

**HSBC USA**

**Moderator: Carlos Laboy**  
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**OPERATOR:** This is Conference #: 8382208

**Operator:** Ladies and gentlemen, thank you for standing by. And welcome to the HSBC Conference Call with Coca-Cola. At this time, all participants are in a listen only mode.

Please be advised that today's conference is being recorded. Also today's conference will last approximately 60 minutes. If you require any further assistance, please press "star," "0." I would now like to hand the conference over to your speaker for today, Mr. Carlos Laboy. Sir, you may begin.

**Carlos Laboy:** Thank you, (Mitris). Hi. This is Carlos Laboy. Everyone at HSBC, we're thrilled today to have Tim Leveridge, director of investor relations of The Coca-Cola Company, Galya Frayman Molinas, president of the Mexico business unit, and Alfredo Rivera, the group president of the Latin America division, with us.

The idea today is to focus in on some next frontier issues and to try and look well beyond this crisis here, perhaps reference the crisis only in terms of how it helps us leap forward in some of the initiatives that were already underway.

Galya, thank you for doing this. I think that if you don't mind, we'd love to start with you and with your background.

**Galya Molinas:** Sure. A pleasure.

**Carlos Laboy:** A good place to start really is with the path that took you to this current position. If you could give us some background on that. You were senior VP

of global strategy and insights. And I was curious when I saw that because it's really important function in the context of The Coca-Cola Company. And I'm curious how you think about this background for your current job. I'm asking because everyone always talks about being a consumer centric company. But there's a real linkage of strategy to insights, to culture in a consumer centric organization.

How do you think about the linkage of those three things? And how do you bring that to your current role?

Galya Molinas: Yes. And hi, Carlos, again. Maybe, a good way to start could be like starting with a – with an example. One of the focus areas that I had when I was working in – at the corporate in the (Strategy) function was the development of portfolio strategy and resource allocation as we defined it as the first discipline for growth. This was built on three pillars.

And these pillars were, number one, fewer, bigger but scalable bets. Number two, we mean both in premium and affordable segments due to the bifurcation that we were seeing particularly in the middle-income classes and, number three, optimal system resourcing. And that goes into leader challenger, explorer framework, identifying the corridors of refuel rates, cutting the long tail, etcetera.

When we talk about the fewer and bigger scalable bets, we actually focus out putting our bets against a brands that have an edge. So that's how you see like how this integrates with the – with the consumer insights if you like.

And so last year, when I arrived here, this is what we implemented in Mexico too. The portfolio strategy and this resource allocation framework actually led us as a system to a much higher level of focus where we now have much less but bigger bets in our hands and similar thing with the investment line items.

And so that's also like there's a cultural element to that as well because we also broke the typical inertia you would see towards incrementality in terms

of budgeting and actually helps us to install a zero based planning approach again for the system.

So we did build capabilities on that. We work together with the – with the bottling partners. And then we built capability, we develop a culture, we developed a system approach to that. So a few examples could be on the brand side like we accelerated premium edge based innovation like with Coca-Cola Café, with Topo Chico. We really focused on that with – for brands that have an edge and that would include other than Coca-Cola vis-à-vis that would include like Powerade in that – in that.

We cut what we call the Zombies. Thirty-four percent of (Zombies) as of today between last year and the first quarter of this year have been cut from the stills portfolio. And yes. I can give a few other examples. But that's – so when we face off this with COVID, the framework was also very helpful because we streamlined our priorities towards the 40 SKUs, which accounts now for 75 percent of our system's variable contribution. So it's a story of focus but in a very people centric way I would say.

Carlos Laboy: That's super insightful. If you focused on those 40 SKUs that are 70 percent, can you give us a bit of a sense of whether they're spread – how they're spread in terms of returns? Right. Those 40 are your highest return for the bottler. Or are you – do you have some experimental SKUs in there as well that you're preserving and growing because they show a lot of promise?

Galya Molinas: Yes. For COVID now, first of all, the whole approach was looking at system economics. So it wasn't like favoring one part or the other. It was really like looking at the system economics. Therefore, the bottlers' numbers were critical.

And if I can – so those 40 SKUs obviously look at the highest returns for the system. Therefore, it includes both like SKUs from the affordability segment where we're making quite a bit of money from a percentage perspective in terms of like maximizing margins but also from a dollar standpoint.

A good example could be really Powerade. And on the other hand, we're also having another package, which is on it – in a different spectrum. So it includes all of them. But net net, we really focus on the 75 percent of the variable contributions.

Carlos Laboy: OK. Galya, so you're a year into your new job in Mexico. And COVID-19 hits. What are – what are some of the early insights that you're getting on how this crisis is going to change the Mexican consumer? And then – and as you'll think of the retail trade as well, not just the consumer, how do you think it's affecting the mom-and-pop stores and the consumer behavior in those stores?

