

09-Jun-2021

The Coca-Cola Co. (KO)

Deutsche Bank Access Global Consumer Conference

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MANAGEMENT DISCUSSION SECTION

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Good morning and good afternoon, everybody. I am Steve Powers, the Head of Deutsche Bank's US Consumer Goods Research. And I am very excited today to welcome The Coca-Cola Company back to our conference. Joining us today from Coca-Cola are John Murphy, Chief Financial Officer; and Manolo Arroyo, Chief Marketing Officer. So, John and Manolo, thanks to each of you for joining us. We really appreciate your time.

Before we begin, just a logistical point for those who are listening in, if you're joining in via the conference portal, you should see the ability to submit questions to us in the window in front of you. Please feel free to make use of that window at any time, and I will do my best to integrate your questions into the conversation as we go.

But, with that, John, Manolo, thanks again for your time, happy to see you.

John Murphy

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

Thank you, Steve.

QUESTION AND ANSWER SECTION

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Q

Maybe we start with you. We spoke about a year ago at this venue. The pandemic was still fairly young. You had weathered the first few months of it well. I think you're feeling confident about the future but there was still a tremendous amount of uncertainty. Just as you look back retrospectively, how would you describe the progress made? What's most surprised you, and what has you most optimistic as you look forward?

John Murphy

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

A

Thanks, Steve, and great to be with you even if it's virtual, not in Paris.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

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Next year.

John Murphy

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

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Yeah, hopefully. I'd start by putting the year itself into context. The last year, year and a half, I would describe as a catalyst actually for many changes that we had either started or we're contemplating. For example, a lot of the work that we have been doing in the digital space, I think, has accelerated over the last 9 to 12 months. In other cases, it's acted somewhat as an unlock I think for things that we knew we had to do, but in a normal environment just didn't get around to doing it. So, the portfolio work that we have done over the last six to nine months rationalizing our brands down to just over 200 is something that we knew we had to do, probably would not have happened as efficiently and, dare I say, as ruthlessly as it has.

When I think about the progress we've made, I kind of divide that into two parts. Like the scorecard we have on actions that we have taken and are already deliverable tangible results is one way to look at it. And then we have a scorecard on actions that have been taken or are under way, which I believe will help us on the journey over the next two to three years.

So, on the first one I think the organization changes we've made have and are delivering the efficiencies that we thought. But they're also allowing us, I think, to move with the speed and with the agility that we need to as an organization in the world, not only that we're living in today, but that's coming at us fast. I think we were pretty quick in the course of last year to make sure that our balance sheet was strong enough to withstand different futures ahead of us. And I feel good about where we are and how well we're positioned to manage both this year and indeed the future we see in 2022 and beyond.

There's a number of actions in motion. I alluded to the portfolio optimization. I think in the short term that's allowing our system to focus on the big value levers that are relevant for this period. But more importantly, it's positioning us well I think to be able to emerge stronger as we see light at the end of the tunnel in many parts of the world.

In terms of what surprised me the most, I guess, there's two parts. One, externally, things that are not really in our control. But the degree to which the developed world has managed before, during, and now in the vaccination phase has been surprising, in the sense that there are so many extremes. Like, if you take countries like Australia, Germany, United States, Sweden, the UK, Singapore, to name a few countries that I would put in the developed world bucket, and the different approaches that they have all taken in this past year-and-a-half, I guess going into something like this, I would have expected the dispersion to being a lot narrower, and yet it's vastly different. And that has had, I think, consequences and implications for all of us as we've tried to navigate through it.

On the plus side of what has surprised me the most is the relative ease with which not only ourselves, but I think other companies have adapted to the virtual world. It's not that it's a perfect world, but it's one where I think we, to our surprise, have gotten maybe a lot more done and a lot more done more efficiently and effectively than we would ever have thought if somebody had told us 18 months ago this is how your world is going to be for the next 18. And with regard to optimism, I think our company is built on a bedrock of optimism. I think the belief within our system that the path we are on, we have been on for the last three to four years is perhaps stronger than ever.

