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The Coca-Cola Co. (KO)

The Redburn CEO Conference
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John Murphy
President & Chief Financial Officer, The Coca-Cola Co.

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Charlie Higgs
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MANAGEMENT DISCUSSION SECTION

Charlie Higgs
Analyst, Redburn (Europe) Ltd.

Great. Good morning, everyone, or good afternoon, if you're joining us from the US. I'm delighted to welcome John Murphy, President and CFO of The Coca-Cola Company to our 2023 Redburn Atlantic CEO Conference. John, thank you very much for joining us.

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

Thanks, Charlie. Pleasure to meet with you.

Charlie Higgs
Analyst, Redburn (Europe) Ltd.

Quick housekeeping points first. So, the presentation is being broadcast live on investors.coca-colacompany.com. The format's going to be a 50-minute fireside chat but only between John and myself, but for those on the webcast, there is a Q&A function. So please do submit questions, and if we time, we'll try and fit in towards the end. But John, thanks for being here.
QUESTION AND ANSWER SECTION

Charlie Higgs
Analyst, Redburn (Europe) Ltd.

I'd like to start with the top line growth, if I may and perhaps with the consumer. And the way the company is engaged with the consumer has changed dramatically over the past few years cementing new occasions for executing better around passion points. I mean, how has the company's understanding of the consumer evolved? And what gives you greater confidence in delivering this all-weather growth towards the top end of the company's 4% to 6% organic sales growth range?

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

So yes, Charlie, the – first of all maybe I can start by just reinforcing our belief in the growth flywheel that we have talked about for quite sometime now. And the elements within that flywheel that give us the confidence of being able to sustain growth going forward. Starting with a growth portfolio of brands that have got longevity supported by what we're doing now in refreshed marketing innovation model and allowing us our revenue growth management capability to convert that into real value. And a piece that I think can often get overlooked is the ability then to execute on a daily basis in over 200 markets and the partnership we have with our bottlers being an enabler – key enabler for that to happen. So when that flywheel is spinning, I think it gives us the confidence to be able to deliver on the algorithm.

When you get underneath it though, some of the things have changed to boos that confidence even further. I think of us as being a lot more precise in developing an understanding of consumer segments around the world. So, for example, I'm in Atlanta, Georgia today and the consumer profiles here versus in rural Georgia a couple of hours away are very different. And so, I think we're building more and more with that understanding into the ongoing and local development of the flywheel.

The second enabler I'd highlight is the use of data. I think it's bread and butter for every company nowadays, but relative to where we were a few years back and how we're able to synthesize the various data inputs that we have from the marketplace, from our own research work, from external sources, allows us, I think to, again, deepen that understanding and convert that understanding into real actions.

And then last but not least, and we can talk about it, I think, further in the course of the conversation is the effectiveness of our investments and becoming a lot more disciplined in the way we're using our marketing dollars to go after in a more surgical way the opportunities that are out there. So, it starts to that the flywheel underpinned with that deeper understanding based on some of these insights that we continue to iterate and build over time and using our dollars then to greater effect to spin it.

Charlie Higgs
Analyst, Redburn (Europe) Ltd.

Yes. So that can come back to some digital and the marketing in a bit. But I just want to follow up quickly and can I just confirm, are the company sales of alcoholic beverages included in that long-term 46% organic sales growth guidance or is it all incremental? And then perhaps could you just update us on the overall alcoholic beverage strategy and expansion. There's been some quite exciting launches lately. And I thought, interestingly, they will partner with other big spirits manufacturers, i.e., they have two brands in one can. Was that a strategic decision?
John Murphy  
*President & Chief Financial Officer, The Coca-Cola Co.*

So, let me start with the first question on the long-term — the algorithm. I would think of it from a portfolio context, like we continuously evolve the portfolio. It's a dynamic process and the whole objective is to build a portfolio that gives us the confidence to sustain growth at the high end of our algorithm. If I go back over the last few years, one of our key objectives is to position ourselves as close as possible to the opportunities that consumers are creating for us with their needs and their habits and the trends that we see. So, I think of it more in the context of building, continuing to iterate a dynamic portfolio whether it's with the addition of some of the alcohol beverages and/or the various other categories in the non-alcohol space we're in to iterate those, so that we build stronger pipeline of solutions to support the algorithm versus thinking about each of these as being incremental over time.

