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The Coca-Cola Co. (KO)

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

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Charlie Higgs
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MANAGEMENT DISCUSSION SECTION

Charlie Higgs
Analyst, Redburn (Europe) Ltd.

Good evening, everyone, or good morning if you're joining us from the US. I'm Charlie Higgs, one of the consumer staples analyst here at Redburn. And I'm delighted to welcome today James Quincey, the Chairman and CEO of The Coca-Cola Company to our Redburn CEO Conference. James, thank you very much for joining us.

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

Thank you. Almost great to be there if I was actually there, but anyway nice to see you, Charlie.

Charlie Higgs
Analyst, Redburn (Europe) Ltd.

Yeah. So hopefully, the last year we're doing this virtually but we'll see. And just a bit of housekeeping before we crack on. This presentation is being broadcast live on investors.coca-colacompany.com. The format will be a 50-minute fireside chat predominately between James and myself. But for those in the webcast, there is a Q&A function so please do submit questions and we'll try and hit some at the end of the – at the format. And then, I mean, just to set the scene, Coca-Cola has been around for 135 years. The first bottling contract was signed in 1899, spawning the powerful network of bottling partners that we see today. It's a company with enormous heritage that I couldn't do justice to in a short intro. And I'm confident everyone listening has probably tried one of the company's products before but perhaps or isn't as well known, and what we'll explore today is the transformation that's occurring both within the company and the wider system.
So let's start with the financials. And, James, you've been CEO now for four years and we've seen plenty of change during your tenure both at the Coca-Cola Company and throughout the wider Coca-Cola system. One of the most obvious outcomes has been the consistently stronger organic sales growth performance, which pre-pandemic had accelerated towards the upper end of your long-term 4% to 6% guidance. Have you re-oriented the processes and culture within the company and the wider bottling system to deliver the superior growth?

Yeah. Yeah. Thanks for that question, Charlie. Look, this has been something that's been building over time. If you wind the clock back or zoom the aperture out a little bit, just take a bit of a longer term perspective, we had got – if you go back 5, 10 years, we got ourselves into a space where revenue was only growing 3%. We owned in one way shape or form about 40% of the bottling system. Coke wasn't growing and we weren't doing justice to our attempts to fully diversify the portfolio.

And so back in that period, there was a clear decision made, we need to get back to what we're good at. We need to get out of the bottling business where other people much more entrepreneurial, much more locally focused with clear capabilities to drive the bottling companies would be better owners of those assets, and we could return to leading the system, to focusing on marketing, to focusing on innovation, to focusing on the drinks and the portfolio itself and really kind of get the line-up of products and brands sorted out, look for some productivity and reinvestment.

And that's what we started driving forward, such that by the time we got into the kind of the late 2017, 2018, 2019 period, we were starting to see the revenue grow at the top line because it was getting back to our need and getting back to what we were good at, driving as I said, the brand, the portfolio, the marketing, the innovation and teaming up with bottlers who could drive execution, who could pull the levers with us of revenue growth management, so that collectively we could raise the top line rate. And by focusing on productivity as well, we were able to reinvest in Coke and see Coke lead the increased growth rate of the sparkling portfolio and be complemented by progress on the diversification in set of the categories.

And I think, obviously, COVID has distracted and muddied the waters, but certainly on the last call, we talked about bouncing back about, now being back ahead of 2019 and gaining share. And that had allowed us to start the process of breaking out because the other feature of growing 3% revenue was that the dollar EPS was stuck at – bouncing around basically $2 for a very long period of time, which was also unsustainable.

So now, we were getting back pre-COVID and we were confident that we're going to come out of COVID with a model that can drive the revenue at the top end of the model, which is, of course, ultimately necessary because we're an asset light branding business. There's not a lot of leverage from the top of the P&L to the bottom. So the profit growth needs to be driven primarily by the revenue growth. There is some leverage, but it's primarily a revenue led things. That's what a criticality of driving the growth as a system. And I think that's what we were getting back to and what we will get back to and that will ultimately turn to growing EPS and shareholder returns.
Charlie Higgs
Analyst, Redburn (Europe) Ltd.