I think the work we did over the last couple of years on purpose is a big part of that is reinforcing the reason that we do exist and living up to that. And at the same time coming through the last 18 months with the resilience that our system has shown, I think, has given us maybe a sharper edge as we look forward to competing and to winning in the markets that we are in around the world. So, yeah, looking forward very much to the next 18 months and being able to demonstrate that.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Q

Are you surprised at all with how – I guess, from my perspective how strongly the system – and how quickly the system came together and rallied around the crisis in those early months and really over the last year? It just seems like it was a very coherent. I don't want to say coordinated, because it's not that simple, but it just seemed like a very sort of uniform all for one, one for all type of response that I don't think was necessarily guaranteed coming in. So, did that surprise you in retrospect, if you assume you agree with my characterization, or actually [ph] is nothing (00:07:43) you expected?

John Murphy

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

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I wasn't totally surprised, to be honest with you. See, I think like any major crisis one enters into, your state of being going into it is a pretty – it's a good indicator as to how well you would manage through it. And I think we have been fortunate under James's leadership, under Brian's leadership with also the quality of leadership we have running our bottlers around the world to have had a pretty aligned view on the overall path that we were undertaking, becoming a total beverage company and doing it in a thoughtful manner with our partners.

I think a lot of the work we've done in the last few years to align on the key metrics going from volume-centric to revenue and profit-centric has been a big help. And so as we entered into the pandemic, I think the degree to which we were able to coalesce and land on a common blueprint to manage through this was easier to arrive at given just the quality and the depth of both not just the relationships but the economic models, the agreements, the approaches that we were taking anyway in our markets around the world.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Q

Yeah, yeah. Okay. Thanks. Manolo, I guess it's now been a little bit more than a year since you took over as Chief Marketing Officer, and I don't think coming in you expected to start your role amidst the onset of a pandemic. But as you think about your role, just what were some of your – well, I guess, what were your biggest priorities coming in for the marketing function? Have they changed at all in light of what we've all experienced in the past year? And regardless, whatever the priorities are now, why are they the right ones? Why should investors see them as the right ones?

Manuel Arroyo

Global Chief Marketing Officer, The Coca-Cola Co.

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Thank you, Steve. Yeah, I mean, no one would imagine what we were going to get into but especially just literally 30 days, even less so into the role. But when I took over as a CMO, there were a few objectives that I wanted to happen, marketing organization to focus on. First and foremost, it's all about human-centricity in absolutely everything we do.

Second, I think early on we tackled one of the fundamental challenges we were having in the organization which was the lack of clarity or what is the metric or the metrics, the critical metrics that would make the marketing teams accountable for? And we decided to put everything in just – the whole focus on one thing which is about recruitment.

So the name of the game is not about perception only. It's not about winning advertising awards at Cannes obviously. Quality of marketing is absolutely critical. But what is much more important for us is ensuring that we'll truly drive consumer behavior. But what it means in our business is moving people that do not drink our beverages into becoming at least people that drink once a week any of our brands in our portfolio.

And that is the one single metric that all of our marketers are now accountable for. And moving forward, this will be the case not only across the world, but for each and every one of the categories. I guess another one of the important objectives was ensuring that we don't compromise on superior taste in products. At times, even with – driven by timing commitments with customers with our own bottling system, we've done some compromising on tasting, and that we know that there's no marketing that can compensate for a lack of a winning superior tasting product. Aligned with that, ensuring that we have the right pack size and the right price point, the margin structure to ensure that everything that we drive in marketing is accretive to our business.

More importantly, and two additional components. One is, we come from a world in which it was all about TV, a TV-centric, traditional TV-centric, where you were interrupting the consumer because you have – we have them completely captive. And that has changed completely with the explosion of digital and mobile. So the power has shifted from the companies like ours into the consumer that decides when, what to consume or not, at what time of the day in what format as such. So we got to really shift completely focus from us into the consumer first, particularly in the way we engage with them.

And finally, in innovation. Innovation, I think we've been pretty active in innovation with different degrees of success, some great achievements in some areas, but some significant failures in others. And innovation has to be and will be one of significant important growth driver moving forward for our organization.