The second point is, when it comes to the work we're doing in the ready-to-drink alcoholic space, it's still early days. We're excited with the long term opportunity that's ahead, but one of the things that certainly I've learned over the years is that it takes a long time to build scale positions in new categories. And you've got to bring a degree of what I call impatient patience to the process. And we're in those early stages at the moment and happy with some of the routes that we're planting. And with regard to the partnerships, it's a feature, I think, of the category to be willing to think a little bit differently about how to create new value. And these partnerships, we're excited with them. We feel that it is possible to build a portfolio of these partnerships over time, as long as they are rooted in what consumers feel are compelling propositions that can sustain and scale over time.

Charlie Higgs  
*Analyst, Redburn (Europe) Ltd.*

Great. And the company's organic sales growth is, I mean, ultimately underpinned by the bottling partners. I mean how would you assess system alignment today versus, say, 5 years or 10 years ago? And what benefits does today stronger alignment with the bottlers convert to Coke. And could you just maybe elaborate on some of these long-term collaboration agreements we've seen that companies signed with the bottlers, which are explicit around aligning around growth?

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

So, yes. The word alignment, Charlie, is one that has been used for many, many years as a way to describe the health of the relationship with our bottlers. And to be perfectly honest with you, I think it's getting a little outdated because I don't think it's describing in a robust enough way just how we are partnering and working together. I would like to think of it more as a harmonization that's underway over the last few years, where we're much more synchronized. There's greater cohesion, there's greater congruence towards shared objectives. And those shared objectives are really around how do we grow the pie together.

I think leadership has a huge role to play. I see the system today being a very positive breeding ground for the kind of behaviors that are necessary to drive growth. And a lot of that is some of the leaders of our system, our bottling partners inside our own company, walking the talk, and what does it take to lead a very vast ecosystem that's spread across so many markets, as you well know. So, when you have that harmonization, it allows you to focus on what's really important, what's happening outside of our four walls, if I can use that in the proverbial sense, and it allows us to be in a position to invest ahead of the curve, it allows us to, I think, take risks more comfortably and understand that smart risk taking over time can confer outsized benefits, but they're not all going to work and building a learning mindset.
And I think it allows us to have that flywheel that I talked about earlier working in a much more iterative and
synched fashion that ultimately confers the ability to create shared value across the system. The long-term
agreements that you referred to, for me, are mechanism. A mechanism to provide greater certainty to both the
bottling organizations and ourselves on how the value that we create gets divvied up, so to speak. It allows us to
– in a world where – if you think about the business 10 years ago to where we are today, it’s a much more
complex portfolio. We have different routes-to-market. We’re exploring and experimenting together in ways that
were actually not really imaginable not that long ago. And these arrangements are the underpinning from an
economic perspective to give both sides the confidence and the comfort to continue to take on that, I’d say that,
more expansive mindset on going after growth.

Charlie Higgs
Analyst, Redburn (Europe) Ltd.

That's fascinating. And I mean, growth in the near-term has been very, very strong and particularly helped by
pricing and mix. Can you maybe just elaborate on what the systems philosophy is regarding pricing and how
that's evolved as the revenue growth management, RGM tools, have become increasingly more powerful. And
how you think about near-term pricing in the context of potentially a weaker consumer environment and also
some of the large retailers talking about potential disinflation?