Yeah. No, I mean it's been a fantastic performance. So I mean just moving down the P&L slightly towards the margins. What are some of the main long-term operating margin drivers which you consider to be within your control? And how is the transformation enabling the company to better manage those areas? And do you feel the shift towards this asset light model for Coca-Cola today has yielded any advantages in safeguarding those margins versus, say the KOL of 20 or even 10 years ago? And then maybe just while we're on margins, the inescapable short term, are you able to talk about how you're managing input cost inflation and supply chain disruption across the system to alleviate the pressure on your gross margin?

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

Sure. I'll start on the first one, and then if I've forgotten about the second question by the time we get to it, you just remind me and I'll come back to it. Clearly, the refocusing of the business on being a brand company change the market structure very substantially. And we still, whilst small in global terms, is only a small percentage of the global bottlers, we still own the south and the eastern Africa bottler, India and a couple of other countries in that.

So, I think one has to look at the margin structure and kind of put them on the side because we've said we want to become the world's smallest bottler over time. And we've publicly said we're going to try and IPO the African bottler next year. So just put that on the side because that will create a mechanical benefit to the margin going forward that we shouldn't get distracted by. Although it will be pleasing to see the margin go up as there's nothing productive about that other than selling the assets.

As we then look at the operating margin, clearly, an asset-light model is inherently more stable in terms of the margins, and it's very much ultimately driven by the power of the brands. And therefore, what we focus on is driving the brand marketing, driving the innovation that supports the brands and by that way, we own the right for the revenue as we would call it the revenue growth management. We own the right for the pricing in the marketplace, which kind of just touches on your second question. If we don't see pricing as something that is fully driven and dictated by input costs, this isn't a commodity business that is a cost plus idea.

It's a branded business where the idea is that actually if you earn the value of the brand, you can take pricing on a consistent basis, which is inherent in our model that we're going to take pricing all the time. And so sometimes the question comes, well, are you going to take price of the cost is like, yeah, absolutely. But we take price anyway because we're creating value for the brands. And that's true both for the company which has a cost structure that's obviously different to the bottlers but collectively as a system, we very much are focused on, yes, passing through cost pressures but very much focused on creating brand value that allows us consistent way of pricing up all the time because ultimately it creates value for the retailers because it creates value for the consumers. And so everyone becomes interested in the same direction of travel, which then flows back to a much more stable margin structure.

Now, with regard to the costs, firstly, as I said, the approach of the Coke system and we've operated around the world, obviously in all but two countries, and so whilst this burst of cost input or inflation in the US and Europe is relatively unusual in inflationary terms. We operate in countries where inflation is the norm, high-single digits, more than double-digits, and so we're very clear that we're going to pass through those costs, we're going to seek to stabilize margin structures, you're not going to manage that every quarter but we're going to stabilize margin structures because if you allow the costs to come through and you have not stayed at pace then you become a
structurally kind of disadvantaged when the dust settles. And so that's the way we think about and approach it with our bottlers.

As it relates more specifically, the company versus the bottlers were exposed to different things. As it happens, the company, because we still have a couple of the vertically integrated juice businesses, actually juice is the biggest commodity we buy as a company. And it's not been quite as volatile as some of the others. But bear in mind, we focus – we and the models, we focus on long-term relationships, long-term pricing, long-term deals. So this rollercoaster cost is in part apparent because everyone's comparing to 2020. And if you compared to 2019, not everything is quite as hair raising as it first seems compared to 2020.

But we run a thing called the Cross Enterprise Procurement Group, where we and virtually all the bottlers collectively the big ones at least, we buy major commodities together, whether that be aluminum, PET resin, high fructose corn syrup, sugar and we focus on long-term strategies with hedging. So those prices, those cost increases will eventually come through, they tend to be smoothed out by our strategies. We tend to be advantaged in terms of price volatility. But we are going to pass them through and that's the starting point we take.

Charlie Higgs
Analyst, Redburn (Europe) Ltd.