Then, in line with what John mentioned, my top three priorities to achieve those objectives were, first, portfolio optimization. The second one was about ensuring that our marketing investment, efficiency and effectiveness was much higher than what it was in the past. And third, a shift in innovation. When it comes to portfolio optimization, our long-term profitable growth will be driven by an optimized brand portfolio with extreme line as you all know from 400 to 200 master brands, allowing the global category teams to identify the biggest and greatest

opportunities, combining category and country and geographical combinations, and allocate the investments accordingly into a portfolio that has two important dimensions.

One is a well-balanced portfolio between global and regional, meaning continental and large-scale local brands; and second that these targeted investments will leverage our leader brands more effectively and convert more challenges and more explorer brands into leaders faster and consistently. Additionally, our portfolio streamlining will allow us to focus much more attention and resources on what we do best, which is brand-building and innovation.

Moving into our marketing effectiveness and efficiency and innovation, in our human-centric marketing, the pandemic had us thinking very differently about our marketing activities. And the marketing framework that was laid out at CAGNY with the consumer at the center epitomizes that very well.

The new marketing model starts with human insights and then focuses on superior tasting products. And we are stepping up our game in innovation as I mentioned. We'll talk about that in – a bit further down the road.

Then it's critical that when it comes to brand bundle and engagement, we've gone – we've undergone a marked acceleration of our own marketing revolution in terms of capabilities. In the last couple of years, we've hired a significant amount of new people. Very specifically, 40% – almost 40% of our organization is new, is joining the last 24 months or less, developing new age capabilities either in-house or with our partners, in important fields like audience profiling, data management, CRM, digital commercial activation, e-commerce, etcetera.

And we're leveraging our network to be much more agile and flexible, experiment much more aggressively, test and learn people quickly, and scale the winners much faster than in the past. Examples of that of the new marketing way, our new way of marketing is This Coke Is On Us campaign in Europe, Minute Maid relaunch in China or the Coke One platform – vending platform in Japan. For us, as I mentioned, the highest return on investment in marketing is that is the one that drives not only brand love, but drives consumers into actual real behavior. That accounts for real cases and real revenue for us. And it's all driven by the all the things that we outlined at CAGNY, a superior product, the right occasion, the right price, the right pack, engaging the consumer, with the right passion points at the right time.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

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Great. Thank you very much. John maybe, I got a question from the audience that I've been hit on e-mail and chat with, sort of questions that all surround sort of the pacing of recovery and kind of where we are. And I think most of it's through the lens of away from home and immediate consumption. Is there a way just to kind of frame for us where we are in the path to and towards a new normal, maybe indexed to 2019 or however you want to do it? But just is there a way to give folks a sense of where we stand today on the road to recovery amidst what I think many of us see and hope is the beginning of a wave of reopening?

John Murphy

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

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Yeah. I wish it was as sort of simple as just being able to say we're at different points of the same journey. But the reality is we're not. And in the Q1 call, we talked about the famous word that we've used, the asynchronous nature of getting through this pandemic. And the reality is it's still somewhat playing out that way.

I think it's important to look at the degree to which vaccination is happening and the speed at which it's happening in different markets around the world, because I think it's the best connector to the biggest variable in the equation

that we've been managing, and that's mobility, people's ability to move around. And so the world is still moving differently on their respective paths.

And clearly, we can see the United States having accelerated significantly. I think I saw a stat the other day that the rate of COVID cases is 96% down since January, which is tremendous. We have a market like China, which is – I wouldn't say 100% recovered, but it's well ahead of the curve. And yet we see in Europe we've got, yes, progress, but at different paces, different rates.

And then the developed – I think the developing world, going back to my – what surprised me about the developed world – what does not surprise me about the developing world is just the way in which it's been – it's been managed almost as another boulder to throw onto your back. When you operate in markets where people live on a daily wage, you can and should expect those economies to try and muddle through. And I think we're seeing that in many parts of the developing world with very different consequences.