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

So, you started talking about price and mix, and I click it up a notch. I think it's really important to give volume a
seat at the table and equal, if not in some markets, more focused manner. So, for me, when you, again, think
about the evolution of our system over the last 10 or 15 years, there was a time when we were very volume-
centric as a system and that was appropriate. And in days when the portfolio was simpler and there was not a
need for the kind of revenue growth management capabilities that we're building at the moment. We moved from
being volume-centric to revenue-centric. And I think we sometimes lose along the way the continued importance
of volume in the overall algorithm. And so, when I think about our revenue journey going forward, I think about it in
the context of appropriate balance, given the context of the market across the volume, price and mix equation.
Clearly, the last couple of years in a lot of markets around the world, given the higher inflation we've seen in just
about all of the world, but particularly in developed markets that have not been used to higher levels of inflation,
the role of pricing has been outsized.

And we have learned, I think, from experiences in many parts of the world in which we have had inflation in recent
times to deploy the revenue growth management toolbox that we talk about a lot, and to understand how to
manage effectively through periods of inflation. So, when I look back on the last three or four years, I think some
of the lessons that we've learned in the last 15 to 20 years have served us really well and been early to the
decision making that you need in order to effectively deal with inflationary pressures. And as we look to the near-
term and into next year, I think you're going to see a world continuing to be somewhat asynchronous in how
inflation plays out.

Yes. I think it's going to normalize in the United States and in parts of Europe, but in other parts of the developing
world, I don't see it normalizing as quickly. And so, for us, going forward, it's contextual. You've got to understand
your local market. And at any given time have a very clear point of view and dialogue relationship with our bottling
partners, indeed with our customers on what is the right growth equation to drive, taking into account that context
and using the volume, price and mix levers. So, we provide more guidance in February in how we see that playing
out in the course of 2024. I think it's going to continue to be dynamic. We're going to continue to have different
models in different parts of the world. And yet, as I say, given the experience that we've had for many years and
strengthened over the last three or four years, I think we're in good position to build the agility that we need to deal with whatever local market environments demands us to do.

Charlie Higgs
Analyst, Redburn (Europe) Ltd.

Perfect. And yeah getting through pricing is made a lot easier when you're releasing good innovations. And I mean, John, you used to work in Japan that has just frightening amount of innovation there. I mean, can you maybe just talk about the way the system approaches innovation and how that's changed over the past [ph] two (00:14:05) years in the context of this [indiscernible] (00:14:08) trim? And then how do you determine whether an innovation is successful, particularly given now, we're seeing some quite interesting things like the Limited Edition releases with Al-designed Coke Zero, as well as these products we spoke about earlier that are partnered with other big spirits companies like the Jack and Coke RTD?

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

So, first of all, can I take a step above when I think about innovation, and I don't apply it to a specific topic like it's not product-centric necessarily, package-centric, equipment-centric. Innovation, in my simple language is anything new that creates value. And so I think when you take on that mindset, you have the opportunity to apply that kind of thinking into all aspects of the business. When it comes to the portfolio itself, it's really important to be clear as to what it is you're trying to accomplish? What is the role that you want innovation to play? And in the product world right now, we have different roles.

You mentioned Coke creations. Coke creations is not designed to be a massive volume add to the portfolio. It's designed to create new news. It's designed to attract and bring in new users into the Coke franchise. And we've seen a lot of good results from the various iterations we've had over the last couple of years. When you go to some other categories, innovation has a more central role to play to actually drive the product itself in markets. And we see that, particularly, in some of the still categories. So I think it's really important to have clarity on the role.

Secondly, it's incredibly important and it may sound a little bit paradoxical. In order to be successful at innovation, you've got to be super disciplined. And I think over the last number of years, we've elevated our own capabilities to drive much greater discipline around what gets into the pipeline in the first place and why. And then how do you take it through the pipeline and into the market. We have much more robust metrics to constantly evaluate the performance of the various innovations that we're driving. We look at the performance over multiple quarters now. We understand that for innovation – typically in innovation to have the probability of survival, it needs to be flourishing through the first few quarters. So we have a very, very clear understanding of what's working well and what's not. It's super important, I think to, as I said to have clarity on what do you expect innovation to deliver in your revenue algorithm. We have a target that we use to support and drive the kind of throughput that we need in the pipeline that we're looking at, again in a much more networked and integrated fashion.