Galya Molinas: You know we're seeing a very interesting insight actually to your point. It seems that it is changing consumers' shopping and consumption habits in a way that we're not – this is not going to go back so changing it for good. And from a like consumer pattern standpoint, what we see is that first of all Mexico really resembles those that we see in other markets. And that would – like you know we see – we see sparkling pretty resilient, we see water going up, dairy going up, et cetera. So categorically, we're seeing like very similar situation.

What's special about Mexico though – and that might be true also for Latin America – is that economic impact in consumers is stressed much earlier than the health effect. So if you think about this 1/3 of our population here with – on a daily basis, so therefore the crisis has really amplified what we call the reality of the two Mexicos, the reality between the haves and have-nots.

Let me give an example because I think this is important. Higher socio-economic levels are working and studying from home. They're trying to make sure that their children are online – have online education and all that stuff. Well, that happens. They're very interested in home entertainment, et cetera.

Well, that happens. So lower socio-economic group is really struggling to survive. They cannot afford to stay home.

And – so therefore the priorities for these two groups are completely different. And that's why keeping consumer right at the heart of our choices, we have to make sure that we address the reality at those ends. Couple of other things again not really exactly similar to what's happening in other parts of the world is that traditional trade like we see overall across Mexico, that 5 percent of the stores are closed. Clearly on premise has collapsed but not to the level that we're seeing in other parts. Thirty-five percent has closed down.

And we also see that traditional channel is incredibly resilient. Consumers obviously adjust their spending. They're shopping on nonessentials. They're prioritizing health, cleanliness with the hygiene. They're after promotions and savings. Affordability is key in this but so is value creation very critical.

And so from a portfolio standpoint, that's really required. That will focus on those ends. And then we also see there are – we have like (feasible) direct to – direct to home business. And that is going up significantly. And so with our digital business really more than doubling itself, that's what we're seeing as well.

And we're in a very privileged position in Mexico because of our expansive portfolio. So the portfolio has bets. And the portfolio has like refillables, non-refillables, premium brands, less premium brands. So it's really a very wide portfolio, which is positioning us in a very – in a – in a very good way – in a very strong way looking for it that way.

Yes. So it is – it's just like in – from an insight standpoint we're also really challenging our mental models, some of the mental models like single service only for On-the-go. We see that in home is an occasion there like multi-serve is only for meals. We see that there are other occasions, et cetera.

So this is really in a time for opportunity for us. That's what we're seeing. But this is why we're very focused on the – on understanding the consumer reality.

Carlos Laboy: You're weathering the storm in a very nice port. Mexico is a great place to be for these – for these crises because...

Galya Molinas: Yes.

Carlos Laboy: ... it seems to transform itself out of every one of them very nicely.

Galya Molinas: Yes. It – it's really amazing.

Carlos Laboy: We – I want to go to that issue of affordability that you mentioned earlier. We hear a lot about affordability in Mexico and how they (consumers) use refillable bottles. But brand Coca-Cola is also the most premium beverage brand in the country, non-alcoholic beverage brand in the country. How do you optimally develop and capture the value of the brand at both ends of the spectrum even better than you're doing right now and the bottlers may have-traditionally done? How does this crisis open your thinking on that?

Galya Molinas: To that question, Carlos, I need to talk a little bit about the capabilities that we as a system have developed. And again, it's a system capability. It is not necessarily only on the Coca-Cola side or only on the – on the bottling side. But it's really, truly a system capability.

And here, I can talk about – and maybe I should like refer to those capabilities. One portion is really like software. And market segmentation, revenue growth management are good examples to that.

And then the other part is more the hardware where we have one of the biggest parts of coolers and racks. We have a part of refillable bottles infrastructure. We have the direct to consumer routes, which are reaching 1 million households, et cetera.

So all these together, we are able to segment the market in such a nice way that we can thrive in optimum balance between – even within Coca-Cola between let's say refillables and one way packages where we can maximize margins both again from a percent but also from a dollar standpoint. And maybe, a good example to that could be like our (PET600), which is a major package for us, and the returnable500ml, a (hero) of our package portfolio.

The PET600 is so convenient. And then RGB500), the returnable glass 500 is for affordability.

And their returns are different. But they all add to the premiumness and to affordability. So this is how we're managing it within brand Coca-Cola.

The fact that out of our sparkling business – the fact that obviously 40 percent of our packaging portfolio is in returnables positions us very strongly particularly in that crisis and also like to address – be able to address both premium and affordability.

Carlos Laboy: Just to stay with refillables for a minute, in Mexico, how do you view the future of this package in Mexico because the ecological merit of the package seems to be important and growing? And so is there an opportunity to market more aggressively the ecological merits of it and maybe to not only make it an affordable package but also maybe a premium package for consumers at the higher income levels who're willing to pay a premium for the ecological badge and merit of it?

Galya Molinas: Yes. You're making a very good point actually. The reality is that different socio-economic groups consume returnables for different reasons. And if I could give an example, more obviously like in lower socioeconomic groups are much more interested in the affordability of it whereas the higher ones are more interested in the – in the whole ecology point that you've made, the world without waste, et cetera.