So, I would expect us to continue to see that asynchronous recovery. The developed world overall I think is on – despite my comments on how they've managed it differently is starting to, I think, merge towards a path to recovery faster, whereas I think we'll still see rest of this year and even into parts of 2022 some of the developing world markets lagging behind.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

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Great. Last August, as you say, you began – I think the journey began earlier, but you announced sort of the formal progression towards what you've dubbed a network organization, and Manolo referenced this. Maybe, John, just where are you in that progression towards sort of the networked organizational ideal that you aspire to? What dividends paid or lessons learned have you accrued so far?

And then, Manolo, I'd love your perspective as well as to how that's influenced your world, right, and then any tangible benefits that you've been able to glean. I think you reference that 40% of your team is new. And I'm curious as to how has – you have new people and new roles amidst the new organizational structure in a remote world, how that's fair. But maybe we start with John.

John Murphy

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

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Sure. So the word network I think is interesting on many fronts. And maybe to start with a little context on the network, like we operate a global network with our bottling partners. We have a presence in 200 countries plus. We now have a brand portfolio of 200-plus brands, 225 bottlers give or take that operate over almost 1,000 plants, over 700,000 people that service 30 million customers and almost 2 billion served.

So it's a massive network that has been built as you know save over many, many years. Like I could maybe divide our history into almost three parts. The first 60, the first 30, 40, 60, 65 years has been all around the building of brand Coca-Cola, US-centric with some forays overseas in the next 60 becoming a global company primarily focused on our core sparkling business. And then we're on a path now to becoming a total beverage company. And I think, as you said, before the crisis started, we recognized that we were approaching just another inflection point in how we organize ourselves, what capabilities we need, and how we need to compete in order to deliver on our ambitions to be a top quartile performer.

And so, the new model is – I think of it as an opportunity to retool for this next wave of growth and development. And within that model, there's a few really important components. One is the notion that we should scale where it

makes sense, and yet stay intimate where it makes sense; the latter being super important because our model is built on winning locally. And we believe that it should stay that way for some time, many years to come. And so that's been on top.

But at the same time, over time, a lot of services, a lot of work gets done locally that does – that doesn't need to be there locally, particularly with the advent of technology, with the important role that data plays in being competitive. And so we have reestablished our operating units with very clear job descriptions to win locally.

We have – as Manolo will talk in a moment or has already talked about, we have – we're stepping up and raising the bar on what to expect from the marketing and innovation teams both globally and working in a networked fashion. We formed a – almost a company called Platform Services, which has got a number of pillars in it. But central to all of them is the notion of having data platforms that will service the need of the business in a much more efficient and effective manner as we go forward.

And then finally, there's an orchestration piece. I'd like to bring up a network to operate effectively, it's got to have a very strong nervous system that allows it to orchestrate how the various pieces move. And we're very much on the way. We've got a new organization in place. We've established I think an excellent set of routines within the various units that we now have. And it's already starting to pay dividends. The speed of which were pivoting through the pandemic, I don't think would have been possible without this approach.

The enterprise mindset, we've shifted our incentive scheme this year to be heavily skewed towards winning for the company overall. So that is allowing and forcing both our operators to think more holistically on what does it take to win as a company.

I've talked about the alignment that we have with our bottling partners. I think it's been strengthened greatly as a result of these changes. And I also think there's also a need in organizations like ours, as large as ours, to make sure that we've got the right tension in place. So the creation of category leads empowered to drive what's right for their categories, working in partnership with operating units and yet maintaining the operating units as the profit centers of the company is creating, I think, a constructive tension that is delivering some good results.

On the finance end, if I can talk a little bit my own specific world, we've, I think, made great strides in the last 12 to 18 months completely changing the way we think about what finance needs to deliver. 600 of the 1,200 people we have around the world changed jobs on January 1 to be part of one organization that will be providing a stepped-up set of services to the rest of the organization. We have, on areas like working capital, made tremendous strides and we'll continue to do so as a result of this new model.