It's incredibly important, from my perspective for a company like ours to leverage the fact that we are always experimenting in different markets. And one of the benefits of the network design that we have been implementing over the last two years or three years is to be able to share and move what's working in market. Can you experiment at scale? Can you stop things faster that are not working? You don't get it right all the time. The failure rate in innovation is actually alarmingly high. And I think the name of the game for a company like ours is to have our batting average well ahead of the industry average. And we're advancing. We've had some really good progress. And yet, it's a game that demands constant invention and reinvention, constant understanding of what's happening in the marketplace.
I remember when I was working in Asia and we had a view that kombucha was the next great category and made some investments – made some inorganic investments to try and get ahead of the curve. And here I am five years later, and that trend did not take off the way we had expected. So, you don't get it right all the time, but you can't allow those failures to prevent you from continuing to try. And I think the spirit that we have across the enterprise and indeed with our bottling partners to innovate intelligently with discipline, be prepared to take risks, know you're going to fail some of the time, but build that into your ongoing way of continuing to attack the marketplace. I think when you have that really working well, you give yourself a better than average chance of having it be a significant tailwind.

Charlie Higgs
Analyst, Redburn (Europe) Ltd.

Yeah. And some of the innovations like the Coke Zero reformulation have been phenomenal recently. And you've also got a wider portfolio with which to do these innovations under the total beverage company ambition, which naturally involves diversifying into cash piece that perhaps earn a lower gross margin than your concentrate business. And I know the company's long-term organic – 6% to 8% organic operating profit ambition incorporates operating margin expansion, but does it also include expansion at the gross margin level?

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

So eventually – really few important words I'd like to double down on. Long-term, what drives margin expansion is your leadership position in a category, not necessarily the category itself. It takes a while even for people in our own organization to believe that that is the case, but it's something that we've demonstrated over many years, talked about Japan earlier; a big takeaway from my many years working in Japan. So, the idea that you can invest in categories that are in early stages of development or are positioned is a relatively low position, is not inconsistent with the ambition longer-term to drive margin expansion because the opportunity that you have in taking those early positions is to build a leadership position over time. And obviously, you need to have the confidence and the belief that you can do so. So, for me, the two ideas are not contradictory but it's something that you need to do over time.

In the short-term, it's my job. It's management's job to work the portfolio so that you can continue to meet the needs of investors or other stakeholders, so that the portfolio itself moves in the right direction. Gross margin is a significant piece of that equation. I would struggle to see a long-term model that does not have some degree of gross margin expansion embedded into it. And, we've talked in the past about the levers at our disposal to be able to deliver that over time. It's never going to be a straight line. We've seen over the last few years periods in which you have dislocations, but I firmly believe that the path we're on, you know, the ongoing development of this growth portfolio of brands. Our ambition and our focus to continue to drive leadership positions in the categories that we choose to be in are all elements that give me the confidence that we can continue to do so.

One of the big lessons of the last few years on the pursuit to being a total beverage company is it does not mean you need to be in every category in every country. In fact, it's actually quite the opposite. You need to be able to marry that deep understanding of the consumer and where they are going, what they want with the profit pools that that consumer journey creates. And from there become, again, a lot more disciplined in how we choose to invest our dollars against those country category sort of sales that over time drive the lion's share of the industry profit pools. And I think a big evolution in the last few years is to get a lot more sort of scientific and surgical on overinvesting our dollars in those areas that we know over time will drive the greatest profit for us.
Charlie Higgs
Analyst, Redburn (Europe) Ltd.

