fundamental message that James was saying is that, we obviously ultimately have to drive U.S. dollar EPS growth or comparable EPS growth. That is what we're valued against and ultimately what our P/E is set against.

So his point was we certainly need to manage our business for the long-term, and that includes having to manage at the local level recognizing that we compete with local players. And therefore, we have to keep in mind what local inflation levels are that sometimes move with U.S. dollar currency and sometimes don't. So we've got to factor that in.

And then when we see a period of such long-term U.S. dollar currency growth, then we have to take other corporate actions to drive and manage the business accordingly.

So without going in and saying we are going to do X, Y and Z specifically, what I can say and what he's clear on is that he understands that in the face of headwinds that that may be out of our control, we need to do everything within our control to help offset that.

Amit Sharma
Analyst, BMO Capital Markets (United States)

Q

And without asking you for details on it, would that include changing your marketing spend in some of those markets or at a consolidated level, along with corporate actions or corporate expense items?

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

A

Yeah, I think, I mean, certainly we're taking a hard look at every dollar we spend. And so, as James referenced in terms of decisions, even in – I mean, the probably simplest example is to think of the fourth quarter. Although those were really more around end marketplace spend against pricing initiatives, it still holds true from a marketing perspective as well as where we do not think that we're going get a return on our investment in the near or medium-term associated with that, then we'll make decisions to either redeploy into other markets where we think we can get a better return, and if we don't see that opportunity, then that would drop to the bottom line. And then look for opportunities in the future as macros get better or situations and dynamics in the marketplace change.

Amit Sharma
Analyst, BMO Capital Markets (United States)

Q

And just one more [ph] for me (46:01) Tim. You earlier talked about maybe the incremental spending between 2014 and 2016 on marketing, that's sort of like [ph] gone away in (46:13) the basis study. If I think about all the statements about One Brand strategy and is that now in the base? So if we think that you'll push a little bit harder on the One Brand strategy, that's not going to lead to any incremental spend?

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

A

Well, I mean, don't forget we've significantly increased our marketing spend over the last three years. And so that is now in our base dollar spend, and so it's about how do we effectively deploy that against all of our brands in our portfolio?

I mean, we stepped up and we significantly supported our – when I say One Brand, there's two elements of that, obviously. There is the One Brand that has to do a little bit more with the visual identity and moving the brands together, and then there's the actual Taste the Feeling campaign launch.

And so the Taste the Feeling campaign launch in 2016 was supported by a very robust marketing platform across the board. And then as we continue to drive that campaign as well as look to roll-out the One Brand strategy in other markets, we'll pull all the levers and look to understand what is the best use of those dollars.

But the point being as we have a good, strong marketing base as of now, it now then comes down to marketplace-by-marketplace decisions on how to best deploy against the portfolio of brands.

Amit Sharma
Analyst, BMO Capital Markets (United States) Q

All right. Thank you so much.

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

You got it.

Operator: And our next question comes from Brett Cooper of Consumer Edge Research. Your line is now open.

Brett Cooper
Analyst, Consumer Edge Research LLC Q

Hey, guys...

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

Hey, Brett.

Brett Cooper
Analyst, Consumer Edge Research LLC Q

...a few things. Stranded overhead costs, where do they sit today?

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

Well, they are in the BIG segment.

Brett Cooper
Analyst, Consumer Edge Research LLC Q

Okay. Is there any way that you can quantify or give us a sense of sub-bottler payments, how much they are, so we can understand the moving pieces?

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

We are – the simple answer is we're not breaking those out specifically. We've given you the total kind of offsetting impact to PBT of all of those elements. But we're not breaking them out specifically because, obviously, then that has impacts on – because it's against multiple bottlers that are involved. And so starting to give individual sub-bottling payment estimates is not in a best interest. But you have enough at the consolidated level to know how to plan out the overall PBT impacts.

Brett Cooper
Analyst, Consumer Edge Research LLC

Q

Okay. Last one from my side, for 2017 you're saying 9% to 10% OI growth includes 2 points of stranded overhead, 2 points of write-up and then some piece of a roughly 4 point productivity benefit. And then we're talking about [ph] Arca (49:14) sales up 3 point I think you guys said earlier more price than mix in flattish commodities. Why is there not more leverage in the model?

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

A

So I mean in terms of – if you think – let's start first with the three. So we talked three top line revenue that is going to drive some level of operating margin expansion associated with it and we saw it this year as well to your point about there's pricing associated with that built into it. You layer on 4 points. So let's assume that it's a couple points. You layer on another 4 points of productivity. At that point in time, you're at 9% to 10% OI growth.