And to that point, we are actually very aggressive with the returnable packages both in the single serve and the also in the multi-serve. Let me give an example on that one. And we launched universal bottle last year in the second half of the last year. Universal bottle is basically one single bottle for all flavors and sparkling brands. And you can also add Coca-Cola to that. And we have also added by the way even juices, fruit juices to that.

The consumer insight behind that was both on delivering the convenience but very importantly also with one bottle allowing for variety. Just think about it. That you would go to a – to a mom-and-pop store. And you would

have like – you would give the shop owner your bottle. And in exchange, you can get – you can buy any sort of any of these products, whichever like works for you.

So that's really – we understood that for the consumer, that was really a very critical point. So therefore, it – for those on convenience allowing variety and also for the lower SEC group, it was really about the affordability of it.

As you go to the higher upper end of the pyramid however, it was – we realized that you'd also have another tangible demonstration, which was about the environmentally friendliness. So – and that's why our refillable packages are very strong in our direct to consumer business, which goes usually like into higher level. So in a nutshell, then that a quick answer to your question there.

Carlos Laboy: On sugar, another ESG issue, you've taken a lot of sugar out of your portfolio in Mexico in the last couple of years. Can you speak to that and to also how you're preparing – well, how this has prepared you and how you're preparing for the October changes or – I don't know it will happen in October – the nutritional labeling changes or expected for yearend?

Galya Molinas: Yes. And the nutritional labeling changes are October 1st as you said. There are a couple of things that like – that I can highlight on that one. Number one, we are in – the first priority obviously is to comply with the law. This is not the first time that this labeling regulation changing in a country. So we're very focused obviously. That' we're in time until October 1st in terms of the entire portfolio.

We're very focused on – in – on clearly understanding the consumers, what they want and the type of products they want within that like – within that context. So therefore, like this also is considered like from an innovation standpoint.

And again, the fact that we have a broad portfolio, which also includes like other categories that are exempted from this norm is an important one. Obviously, the portfolio is really – like has products that are impacted. That



it also has products that are not impacted. And so therefore, like we are going to be focusing very much moving forward as well continuing with the non-cal offering. We're going to continue with the sugar reduction even further. And other unsweetened options in the portfolio are also going to be important. Like Topo Chico could be a good example to that.

We will further boost the single serve packages. So this is another one that is strategically important particularly as we get prepared for the new labeling law. And at the same time, very importantly, I had to like underline that we will continue strengthening Coca-Cola and other sparkling brands through brand building, through frequency and affordability programs. We believe that this is a critical piece of the strategy.

Carlos Laboy: Thank you. One last question – before we move onto Alfredo, – you're on the board of Icecek. You've now had the benefit of seeing Mexico up close as a foreigner. What might be some of the biggest market development opportunities that you see for Icecek after 16 months in Mexico and also the reverse? What impressions might you have of Mexico that maybe we Latin Americans underappreciate or get too pessimistic on in a crisis and maybe miss?

Galya Molinas: Yes. Look. I really would not want to talk about Icecek just because I'm a board member, like a director on the board there. It wouldn't like position me in the right – in the right way to talk about them.

However, as I like – on your second question, there are lots to learn obviously from both ends. And then like one thing for sure that I believe might have been underappreciated at least at my end on seeing it is that Latin America and particularly like Mexico has been a fairly stable – has had a stable economy, has had a fairly stable like macro environment as you compare to some of the dynamics like that we have in the – in the – in Central Asia, in Pakistan, in Turkey. So therefore, like coming in – and this is like I've been here almost a year and a half. I can't tell you how much I appreciated that part.

I think we're learning now with COVID to go into something else. And I think fortunately, or I – unfortunately, I had some – I had built some muscles on that one not because I wanted to but because I had to. So ...

Carlos Laboy: So, Galya, thank you so much for your insights. And best wishes in your – in your Mexico efforts.

Galya Molinas: Thank you.

Carlos Laboy: Alfredo, bottlers ...

Alfredo Rivera: Hola, Carlos.

Carlos Laboy: How are you?

Alfredo Rivera: Good.

Carlos Laboy: Alfredo, bottlers are never shy to complain about The Coca-Cola Company. And that's part of what we hear them do as analysts. So when Latin American bottlers start honestly raving about how active the company is being this last month or two in terms of driving dialogue and sharing insights and best practices from across the world, it sounds fresh. And it sounds new. And it's very different ...

Alfredo Rivera: Yes.

Carlos Laboy: ... from what we've heard in previous crises where everyone seemed to be more of a silo in terms of how they went about dealing with their – with the issues. Can you – can you share with us your thoughts on all this activity, so what it really means in terms of the cultural transformation that the company's – is driving and how it's trying to drive relationships differently with the bottlers as it gets more mature?

Alfredo Rivera: Thank you, Carlos. And hello to everyone. It's a very good question.