Yeah, that sounds good. And I guess building on what you said earlier about the top line, obviously, fundamental to that is, is advertising spend. And you recently announced quite a major new signing of a media partner that would bring kind of end-to-end capabilities across categories and markets, which should drive efficiencies in both marketing spend and generate a higher return on investment. I mean, what do you expect to achieve as the new marketing strategy continues to evolve? And how do you strike the balance between traditional media spend versus your push into digital?

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

Yeah. I mean, the way marketing is done and way the money is spent has always evolved over time as the way of engaging with consumers has changed, where are the eyeballs and where are the people because it's not always about the eyeballs, it's where are the people. And so this is another part of that ongoing evolution. And so we have done a number of important things as you highlighted.

We've just announced a global marketing agency partnership with WPP, which is 180 degrees to where we were in terms of our approach. So let me just say two words about why that is important to us. Again, if you stand back when the marketing model is more stable, you can adopt a little more of a, let's say, a procurement or a transactional approach to getting the services you need to marketing. If you know exactly what you need and maybe we stayed in it too long, but one could argue that then what you need to do is buy each piece of service effectively and cost efficiently, and you can put them together yourself because you're in a stable kind of environment.

What happens as over the last number of years, as the digitization of marketing has moved from the small local – sucking up the small local advertising from effectively the shift from newspapers to online was Stage 1. Stage 2 is now the complete disruption of the large media platforms, TV and radio and in a way, where are people being engaged with from a marketing point of view. In a more fluid and dynamic environment, we need access to a different ecosystem. It's model is no longer completely stable, it's fluid, we need to learn and therefore there's new capabilities to be built and we need a greater focus on building out an ecosystem, which is what the agency part
in the model with some complementary creative agency is aimed to do, so that we can ultimately drive two things going forward.

One is going to be much more efficient. I mean, there's no question. We had thousands of agencies. The transactional by pieces bit had run its course and become inefficient rather than efficient. So there's going to be a substantive saving. And secondly, we believe it's going to be more effective and the real magic campaign for Coke is the first, kind of, initial pre-announcement, kind of, way of doing it. That is going to help drive us the marketing going forward. So, we're looking to cycle efficiencies in marketing from the new model, from the new partnership into – not just more effective, but more advertising that can help drive and sustain the top line that we're looking for.

Charlie Higgs
Analyst, Redburn (Europe) Ltd.

Perfect. And I'm glad to see from a traditional media point, the red lorries touring the UK at the moment, it will be in Sheffield tomorrow, so I'll try and catch it. But putting it all together, I mean, we've seen the company generate strong cash flows on the road to recovery through the pandemic, including two raises to the 2021 free cash flow guidance throughout the year. And I mean, you and John consistently talk about how cash flows are a driver of sustainable value creation. What is the long-term trajectory of cash flows as the business normalizes? And how do you think about the right capital deployment priorities over time? And what are kind of the factors that cause those priorities to evolve? And while we're on the topic, perhaps you could shed some light on the recent speculation of a transaction with Monster Energy?

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

Sure. Well, first, thank you for mentioning the Coke red truck because some things have enduring appeal no matter how digital the world becomes, you can't imagine how many e-mails we get on like the truck is going to this little village and it's not coming to our village and you need to reroute the truck, the enduring engagement with something that's kind of iconic yet simple is great. So not everything is going to be digital.

Secondly, on Monster, you gave me the opportunity to use my much unused, in recent times, answer, which is I couldn't possibly comment, but thank you for that opportunity. And the question on the cash flows going forward, we've made tremendous progress. I mean, the finance team and the wider business have put a very special focus on cash flows, and free cash flow has improved markedly over the last number of years and that was a very deliberate focus.

And so that has driven up cash flow conversion. Actually, we had a target of sort of 90%, 95%, we've kind of bounced above that recently that's to do with a number of the programs on vendor financing. And so there are reasons where we've overshot the target very happily, but overshot the target in recent years. So we kind of think that that 90%, 95% is a good long run number.