That's great. And then maybe shifting from the long-term gross margin to the short-term gross margin. How should we think about cost of sales, inflation or even deflation as we approach 2024? And then, just conceptually, how do you think about letting any potential gross margin upside drop-down to the operating margin versus reinvesting behind top line growth?

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

So, you won't be shocked to hear me say I'll tune back in, in February for more detailed update on the short-term, on the year ahead. However, I will say that on the commodities front, we're seeing actually two different groups that I would call the industrial commodities and the agricultural commodities. And industrial commodities are from a cost management perspective, are trending in a better direction for both ourselves and our bottling partners. Some of the agricultural commodities like sugar, corn, et cetera, are – coffee, juice, are a bit more stubborn. So I think we've got to balance the net of the two. Other cost inputs, we're seeing in the developed world consistent with the reports that you've got access to, as well as I have some normalization, but as I said earlier, it's got to be contextual to a given market. And we're building that into our thinking as to how we see 2024 coming on. So, I'll be delighted to provide you with more details in February.

On the question on, is there an opportunity to drive more? Well, I think what's most important in times like this is to create the flexibility to have options, to take the right decisions to position you best for the long-term. And I think we've demonstrated during the pandemic that, first of all, we can create that flexibility. And then, secondly, we're willing to toggle up and down in the course of the year to do the best job that we can for the brands that we're [ph] starting (00:26:45) for the long-term.

Charlie Higgs
Analyst, Redburn (Europe) Ltd.

Perfect. Yeah. So normally if there is any gross margin pressure, you tend to have many levers that you talk to down the P&L, which maybe we could talk about now. I mean, what are the most material levers over the long-term for driving operating margin expansion? How do you think about the levers that the company possesses to drive expense in versus, say, those, I hope by the bottlers like improving packaging mix?

And then maybe just going back in on the marketing that we spoke about earlier, now that you're generating higher returns from each dollar of marketing spend since the 2020 transformation, how should we think about marketing investment as a percentage of sales over the long-term?

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

So levers, I have talked about that quite a bit over the last three years or four years. We continue to evolve our own thinking on the levers that are available. I think sometimes it's important to demystify how a P&L works. If gross margin is a function of the quality of your revenue and the efficiency of your inputs, it's not much more complicated than that.

I talked earlier on about the shift from volume to revenue. If anything, at the moment, I think we're becoming even more focused on moving from a generic view of revenue to quality revenue. And so, the quality of the revenue is a huge piece of the equation going forward. And that is, to a large degree, converted into value through our revenue growth management framework that we have, and that we again continue to develop and evolve. So, input
number one for me is continuing to optimize the value creation opportunity with this quality portfolio of brands through a whole series of capabilities that we're developing in conjunction with our bottling partners. I don't think of it as we do this and the bottlers do this. I think of it as it's a shared opportunity and a shared responsibility to work in harmony, as I said earlier so that we end up with the right end-to-end equation. So that would be point number one.

Point number two, it's well-known in the CPG space that the trade spend is an ongoing, a never-ending opportunity to optimize even further. I think the availability of better data analytics, the relationships you build with your customers around the world, the digitization of the traditional channel are opening up more and more opportunities again to improve that quality of revenue by having less reliance on sort of blanket spending that is often captured in that trade spend line. That's the second big bucket of opportunity. When I think about our cost inputs, we're blessed to be part of a massive ecosystem. We have an organization that has been at play for many, many years now, the Cross Enterprise Procurement Group, who buy a significant percentage of commodities in conjunction with the support of our bottling partners. And that's an advantage, I believe, that our system has and will continue to have as we go forward, just given the scale that's available to us.

And I think continuing to leverage that capability broaden it and expanding it to other spend areas is an opportunity going forward. We're fortunate to have a tremendous portfolio of supplier partners. Sometimes I think about partnerships in the context of our bottlers, our customers. But equally, the equation we have with suppliers is super important. And there was a time, I think, Charlie, not that long ago when we would be talking about this in the context of how do we drive more efficiency, and yet at the same time, have the appropriate amount of resilience.