But before I jump into that, I would like to recognize by the way that our bottlers are doing great job in Latin America during this crisis in particular

considering that all of us at the system are focused on the safety and well-being of our more than 200,000 associates. And our bottlers are doing a great job with our consumers, customers and communities. And I want to recognize this.

Take – I know you’ve spoken to Andina earlier. And you’ll have Arca and Coca-Cola FEMSA tomorrow. But I think it’s important to see how the strength of our system is reflected in their efforts not only from a commercial point of view of maintaining the business going but the fact is that they are providing important services to our customers, our consumers and the communities. And we’re working together with them. But it – obviously, they have a lot of frontline associates that are doing great – a great job. So – and I – and I wanted to take this opportunity to point that out.

With regards to your comment, with – when James became COO and then CEO, he was always very forthright in how we wanted to build a strong relationship with our bottling system. With the appointment of Brian as a COO, I think it – that that has been – I think we doubled down on this idea that we have to have clear and transparent communications on how we work.

The crisis provides – and therefore, there were some – there were some routines created even before the crisis that began – that were meant to take us on this path. So Brian created a global bottler meeting where – with the idea of creating a network of bottler communication not only between the company and bottlers but between bottlers themselves, how can we encourage that. We do it at the Latin America level. We have a CEO council of our three largest bottlers and myself where we meet quarterly. And that has allowed us to share more openly to discuss and even go after certain initiatives together.

In the specific case of COVID and the crisis, we did decide very early on that we would rather overcommunicate than assume that people had the information they needed. And what we’re trying to do is ensuring that we are constantly in communication, sharing learnings. The fact is that the crisis, the virus came to Latin America after other parts of the world. So we were

able to learn from our bottling partners and company associates in other parts of the world. And we were able to adapt our plans based on their learning.

Just to give you an idea of an example, very early on, I'm on the board of Hellenic. And I was in one of our calls. And they showed some pictures and some protocols of what they were doing in Italy, which was – had a tremendous impact from a virus. Hellenic did a great job to continue operating without any major issues. It's their bottling plants have continued to operate.

And so we took some of that. And I shared it with our bottlers. At the same time, for example, Andina shared their protocols and some of the actions that they were taking. And I'm talking about this is the first week of the crisis. So we were actually sharing what bottlers were doing, what the company was proposing, et cetera but in a very open way.

And I think that's the important thing, is to be very open, sharing because we're all learning. No one has the right answer. It's just sharing and trying to learn from each other and learning from doing. And I think that that has been encouraging for us because we see that there is a lot more communication going on now throughout the system.

Carlos Laboy: Alfredo, in a consumer centric environment where – a consumer centric organization where James is – keeps harping at more experimentation – more experimentation, I would think that there's also a lot less room for disagreements with bottlers. Right. I mean, do you find yourself putting a lot of things to the test rather than just having debates without the consumer's input?

Alfredo Rivera: Yes. I think you – I think that's exactly the point. And I think that we all recognized that we all bring points of views based on experiences. But it's best to experiment. And that's what we're trying to encourage, is instead of getting into dogmas or debates on who's right and who's wrong is, OK, let's understand what – let's apply scientific approach, let's state a hypothesis,

develop some guidelines, metrics and then apply – and then go and do it and learn.

And then – and then when you learn, you can decide whether to refine it or if it – if it worked well then how do we scale it. But it – that takes out a lot of the noise.

One of the examples what we did with Andina and Embonor in Chile in the HoReCa channel, by bringing other products onboard, there was a hypothesis. And we tested it and came out well. I think there is – we've had some learnings from that. And you know again we're opened to learning.

As long as it's value accretive for the system, we're going to be in support of testing these and of course, though that's the obvious of both bottlers and ourselves want to look for opportunities to create more value and grow our business.

Carlos Laboy: Can we stay with that example if you would please just for a minute? So is the role of alcohol changing as you become more consumer centric? Can you share with us a little bit more on what you learned, what insights you picked up in that HoReCa experience in Chile as bottlers had begun to sell and distribute spirits too – does it help you execute better at the point of sale? Does – do you own the day better because you now have something else to go into with those – into those night accounts?

Alfredo Rivera: Right. I think that the idea and the commitment that we have is to look and develop. We believe that our success depends on developing solutions that are relevant for consumers and customers.

In the specific case of Chile, what Andina identified and Embonor as we talked to them and even our team locally was that there was an opportunity to strengthen our position in the HoReCa channel because customers were telling us that they would like us to offer a broader portfolio. And that just made life easier for those customers.

Now, what did we agree on? Well, one of the things was we're going to see does it – will this have a positive impact on our core portfolio, so on Coca-Cola, our flavored brands, et cetera. How does that work?

And we tested it. And it actually was a very interesting learning. By adding more feet in the street and focusing the salesforce on a broader portfolio, in that channel, we were able to grow our brands and grow – and grow revenue and bring a relevant solution to customers. So again, this is an ever – this continues – we continue to learn and continue to adapt to this and obviously making adjustments along the way. But again, we have to be disciplined in the approach of is this a consumer relevant or a customer relevant solution and how well can we execute it and learn and obviously continuously refine it and improve on it.