I think one last comment on – you've asked on the lessons learned. I think the clarity of purpose that I alluded to earlier is super important, really important for the organization to have a consistent rallying cry. And I think our simple reason to be and to refresh the world and yet make a difference was never more important as it has been through the last 12 to 18 months. I think it's important to be – the best time to prepare for a crisis is before you enter into it. I think that's a great lesson to learn and take forward, not to get lackadaisical.

And I think the last point that I would offer is that it's not just a marathon when you want to be playing on top of the leagues. It's more like an Olympic marathon. And you've got to build the stamina over time to be able to perform at that level. And I think that's been a big learning for all of us.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.



Okay. Manolo, just, I mean, building on that and making it relevant to your world and your objectives, how has the – some of the organizational changes that's come about over the last year at this point helped you become nimbler and yet at the same time more collaborative to meet the objectives you outlined earlier?

Manuel Arroyo

Global Chief Marketing Officer, The Coca-Cola Co.

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So, like the rest of the company, the marketing team has undergone a very significant transformation. We were coming in essence from very different design – structural designs in each of the prior 20 business units around the world.

So under the new construct, we have created the global category leads with very clear decision rights to modernize our approach to marketing and innovation. They drive what we call the creation marketing funds.

Then we have in each of the nine operating units, marketing teams whose structure mirrors the global structure and which are collaborating with the global teams on crafting and co-creating the global brand growth strategy and provide input on key marketing decisions along with setting the growth strategy for both regional and local brands.

So, previously, we had the marketing execution and the marketing strategy teams separate. But now the teams are structured to build a holistic skillset. And then to John's prior comment, one of the biggest changes is the creation of Platform Services which has its own marketing power to elevate and accelerate data, analytics and insights capabilities to accelerate that top line and bottom line growth. This will reduce duplication and will drive scale.

So we already have some great examples of this new way of working within the company with our bottling partners. So for example, how does it make us some nimbler? So, if you take Topo Chico Hard Seltzer for example, the strategic space of Hard Seltzer was first identified and will leverage the consumer testing by identifying in these places to go after. When we're working with a global cross-functional team, we develop concepts and products very quickly actually the six weeks of product development time where in the past, in the prior model, we would take anywhere between six to nine months and launch it in the very first upmarket.

Simultaneously, we've got ourselves ready to scale very quickly in more countries. So far, we are in 16 markets and counting, probably going to be an amount close to double that amount at the end of the year. We're really excited about this and very optimistic about this opportunity as the category rapidly expands globally.

Another example of how we are adapting much faster is, for example, AHA. AHA, for those of you that may not know it, is a brand that we launched first in the US to fight against Bubly and LaCroix in 2019.

So it was all developed only by the North America team for North American mind. However, the new global category team structure very quickly identified as a brand – has legs. And we believe that it can be scaled in many geographies, and we have quickly adopted it for Europe and China where we're launching as we speak. And it's performing really well. I mean, velocity, growth continues to outperform Bubly clearly. It's outperforming all the category benchmarks across key metrics, like brand love, taste preference, and repeat purchase. And in the US, it continues to grow through disruptive and continuous marketing pressure.

Another example of being much faster to pivot under the new model is Coke Energy. For example, a recent decision to discontinue Coke Energy in the US epitomizes the new culture, the ability of our system to pivot and the commitment of taking risks and failing fast, applying the learnings and resources elsewhere. Despite the

strong launch with the Super Bowl last year and a solid media plan, after analyzing in detail the data, we clearly saw that the problem was not resonating with the consumer.

Taste was not where it needed to be. And we saw that the traditional Coke consumer wasn't really orientated that much towards this energy offering. So, when faced with a choice to either we double our efforts or discontinue and reassess with an interactive solution to deliver on the upliftment [indiscernible] (00:34:17), we made a much more disciplined decision.

And the easier thing to do would be just, in such a situation in the past, modeling in the prior setup would be just to put a little bit of a marketing investment behind the brand and let it continue, because we were kind of – we all had our pet projects, our small babies, if I can call it that. We were not decisive enough in moving that out of our way.