I think the lesson over the last couple of years that we've kind of flipped it a little bit to say, it's so important nowadays to build really strong resilience, but do it in a very efficient way. And for me, the lesson over that period is that building that resilience is a direct function of the quality of those partnerships and relationships that you have. And so I'm really pleased with some of the progress we're making there and the tremendous partnerships we have. There's lots of other smaller ones. How do you source, how do you leverage local players? How do – product specifications. We talk about innovation. One of the joys of the job that I'm in at the moment is you get exposure to just about everything. And sometimes what you see is not that pretty. And it's a legacy thing. Over time, you build up a way of doing things and then you realize, man, there's a much more efficient way to do it. So, product specs would be one of those candidates. And so there's other sort of, I'd say, smaller levers like that that we're continuing to adapt to.

You mentioned marketing spend. And it's interesting, the way our P&L it gets constructed, marketing spend sits below the gross profit line, but I would argue that the quality of your marketing spend and the effectiveness of it actually impacts what happens above the gross profit line. And so, for me it's become a – with a great partnership with Manolo, our Chief Marketing Officer, such a hugely important area to elevate in terms of its importance, and to raise the bar in terms of effectiveness. We're pleased with the agenda we're driving at the moment. We've made some significant changes to how we do marketing, how we manage the nuts and bolts of it. And I think there's going to be a lot of opportunity going forward to continue to drive productivity in that space. And that productivity is part of the fuel that gives us the flexibility that I talked about earlier. And so, having this ongoing capability to toggle back and forth, up and down, to sustain the growth equation is something, I think, we're in a much better position to manage and drive than we were three years to four years ago.
Absolutely. Yeah. And I think the key stat for me that stood out is that 50% of the marketing budget is now on digital spend these days. And maybe just...

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

Yeah. More than 50% actually as we go into next year.

Charlie Higgs  
Analyst, Redburn (Europe) Ltd.

[indiscernible] (00:34:37). Just maybe continuing that theme on digital. I know it says elsewhere that the company has spent over $1 billion on digital, for example, in 2022. Can you maybe just elaborate on what are the capabilities that KO has been building in the digital space. And kind of how far along is the company in its digital transformation?

And then just building on that, how is data used today to inform decision making versus, say, in the past? And what benefits you expect to get from the greater level of data sharing that's going to be happening with some of the bottlers under those long-term collaboration agreements that we spoke about earlier?

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

So, forgive me for smiling myself, but the word digital is maybe the most used and in the lexicon of business today with so many different ways to interpret and describe it. I think about digital in three ways. One as a capability; and number two, as a medium; and, then number three, as a disruptor. So maybe it would help if I could just unpack the three of those. The $1 billion that you referred to in the – I think we used that in our CAGNY presentation this year or last year – really refers to the first piece. It’s, I think, incumbent upon companies of our size and scale to have in place foundational capabilities to operate in the 21st century.

We're just in the final stages of a very, very large upgrade in our ERP system to SAP for HANA. We have migrated our entire business to the cloud over the last three or four years. We have standardized our technology platforms. These are all, what I would call, foundational capabilities that are a must have. There's no alternative but to be effective in today’s world than to have those in place, integrated and wired in the right way. On top of that comes what I would call it, the next phase of more and more advanced set of capabilities that, in the area of marketing, for example, allows us to have the data sets, the tools in place in order to actually leverage the investments that we’re making in the foundational level. And I put the whole cyber capabilities into that next stack given the importance for companies like ours to be able to run a business inside a safe environment.