So as James said at very – at the very beginning is the concept of beverages for life is that that we will look at all the opportunities out there that are relevant for consumers but we'll also develop solutions for customers that we'd see that we can add value and strengthen our relationship with them. And I think that's an example there. But it – but again, I want to stress that it has to be a disciplined approach.

Carlos Laboy: It's a great example. Thank you. How might you rank some of the more promising consumer trends in Latin America that excite you? And where do food aggregators fit into that list?

We were in Brazil. And some of the work that your team is doing in Brazil was just mind blowing. Can you speak to the scope of this opportunity for our listeners please?

Alfredo Rivera: Well, it's clear that the current situation has been an opportunity for ecommerce in the – in the different way that it appears. Consumers, which we know – consumers see ecommerce as a very relevant solution today. But they were all actually already moving in that direction very quickly. So what we've been work – so that I think that's an exciting – and I'll talk more about digital and technology. And I saw your question. And I think that there's a lot I want to tell you about that.

The other piece that we have to be cognizant of, which – I don't know if excited is the word. But the reality is that Latin America is entering a period of slow to noneconomic growth and we need to adapt to that. So your – to your conversation with Galya on refillables, we need to understand what – how the consumer behavior is changing and making sure that our portfolio is relevant to them with the right brands, the right packaging or right products. And obviously, we're entering a new world where we're going to have to be quick to learn to it – experiment and learn to make sure that we are bringing relevant solutions for consumers and customers.

On the food aggregating, back to a technology piece, we've actually learned a lot from our partnership with the food aggregators over the last few years. Obviously, ecommerce has not only food aggregators. There is other opportunities out there that we're exploring. But about – actually this was about four years ago. After trip James took to China, he talked about how food aggregators were growing in China.

And we actually took – I actually went with James later. And then we took our – the CEOs of our bottlers, our largest bottlers in Latin America to China. And we actually had the opportunity to meet and learn from Alibaba, from JD, from Tencent and a couple other companies, the technology companies on how they were reaching consumers and how consumers are changing their behaviors based on the opportunity that technology brings.

So one of the thoughts when we came back was this – what we decide in China we thought will come to Latin America eventually. And I think it – and we thought it was going to be part rapid movement.

So we thought about what does that mean for us. And one of the key things was what does this mean for the traditional trade for our mom-and-pops that represent a big part of our business and more importantly 3-1/2 million customers, traditional customers in Latin America that have an impact – there's an economic impact to their well-being and the communities they serve. And the idea was how can we help them.

So – and this actually generated a lot of work from the bottlers and from the company on experiments, on solutions that could be relevant so not only from a – from a B2B but also B2C solutions that could help us get closer and how could we partner with the food aggregators. So about two years ago or actually a little bit more than two years ago, we actually acquired a small stake in Rappi, which is one of our largest aggregators in Latin America.

The idea wasn't – was more than – the idea was to partner with them and learn from them and also learn how we could bring value to them. So we – we've had a very good relationship with them. We also have a very good relationship with (Isens) in Brazil as you saw.

And the point is that we learn that we could work with the food aggregators to improve the incidence of our beverages and all the orders that were being – that they were delivering working also with our customers and then the aggregators.

In the end, what we have is an organization in the business units that works with our bottlers to create programs with the food aggregators to help them grow. And I think that there, that we have a very good relationship across Latin America with food aggregators.

I was looking at some data recently on Rappi for example. Since the crisis came in, we're – in some cases in Brazil, our business are growing 10 fold, in other parts in Mexico, I think 3-1/2 times from a year ago. So there is rapid growth in the technology space. And obviously, we want to be part of that. And we're – we are learning and partnering as – with as many partners as we can in order to learn.

Carlos Laboy: As you – as you think about how you can partner better with your – with your clients ...

Alfredo Rivera: Yes.

Carlos Laboy: ... is the role of the red truck and the legacy limitations of what could go on that truck – is that – is that likely to be changing faster as we go forward?



And I ask because as you say, whether it's a Mercado Libre or Amazon or Alibaba, this can really boost the bottlers' business. And they can boost your sales considerably. And it opens up a whole reconsideration about direct home delivery and how you get to those ...

Alfredo Rivera: Yes.

Carlos Laboy: ... to those consumers. Can you expand on that?

Alfredo Rivera: Yes. I think the opportunity is there. I don't think that there is an issue on using the red truck for distribution purposes. I mean that seems pretty clear cut. I think that again on the experimentation side is are we talking about separate salesforces, how does that work in terms of products.

What I think the opportunity is though and just to change a little bit the approach is, because that our bottling system has the assets, has the trucks, has the capability, has the understanding and more importantly have built relationships with our customers, we're in a position to be able to serve these customers and bring solutions to them that they find highly relevant. And I think that that's an opportunity that we are beginning to explore.