There's a little bit of reinvestment taking place in the business and that gets you back down when you take the 9% to 10% you back off the couple points of stranded cost removal. You get that flowing through. So you're seeing the combination of both the productivity plus the top line driving. You're seeing that flowing through and to – okay, let's start with say a 9% to 10%, even if you back off a couple points, you get to 7% to 8%, you're still seeing 4 to 5 points flow through between the combination of pricing and then the productivity flowing down to the bottom line.

Brett Cooper
Analyst, Consumer Edge Research LLC

Q

But don't I always also take out the 2 points from the write-up of inventory?

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

A

No. No. That's an offset to the structural impact number.

Brett Cooper
Analyst, Consumer Edge Research LLC

Q

So that will not be in your underlying numbers.

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

A

No.

Brett Cooper
Analyst, Consumer Edge Research LLC

Q

So when you say 7% to 8% that's not with the write-up?

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

A

Yeah, exactly. Thank you for asking that question because that's very important to clarify. That 2 point benefit of the intercompany profit benefit that we talked about on the call, that is netting against the overall 5 to 6 point structural headwind.

Brett Cooper
Analyst, Consumer Edge Research LLC

Q

All right. Perfect. Thanks. That makes a lot more sense.

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

A

Okay. Okay. You got it.

Operator: Your next question comes from Steve Powers with UBS. Sir, your line is now open.

Stephen R. Powers
Analyst, UBS Securities LLC

Q

Hey. Good afternoon.

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

A

Hello, Steve.

Stephen R. Powers
Analyst, UBS Securities LLC

Q

Hey. So I just have one. And I know you've done a great job I think of clarifying kind of the P&L moving parts. But on cash flow, when you presented at CAGNY last year and talked about the transition to future state Coke, in addition to calling out $800 million of structural impacts to EBIT you also said free cash flow would be more minimally impacted, I think only about $400 million, and yet this past year in 2016, free cash flow fell by $1 billion more than that if my numbers are correct? So just like some clarification on what's going on there in 2016 and should we expect free cash flow to recover back to or above that $8 billion level over the next few years? And if not, why not?

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

A

Yeah, so I think number one, it's probably important to break out and talk about 2016 because there's elements of 2016 that on the base business that have the impact. Number one is we had a significant impact from currency flow through that in 2016. And then we also had some pretty significant pension payments that were made in 2016 that flowed through operating cash flow that impacted that number overall. So there were some offsets to that number that were not tied to the refranchising specifically.

And then as you think about it going forward, the overall premise of the fact that the free cash flow is going to reduce at a lower level than the OI still holds. So that's still the right way to think about it. And importantly it's also – I mean, from my perspective and the way I think about it is, we're going to see not only significant increase in the operating margins, we'll see a significant increase in the free cash flow margins because the other element that you have to play into that number is the CapEx.

Now as we think about 2017, the overall CapEx guidance is still somewhat elevated versus what we talked about at CAGNY and that's simply because of the timing of the refranchising, especially in the plant. So we'll still have a certain base level of CapEx that's going play through, and that's why that CapEx number for 2017 is still higher. But ultimately, as we move to 2018 and we've completely refranchised, that CapEx number's going to come down pretty significantly from there and therefore, you're going to see the free cash flow number move up accordingly.

So that's why 2017 is a little bit hard to look at just in and of itself and it's better to think about where we're going to be in 2018 and beyond. And then at that point in time you're going to have a business with a very strong free cash flow margin. And then as we drive top line growth against that, and knock on wood and anything else I can get hold of, a dollar that stops moving against us at the rate it has been, it's going be a highly cash generative business that's going to flow through.

Stephen R. Powers
Analyst, UBS Securities LLC

Q

Okay. That's helpful. And so getting back to 90% to 100% free cash flow conversion is something we should expect, right? This – 2016 was an aberration in that regard?

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

A

Yeah, I mean there are certainly with the pension payment alone, I would say that's not going to continue. We'll have pension payments from time-to-time, but that's not something that you would model in at that level into 2017.

Stephen R. Powers
Analyst, UBS Securities LLC

Q

Okay. And then just one last thing. So as I think about the moving parts, so I get the CapEx comes out, but you also lose a good deal of depreciation and you're replacing some operating profit with equity income, which doesn't necessarily come – carry with the cash. So where do we make up the difference? Is it just better working capital is going to plug a hole as we transition?

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

A

Yeah, there's an element of working capital in that. I didn't – obviously the CapEx number is going to come down. There are obviously depreciation, D&A comes out with it as you mentioned. And so – but the working capital numbers is one of it. And then I mean at the end of the day, with the guidance that we gave, you're still going to flat see free cash flow coming out of the P&L, and that's what we talked about at CAGNY and you're going to see that for sure.