So, this new network organization at the end of the day is going to focus on one thing that matters, which is really driving the resources to the areas, the opportunities, the consumer-centric growth opportunities that really matter that drive the highest ROI for our system.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thank you. I mean, that leads me to, John, there's been a tremendous focus on efficiency and cost savings and emerging more profitably post-pandemic, kind of leveraging some of the efficiencies that you gained, frankly, over the last year. But you've spoken and Manolo just alluded to the desire also to invest behind growth opportunities, invest ahead of growth opportunities once recovery and social mobility conditions allow in a given market. So, how should investors on the outside interpret the relative priorities and objectives in terms of just, for lack of a better word, banking those productivity benefits, but also proactively investing so that you don't squander future growth?

John Murphy

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

A

Yeah. Super important topic. First of all, I'd say the two areas are not incompatible. I think it's incumbent upon companies to have and to continue to bring great discipline to how we manage costs, whether they're marketing, operating, or in the supply chain area. And that is something that we are very committed to doing.

I think it's important that you have sometimes the humility to look at how you do versus others, but then the ambition to ultimately do better than them. And I guess that's – if I were to summarize the approach that we have on costs, it would be exactly that. We've brought in some people from outside and supply chain in marketing and indeed running the business. And it's impressive what you can learn. But it's also just lots of data out there that gives us a sense as to where we are and an ambition then to do – ultimately to maybe be the benchmark.

On the marketing piece, I think it's a terrific moment for us to, again, use this period that we're in to almost rebase everything that we do. And what I mean by that is that Manolo and I have been working hand in glove over the last year or so to tackle the significant spend that we have, first of all, as a company, and then secondly as a system to engage with our consumers and customers. There's a couple of things that we know for sure. First of all, we know we can do what we have been doing historically for less, for a lot less. We know that there's a lot of efficiency out there.

We alluded to it at CAGNY. We've got tremendous momentum underway in a number of the buckets of spend that we have. And it's important that we clean that up and feel good about the efficiency of the spend. But I mean as

Manolo is speaking on a number of fronts, we also know we can do it better. And if you take the engagement with people today through mobile devices there's a lot of guessing out there as to how to do it well.

And we know we need to step up significantly to get a better return of the investments that will be required in that area as we go forward. And I think the third lens I look at it is I know we can do it smarter. And what I mean by that is that like in your world managing a portfolio requires you to, I think, have the agility and the flex when you need it to put your resources against the highest priority areas be that a geography, be that a category, be that a channel.

And so I think this work is allowing us to have that flexibility. It's already paying dividends. At the end of the first quarter this year when we some of the trends positive and some headwinds we've been able to redirect resources a lot faster than we have been historically to make sure that the markets that need the support and the oomph that's appropriate get them and in some cases markets that are struggling also get what is important for them. So I feel good, Steve, as to where we are. But I think one of the watch outs for all of us is as we move back to a normal world is that we don't let the bar slip. And we keep the same tension in place as we have when we're managing through to a crisis like we have been.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Understood. We have about just under five minutes left so I want to make sure we hit the two topics that have come in as well in the form of questions. The first one is just an update on just the US tax court's opinion from November and your preparations against it, noting that I think your team filed a motion to reconsider that decision last week. Just any update as to – in terms of what the process and timeline is in the background there will be helpful.

And then the second topic is around just the topic of – I think of the conference is just the inflationary backdrop that the world is experiencing. I'm curious as to how that's impacting your business but also the system at large and how you and your bottling partners are managing through that from a revenue growth management perspective. And, Manolo, to the extent we've got time for you to weigh in on that too, that would be great. So I'll just throw that over to you guys and you can handle it however you want.

John Murphy

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

A

Okay. Let me – I guess I'm the one to take the tax question unless Manolo wants to pretend that he knows. So, on the tax topic, as we have outlined in previous conversations, we know that the initial judgment went against us. Notwithstanding that we believe we have a very strong case to make and we have assembled what I would consider a world-class team to support us on the journey forward.