Some bottlers are developing B2B solutions. We have a solution called Wabi, which is a – in – began as a – as a business to consumer app that now has a B2B also solution. And I – and we're learning.

So this is our learning process. But we see that there is demand for that type of a – of a – of service or solution. Therefore, back to your question on the red truck, the red truck can help us or can help bring more solutions to the customers. And we're open to exploring it absolutely again in a way that adds value to the customer, possibly to the consumer and to the system. And of course, we'll be open to and we are open to testing and learning.

Carlos Laboy: So that – so this all must be also part of the solutions that you're considering for Brazil. Right. You look at 2022. And ...

Alfredo Rivera: Yes.

Carlos Laboy: ... a lot of Heineken beer volume is going to be leaving those trucks. And so there is a lot of scale that comes off those trucks in terms of how you approach that trade. Can you speak to some of the ideas or solutions they can fill that gap and fill that void and at the same time put you in a more competitively advantaged ...

Alfredo Rivera: Yes.

Carlos Laboy: ... position vis-à-vis some of the giants that are there?

Alfredo Rivera: Right. What – I think again it's back to consumer and understanding what the consumer's looking for and then – and then the customer. But what we did is we worked together as bottling partners in Brazil and said, "OK. With Heineken leaving, what are the alternatives we have?" And then – and we developed a strategy. It's a three pillar strategy. I think maybe Henrique Braun shared it within Brazil. But it's, look, there is a lot of opportunity in our sparkling business. We have low – a low mix of refillables. That's an opportunity that's very big.

Stills, they're still small relatively speaking. There is a big opportunity to develop the stills business and by the way profit of – a very profitable, the core, the sparkling and the stills. And then there is a new frontier piece, which is, OK, what are those things that we can add that are relevant to customers or consumers.

So back to the Chile example in case there are some channels where we can serve a broader portfolio or new beverages, so we're testing Schweppes alcopop in Brazil thinking that is there a scenario where we can – is this an opportunity for us to explore further, which is an alcopop solution. From learnings from other parts of the world, we think that there may be a role here. So we're exploring it.

So we're trying to be as open as we can within – again with discipline so that we can explore and learn and drive the scale. But growth in Brazil is important. And growth at the core is what's going to drive the most value for

the system in the future. But again, we're open and we're looking at different solutions to drive more scale in the – into the system.

Carlos Laboy: Alfredo, in Chile, we spend a lot of time this morning with Andina talking about the regulatory changes in Chile, mandating that modern trade for example carry refillable bottles, that they offer refillables ...

Alfredo Rivera: Yes.

Carlos Laboy: ... as well as even the food aggregators.

Can you speak to whether you're seeing regulatory pressures or regulatory moves happening in other countries as well? And this just seems to me that it's a huge market share growth opportunity for The Coca-Cola Company. I mean you've invested more in these refillables in Latin America than everybody else combined by a lot.

Alfredo Rivera: Yes. Well, you know it's interesting. Before the crisis, before COVID, one of the biggest challenges we were working on was on world without waste. And in Latin America, in particular, refillables was a key part of our strategy to address that.

So coming – so today and coming out of COVID, refillables for other reasons will even become more important for consumers. So if we connect both, which you mentioned earlier in a conversation with Galya is connecting not only that, the affordability piece but the sustainability piece, it gives us an opportunity to really expand into occasions – by the way into occasions that normally wouldn't have thought of as relevant for refillables.

We think that there will be an opportunity to expand and particularly in single serve refillables for occasions beyond on-premise. So we want to – we – we're working on that because we think that's going to be highly profitable for the system. And it will allow us to reinvent if you will, our approach on occasions and how we use a packaging.

So in a – normally, when you think of Coke with meals, you're thinking of a large multi-serve pack for the family. Well, maybe single-serve has a role

there that we haven't – we haven't explored. And this is an opportunity to do that.

But regulation will continue to come around packaging I think when things normalize. And I think that we are in a – in a good position.

The other opportunity that we see is that in countries like Chile where our mix of refillables is pretty high, they're actually the most profitable markets. So when you look at markets – and that's because they can combine the one way packages, convenience and premium plus – and then you have the refillables more affordable. But then you have all the capabilities that our bottlers had built around segmentation and RGM.

So then you can actually create a lot more value. And I think that's a tremendous advantage for our system going forward, is the capabilities that have – that had been built over time.

Carlos Laboy: Can you expand on that – in it because that's a – that's a really important point that I think very often gets lost, that refillables help you premiumize? So often I hear as an analyst the question, well, isn't it a drag on returns for a bottler or on margins to focus on refillables?

But I think what people sometimes miss is that if you can take refillable packages as affordable packages it opens up your one ways for premiumization and to charge more, to capture the value of that, premiumness of your brands better in the one way packages. And you can drive the pricing higher on the one ways. And so you can open up your pricing architecture so much wider than if you didn't have those refillables.