I think about the number of applications that we use as a company. There was a time when the number of applications that we had was close to 2,015 to 1,800. Over the last three or four years, we've invested not just to reduce some, of which we have down to the hundreds. We think we're at 700 or 800 now, which is sort of below what companies of our scale typically have, but then is to have those integrated and easy to talk to each other. And I think then the third part I think about is leveraging the partnerships that we're privileged to have. There was a time when we used to do our own software, and I think it's just crazy to think about a beverage company thinking that we could do a software better than the software companies. But there was a point in time when that was the thinking. Today, we're blessed, I think, to have tremendous partnerships with some of the well-known players and that allows us to leverage what they're doing; and through the partnership model get access to level of capabilities, otherwise, we would not be able to.
And then the third piece that sits on top of all of that is what's coming at us, the stuff that the next-gen Generative AI capabilities. You and I were chatting beforehand about our Christmas Card. It's a really nice example of what some of these new capabilities are allowing us to democratize, too, and build a different kind of engagement with people of all generations around the world. The reality is that that kind of new stuff is only possible when the other stuff is done while an in place. And so, the $1 billion you referred to is the construction of that stack over the last couple of years.

The second piece, when I think about digital, I think about you referred to earlier, I think about it as a medium. The degree to which we can and should engage with our consumers, with our customers around the world through digital media is exponential today versus not that long ago. When I was in Asia in 2016, 2017, I could see that coming; given what I saw happening in China, the early stages of the India digital revolution. And interestingly, the developed world has been, I think, slower to grasp that and to create. It's happening now. So, I think of it as a really important medium in which companies like ours have got to be right at the forefront of.

And so, when we think about moving our spend from X to Y, from whatever it was to 55%, it'll be 65%, 75%, I'm sure over the next three or four years, it's one thing to make the shift. The next part of it then is to make sure that the shift is effective, there's no point in going from one bad medium to another and call it digital. So, there's a lot of work required. And part of the stuff that Manolo and his team would be happy to take you through in some detail is exactly – is becoming a much more capable digital company using it as a medium.

And then the third part that I see digital as it's a disruptor. There's nothing, I think, more disruptive to the effect of running of an organization in today's world than the role that technology plays. It's taken, I think, a company like ours from one that was very – how to say – it was very decentralized. To some degree, we had lots of silos. Technology makes that obsolete very quickly. And so, the network model that we talk about a lot was in part driven by a belief that if we don't adapt the way we operate and work to both leverage and take advantage of kind of technology and/or not allow it to make us obsolete, is where I think the disruption piece comes in.

And I think for me, it's important to think of digital in those three ways. Apologies for the long answer, but it's one that I think is important because I think it's a very rich topic and it deserves a more – how to say a more granular understanding as to how one can describe it and talk about it. But more importantly, I think it's a topic that deserves companies like ours time and attention to get it right because if we don't, we're going to be left behind.

Charlie Higgs
Analyst, Redburn (Europe) Ltd.

No, that's great. Very comprehensive. And we do tend to bucket it all into one big word. [indiscernible] (00:43:04) the brick and mortar, it's still out there. It's the big bright red Coke truck is doing its tour of the UK as we speak, but they're not publishing the time table anymore, which adds to the surprise. Maybe just pivoting, last few minutes, into the BIG division and capital allocation. So, John you wear a lot of hats these days and you used to previously sit in Asia-Pacific. You and James have been pretty explicit about wanting the company to become the world's smallest bottler. Can you maybe just talk a bit about the attributes that KO looks at when deciding the timing, the method of refranchise, i.e., whether to IPO a bottler or to refranchise it to a suitable partner. And then if we just think maybe 5, 10 years down the line, how would the company's capital allocation priorities change once BIG assets have been refranchised? And you're just left with this capital-light, high cash flow generating core business?

John Murphy
President & Chief Financial Officer, The Coca-Cola Co.
So, let me – maybe a little context there. Look, we went through a period, as you know, where we acquired a number of bottling businesses around the world, that for a whole variety of different reasons, were in need of rejuvenation, refreshment, et cetera. And a path that we decided to take was for us to be the first player in that rejuvenation process. Always with the intent to refranchise back up because we believe very strongly in the power of the franchise model. And the role that we play, I think, adds most value when we stay focused on building brands and helping to orchestrate this incredible ecosystem that we're at the center of the epicenter of.