But again, I don't want anyone to lose sight of the whole reason why we did this was not to end up with higher margin business. Number one, get back to the core of what we do well and then drive accelerated top line growth through the combination of the bottlers being in the hands of those that we're refranchising to, putting focus against that and then separately us focusing on what we do best, which is driving our consumer-centric portfolio. So all of that put together drives an overall better cash flow outlook.

Stephen R. Powers
Analyst, UBS Securities LLC

Q

Okay. Great. Thank you very much.

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

A

You got it.

Operator: And our next question comes from Bill Chappell of SunTrust. Your line is now open, sir.

William B. Chappell
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Hey. Thanks.

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

A

Hey, Bill.

William B. Chappell
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Good afternoon.

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

A

Good afternoon, yeah.

William B. Chappell
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Just a simple – if I look at the 30% of the unsigned territories, what's the timeframe from an LOA to a close? And then is there any chance that some of this falls into 2018?

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

A

So as of now, the outlook in the U.S. is that we would intend to have all of those closed by the end of 2017. So now, the timing between DA and closing is going to vary so there's not a standard number just to give you. And the 30% – so the 30% has been closed, but again, we have a lot that have reached the DA stage. And so there's just a matter of moving to the close. And then we obviously have to manage the timing of those relative to the overall pace and change for the year, the seasonality of the business, et cetera, but the teams – the charts that the teams have in front of them are, as you can imagine, number one, very detailed. And number two, they're very comprehensive and everything as of now is pointing to a successful close by 2017. Is there a chance it slips to 2018? I mean, of course there's always a chance, but the team has the right plans in place and we're at this stage confident that that's going to happen.

William B. Chappell
Analyst, SunTrust Robinson Humphrey, Inc.

Q

And just going back to Vivien's question, I mean I think what you're saying is, there's very little chance of me or being able to model this quarterly in 2017.

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

A

I think it would be very tough.

William B. Chappell
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Just...

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

A

I think probably the best thing to is to have a full year number and then wait for us to give you guidance on the next quarter.

William B. Chappell
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Got it. Just want to make sure we're on the same page. Thank you.

Operator: And our last question comes from Bill Schmitz from Deutsche Bank. Your line is open.

Bill Schmitz
Analyst, Deutsche Bank Securities, Inc.

Q

Hey, guys. Thank you so much for doing this.

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

A

Yeah, you got it.

Bill Schmitz
Analyst, Deutsche Bank Securities, Inc.

Q

Hey. Just a very quick question. How much flexibility are the bottlers going to have on retail pricing once everything is closed? And I know it's sort of the answer to your question, but I ask because it seems like once this is done you guys have no commodity exposure and sort of they kind of bear the brunt of it. So changes in sort of like oil based commodities and things like that, are they going to be able to pass it through or are you guys still going to have like pretty good control and say over the retail price points?

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

A

Yeah, no, I want to be crystal clear that we do not dictate retail pricing from a Coca-Cola Company perspective, so just first and foremost. As we think about it overall is – and this is how it works across multiple territories. I mean that's part of the franchise process as we work together to define where and what the overall consumer outlook is. We work together to think about the right price pack architecture. And then make recommendations to the bottlers, but ultimately it's their decision to implement those and take pricing to the retailer per those agreements that they reach.

Now in the U.S., as we've talked about before, we do have a situation – or we have arrangements where we have a national customer approach and that allows us to think about, holistically, about how we're working with our customers at the national level. That is led by the North America team. But, again that's done in conjunction with the bottlers.

Bill Schmitz
Analyst, Deutsche Bank Securities, Inc.
Q

Okay. That's super helpful. Actually, I lied. Just one on – do you have any sense for what the pro forma cost of goods sold is going to look like? I'm trying figure out what you guys are going buy now that all the sort of bottle stuff seems like it's off your P&L.

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

Yeah, so if you factor in at this stage, I think we have the updated slide in our investor overview. So our overall raw material impact for COGS, I'll have to double check. I want to say it's $4 billion, but I need to reference that. But it is on our website. I can get back to you on that, Bill, but it's around that range.

Bill Schmitz
Analyst, Deutsche Bank Securities, Inc.
Q

Okay. All right. That's super helpful. Thank you, guys.

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

You got it.

Bill Schmitz
Analyst, Deutsche Bank Securities, Inc.
Q

All right. Bye-bye.

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

All right. Thanks, Bill.

Operator: And now I would like to turn the call back to Tim for your close remarks.

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

Yeah, you got it. I know there may be other questions. Do not hesitate to call us post the call. So that will conclude the call. We hope the content's been beneficial and helpful for you as you think about the models. As always, as I mentioned, please don't hesitate to give us a call. We'll be happy to help. Thank you for your continued interests, your investment in our company and joining us today. Thank you very much.

Operator: That concludes today's financial modeling call. You may disconnect at this time, and have a good day.