And so looking at refillables in a silo doesn't really capture the value of what it does for your premiumization. Are you seeing – are you seeing that at play here?

Alfredo Rivera: You're absolutely right, Carlos. And I think it took us a while to figure that out by the way. So remember when you looked at refillables, man, all the investment that's required to buy the bottles and all – and I remember when it

was out of fashion to be in refillables in Latin America. I had to live through that process. And then we relearned that this was actually a game changer for us. By expanding our refillable base, by offering more options in refillable, then we freed up the one-ways.

So when we do projects on refillables, I always – you know we always look at, OK, what – what's a return on investment of this investment on bottles for example or on lines, et cetera. But then we have to factor in how that's going to free up – free other packs so that we can move pricing up on one-ways. And that's when we look at it holistically, then we see the value it creates. And again, the evidence is there.

We did some work. We put it together, an agile team with Coca-Cola FEMSA three years ago to precisely look at refillables. And actually, it was a universal bottle that had already – we had already rolled it out in Chile or began to roll it out. We wanted to see in a more holistic way the impact of moving faster on the universal bottle.

And it was fascinating to see the impact that by having a higher mix of refillables that your return on invested capital is much higher because you were able to premiumize your one-ways. And I think that's a – that's an – I'm saying something that now has come acknowledged within our system. And we're all working on that. But it was a big aha moment when we realized that.

Carlos Laboy: Alfredo, digitalization, you've touched on this several times throughout our conversation. But how are you using it to your advantage in Latin America at The Coca-Cola Company ...

Alfredo Rivera: Yes.

Carlos Laboy: ... differently than two to three years ago? And how is this becoming an even bigger changing agent three years from now?

Alfredo Rivera: OK. And I apologize here. I think it will be a long answer.

So what we saw throughout – I mentioned the trip to China. We started working on different initiatives at the system, bottlers developing their own solutions, we develop our own solutions. But after – in 2018, in the September, now, we have a meeting with the three largest bottlers and our routinely – our CEO routine – CEO council routine. And we agreed on four areas that we would work on together as a system in Latin America.

One of them was digital. The other were RGM, route to market and sustainability. But on digital, one of the first things we did was to figure out what we were doing. So we took an inventory of all the programs that were out there, all the initiatives, digital initiatives. We had more than 90. And we were able to pare that down to 15.

From my end from the group level, we created a digital transformation office that coordinates efforts and lets bottler – agrees with bottlers what initiatives are going to be pursued by each. And then we share. OK.

So we looked at, for example, Coca-Cola Company directly with this. We had been focusing a lot on food aggregators. And then on a – on a solution called Wabi, which began on Buenos Aires, which is a B2C solution — it's like an Uber solution where consumers download an app and they will order products. And those products will come from the nearest mom-and-pop.

So this has actually expanded very rapidly. We're now in 12 cities in Latin America. We're still trying to scale it up. But the solution is interesting because it gives a new revenue stream to their mom-and-pops. As we – as we continue to grow, we think that this will be an important proximity solution for consumers. And because of the crisis, we've seen thing – results actually were growing at 200 percent.

And this is not a – this solution allows consumers not only to buy our beverages but to buy the normal groceries that they would buy at a mom-and-pop including competing products because what we decided is that this is a solution for the consumer and for the customer. Therefore, we need to be open and let people use a platform for whatever their needs are. And

we're obviously getting the data, which allows us to get to know our consumers and customers better and provide better solutions to them.

So the big analytics angle is very, very relevant for us going forward. We've made a commitment and a broader way now where we're working on creating a consumer database of 100 million consumers in three years. So we're – so we're very focused on that. That's a lot of work. And we're working closely with our bottlers in order to create then one data lake that allows us to access information and be able to flag data analytics.

So in a broad sense, the key thing for us was to come together and work together on the solutions that we felt were more relevant as a system so that then we can help each other out and then come up with whatever solution works best. Then we can agree to scale it.

Carlos Laboy: Alfredo, what might be missing? And this is my final question to you. What might be missing ...

Alfredo Rivera: Yes.

Carlos Laboy: ... in terms of your effort to bring more value-add to the table to your bottling partners so that you can continue to motivate these families to make extraordinary investments behind the brands?

Alfredo Rivera: Well, I think that when a – that's a – that's a good question. Well, what I think we are committed to doing is to continue to work hand in hand like we've been doing for almost 100 years in Latin America, actually more than 100 years in Latin America working with our bottling partners together, investing with them and working in a way, which can be more open.

One of the big concerns of our bottling partners is are the returns the ones that I want. And usually, what happens – and it happens to us also – is what I've learned over the years is when we work together to adapt to the changing environment.

And I think that today is a perfect example of a changing environment where we don't have clarity what the future holds. We have an opportunity then to

create our future, to really shape our business going forward, to change those things that we – those structural changes that we may have not done before. This is the opportunity to move forward and do that.