The Asian piece is the last leg, so to speak. Africa is the other one. So, Asia and Africa are the two pieces that are left. When you look at what's happened in those parts of the world where the refranchising has taken place, I think it's a good way to answer your question. We've been very thoughtful in how to construct a better model going forward. You don't want to – I don't want to sort of hand over a territory to somebody who's just going to operate it the same way. So, you're looking for those ingredients that gives us the confidence and you the confidence that it's a good decision, a good decision that somebody else is going to come in and take what they've been given and make it better.

Look at the North America situation. That's what exactly what's happened. In Europe, that's what happened. It's happened in China. And it's happening in Southeast Asia, as we speak. So, we're very confident in the direction of travel. The inputs that we look for are contextual at times, but you've got to be very clear on market dynamics, and sometimes history has a role to play. Sometimes the availability of different partnerships are at role to play. And sometimes, the pros and cons of an IPO versus going private they're all to play. But you look at what do we think is over time the best way to drive the long-term growth opportunity.

We talk a lot with our bottling partners and new partners about moonshots and the idea to sort of think about growth at the most extreme level. We're looking for partners who want to believe before they see who have that shared ambition to deliver outsized growth, who have the capital to do so and the capital over time, who have the resilience to be able to operate over time without the guarantee that it's going to be a straight line from where we are today to where that growth will take us, who have the right culture to develop and grow talent and to partner with us and to operate locally. And so, there's lots of those ingredients that we look at, that we evaluate. And we're also looking for a fair return. We're looking for a fair return on the investments that we've made and the work that we've done to help get many of these franchises along the way. And our Bottling Investments team are doing a fantastic job in both operating and managing and improving the business they have, and yet knowing that they're preparing them for ultimate refranchising.

So, that's our play. We continue to make progress, as you've seen with some recent announcements. And I expect that over the next couple of years, we'll continue to get towards that ultimate ambition that you referred to earlier. With regard to how it impacts our capital allocation priorities, it really doesn't that much. I think it gives us a better balance sheet, stronger balance sheet. It, over time, allows us to be even more focused on what we think our role is to invest in our business. We have – coming out of the last three or four years with the growth that we've experienced, we've got a lot of pent up demand for capital that is needed to continue to extend that growth for the number of years.

Our concentrate plant business, which gets very little publicity, is at the core of the equation to be able to deliver a portfolio of quality beverages around the world, needs some investment. We're investing in a couple of new facilities around the world, as an example. The IT work that we just talked about is another example of the needs investment. So we want to invest in those areas that we believe are fundamental to sustain that growth equation, but some of the other priorities that we've talked often about supporting the dividend, very important to a large shareholder base, the inorganic equation will always be on our agenda toggle up and down the degree to which it plays a role in various chunks of our history.
And share buybacks, we've talked about, has been an opportunity. As you well know, we have – over the next year to two years, we have the IRS case that continues to move along. We feel good about the debt leverage that we have in place today to give us options to manage out a range of outcomes that may come at us. But the overall set of priorities don't change dramatically and I don't expect them to change. I think the degree to which we toggle inside of them over time, that's part and parcel of, I think, steering the business in the right manner going forward.

Charlie Higgs

Analyst, Redburn (Europe) Ltd.

Perfect. I'm just looking at the time. I think we're a few minutes over, but John, thank you very much...

John Murphy

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

I'm sorry.

Charlie Higgs

Analyst, Redburn (Europe) Ltd.

No, no. It's been a been a pleasure. I think we've coined system harmonization to take over system alignment. So, thank you very much for your time today and thank you, everyone, online for listening. Hope you have a great Christmas period. And thanks, everyone, for joining.

John Murphy

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

Thank you, Charlie. Great to see you.

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