One of the first steps in that journey has been what you just referred to the filing of a motion for reconsideration, which is a piece of the process as we move forward. We don't have clarity yet on a time line as to when a final decision will be rendered in the tax court. Regardless of that decision, I would expect that we will go to appeal, whether it's us or the IRS, moving to appeal, that's pretty much a foregone conclusion. And the appeal process takes its own time. I don't have a good time line on that either.

And then beyond the appeal in the Federal Court of Appeals, there is a recourse for both sides to go to the Supreme Court. So, we expect this to be a journey of many steps. And we are actively engaged with this tremendous team we have in place to manage that as we go forward and to take into account the various milestones that will come our way.

On the cost front, it's – not [ph] of course (00:43:17) the cost front, but on the inflation front, for sure, it's a topic that's on, I think, on everybody's minds as to what is the journey ahead over not just for this year but into 2022 and even beyond. And I think we had some calls earlier today. I don't think there's a lot of clarity as to whether we have a spike in the curve or whether there's something more enduring beyond that.

But in the – and what we do know is – and we know historically that when you have inflation it's important to ride with it. It's important that you manage your pricing algorithms in a way that you don't lag behind because it's very difficult to catch up afterwards. And I think our bottling partners know that better than we do and I think are managing it very well. But it's not as just as straightforward as that. You have to still stay connected to your consumer base, and you have to stay competitive with whatever market you're in. So that's where RGM comes into play. And constructing the right price pack architecture is to not lag behind inflation on the pricing front, but to stay competitive and to stay affordable. It's the game we're playing at the moment. And I'm confident that with the capabilities that we've built and the alignment we have that we will be effective in that regard.

And on the cost front we're pretty well hedged as we've talked this for the rest of this year on the key commodities, some hedging going into next year. But it is an area that is top of mind, I know, for all of us given just there's some uncertainty as to how long it's going to last. And we were very focused on taking the steps that we needed to mitigate against some of these commodities getting out of whack.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

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Manolo, I don't know if you have any thoughts you want to add to that. We are closing on the time, but I'd just would give you the opportunity.

Manuel Arroyo

Global Chief Marketing Officer, The Coca-Cola Co.

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Sure. Yeah. I would build on what John mentioned around RGM. I think the way we think about pricing in the context of a pandemic is without a doubt in any given [indiscernible] (00:45:53) post pandemic, a portion of the population that is going to spend much more in general including beverages, and another portion of the population that is actually going to become much more prudent in their spending levels after feeling certain pains during the pandemic.

So for us, to John's point it would not be wise to at least aspire to capture whatever is the inflation in any given market. And I think the key word there is segmented or segmentation which is equal to be very balanced of how you go about it. In every market as a consequence of the pandemic, you're going to have opportunities for premiumization but also opportunities to deliver better and more affordability for certain segments of the consumers or the shoppers.

So, at the end of the day, when we have the RGM framework in a lot of – and I have had the opportunity to work for other companies, I think our system at Coca-Cola humbly speaking when it comes to RGM is in a whole different league, a whole different league. So, you not only have line pricing, you also have significant opportunity to optimize discounting levels through promotions.

The famous gross-to-net that all our bottlers have, how much of that is conditional or is not conditional to execution. Then you have the classical play and the mix of categories, mix of brands with different price increase opportunities in them, different channels and customers offer us and we really leverage that very well and then

finally packaging, sizing, and price points are within the overarching packaging architecture for any given brand. So, we have tremendous amount of levers.

And I think what's most important is that the level, the skill set as John mentioned, the system has been stepping up the capability on this front both on the company and on the bottler's side for the last four or five years. So, it actually – this pandemic has got us best equipped and prepared and ready than ever before to really capture those pricing opportunities forward.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

I think it's a great place to leave it. Thank you, John and Manolo. I think at the beginning I said good morning and good afternoon. I mean, I forgot to say good evening to Manolo who's calling us from Singapore.

So, thank you both for your time. Thanks to Coca-Cola Company for your participation. And thanks everybody for listening. I wish everybody a great event. Thank you.

John Murphy

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

Thank you, Steve. Thank you.

Manuel Arroyo

Global Chief Marketing Officer, The Coca-Cola Co.

Thank you.

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