And I think that what we bring as partners to our bottling system is that we bring a strong point of view, we bring our experience and an open mind so that we can arrive at any – so that we can work with their point of view, our point of view and come out with a stronger point of view on what we need to do because a business – in Latin America in particular it's clearly been very successful because we've been able to work together and in the end agree on the right path forward. So the challenge for us going forward is to continue stressing the fact that we're stronger and work together or as that saying is two minds are better than one, right, two heads are better than one.

But that's where that – where I think the value is in our system that's unique, is the ability to work together to – with – for solution and to adapt to a changing environment. I think that what we're facing today is a tremendous opportunity for the system, for the bottling partners, for The Coca-Cola Company to sit down and say, "OK, how do we shape that future together that's going to provide us with the sustainable returns that we all want?" And I think this is the moment then for us to work together in that direction.

Carlos Laboy: Thank you. Maybe, we can close out the last two questions with – for Tim. We had some questions coming in here from investors, Tim. The first one was ...

Tim Leveridge: Sure.

Carlos Laboy: ... how likely is the Coke need to accelerate the refranchising of company on bottling assets.

Tim Leveridge: On that one, Carlos, I would not say that there is any real change in the approach that we've talked about. I mean that obviously it comes down to South Africa, India and our southeast bottler ownerships. And at – and at this stage, we'd been pretty clear that in particular South Africa – South



Africa and the Philippines that it would be a bit of time before we move to refranchising.

I – and I don’t – I don’t think that’s changed. And if anything, it’s probably potentially delayed. It’s just a little bit in the context of obviously recognizing that our number one priority against all of this is to make sure that those operations are managing through what we’re all doing with this is a particularly complicated time and challenging time.

So within that, then I don’t think we’re in a scenario where we would be looking to try to accelerate that. And certainly, I think no matter what, it would be a challenge particularly in the near term to find the right buyer, the right price, et cetera to deal with all of that.

So – but – and the only thing I would reiterate is what James and (John) said in February before this really – the virus kicked in is that our longer-term strategy of trying to be the smallest possible bottler that we can be is still very much intact. It’s just the timing of it is going to be the key question mark there.

Carlos Laboy: And the final question, Tim, is as you hear – as you hear James speak internally to his team, two years from now, what do you think’s going to be the most – the biggest change that will have happened at The Coca-Cola Company and maybe even for the industry.

Tim Leveridge: Yes. That’s a great question. You know from my perspective, I can’t – I keep coming back to the cultural shift that had been underway and has accelerated beyond question. And even Brian Smith in an internal meeting a week or two ago said, “Look. What we are trying to accomplish from a cultural shift over the next 1 – 12 to 18 months is happening almost overnight.”

And you know a lot of it obviously is clearly by necessity. But that’s one of the positives. If there is – if there are some that are coming out of this, that’s a clear positive. And I think for us, as a company, in two years, that’s for me going to be one of the biggest benefits I see coming out of it.

I think the other reality from an overall industry perspective is that you're – there is going to be a forcing mechanism on really forcing companies to think about brands.

Galya mentioned brands – brand edge. I think in an environment where there is limited resources at a company level, there's limited resources at a consumer level, the brands that can bring value both economically from an importance, relevance to their lives I think are going to be incredibly important, are going to be the ones that ultimately win.

And that's why in all of the things that we talked about today that we're doing in Latin America – and I think you could say very similar things in other parts of the world for sure – I think are going to allow us to be in that position where we have a higher proportion of that share of brands that matter in consumers' and customers' lives.

And you know within that, you know I'm glad that I'm part of this team that's focused on that LATAM part of the group that's helping to drive some of the transformation and the cultural shifts that are taking place not just even within the company but from a system perspective as Galya and Alfredo both talked about on numerous occasions already.

And that it's meaningful. And it's – and it's not just lip service. And we could see it in the day to day conversations and discussions that are taking place. And I'm sure as you even noted at the beginning is bottlers are not shy to express their points of view when they see things that need to change within the system. And certainly, I think you're – the commentary and the feedback you've been getting has reflected that those changes are taking place.

Carlos Laboy: It is, Tim. Thank you. And look. As an outsider, Galya, Alfredo, Tim, I mean the amount of change that you're driving is so impressive. And it's notable. I've never seen so much change in 30 years of looking at The Coca-Cola Company like we've seen in the last three to four years. And so congratulations and thank you so much for sharing your insights with us

today. You gave us an awful lot to chew on and think about for the next few days. Thank you.

Alfredo Rivera: Thank you, Carlos. Bye-bye.

Tim Leveridge: That thanks, Carlos.

Galya Molinas: Thank you. Bye-bye.

Tim Leveridge: Thanks, everyone. Appreciate all joining. Take care.

Carlos Laboy: Thank you very much. Bye-bye.

Alfredo Rivera: Thanks, everyone. Bye-bye.

Carlos Laboy: Thanks, everyone.

Tim Leveridge: Bye-bye. Thanks.

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