So in the end what's going to drive cash flow is top line growth because top line growth will drive profits and profits will drive the cash flow. So this is why I kind of always bring everything back to it's about top line growth because the top line growth is the fountain from which all the other things are going to work in a business of the nature of an asset-light marketing concentrate business, that's where it all comes from. There's just not enough leverage elsewhere to, on a sustained long-term basis, do anything else than drive the cash flow really predominantly from the top line revenue growth.
As you say, we've now reached a point where we have got out of the whole we were in where the dividend wasn't fully covered. It's now not just covered, but down to the ratio – payout ratio we were talking about in kind of the three quarter range. Our net debt-to-EBITDA is back in the range. And so we do have an emerging set of new questions on, okay, so if you're going to having extra cash flows [indiscernible] (18:39) going, as I would describe it, we were on a – we were in a narrow dark path out of a bad area before heading towards the sunlit uplands of having lots of spare cash to allocate. We're not yet in the sunlit uplands. We may be in the flowering meadow having got out of the dark swamp, but we're not yet in the sunlit uplands. But the question will come, and we will be thinking about how we talk about where that's going by the time we turn up in February in CAGNY.

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

Okay. And I think, the relentless focus on the top line is it's definitely coming through and it's all underpinned by the brand portfolio at the end of the day where we've seen that reduction from kind of 400 to 200 master brands, the discontinuing of Odwalla of tap, the company's first diet cola and as well as the reformulation of Coca-Cola Zero. So I mean it's fairly clear that you're comfortable challenging the status quo. How do you think about taking risks in the company and what have you learned about taking risks as CEO? And how could that look going forward?

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

Yeah, definitely. Let me throw out a few framing thoughts, which is it is very important for the CEO to set the kind of context or the breadth of the risk that we're willing to take. Because in the end, in a way the CEO's shoulders are the broadest. I mean, if you're a brand manager in country X, taking a risk and doing something with that brand in that country is your whole job. And then if it goes wrong, you stop worrying about your career and this and that and the other. But for me, brand X and country Y is probably a rounding error. Maybe it's not about rounding error, it's still probably very small for me. So clearly, my willingness to take a risk on that brand in that country is much higher just as a starting point than the brand manager doing in that country, because it's just so much smaller for me.

And so I think it's very important that the CEO kind of set the risk appetite so that people further down can feel free to take these risks, which in a perverse way are bigger for them than they are for me. That's point one.

Point two, it's a natural human tendency, I mean, there's that well-known psychological bias, which is very true in investing, which is people are much more sensitive to losing things than they are to not gaining things. In other words, when people evaluate projects of whatever nature, new innovations, marketing, commercial, whatever, they find it much easier to identify what could go wrong and how much going wrong is going to cost. And so you kind of – and the opportunity is perhaps a little, whilst it clearly can be much bigger, tends to be a little fuzzier.

And so, actually, there's a human tendency to kind of – as we know to overweight the kind of visibility of the possible losses. So the – and of course, you never know when you'll see, oh, if people kind of step back from doing something, it's very hard to know what you could have had. Now when things go wrong, you suddenly find out what you lost. And so really kind of pushing back against that, that tendency to overweight the knowable losses or anything and to make sure we keep the focus on what's the opportunity that we're going to give up if we don't do it.

And so that we've pushed, now underneath that we have pushed to be much more agile and to go for it because think about how those two things play out in a more static historical world of marketing where you make relatively few TV ads each year and you put them on. The impact of that is, so you're doing a few things. And so what
happens is people tend to work on the tremendous amount of time to try and make them perfect because, of course, if it goes wrong, you're only doing a few things a year. So you kind of – it's a big deal. And so there tends to be kind of a long perfectionistic bias to doing things. But that just doesn't work these days or hasn't for a number of years.

And so pushing, when you're doing more marketing and there's more – not quite always on, but there's more always on engagement with consumers. If you've got a perfectionist, the kind of risk aversion mindset, you're never going to catch up. And so we have to push against the culture. So I see it as my role is kind of being the chief culture pusher to kind of press against that institutional gravitational pull to kind of inertia or perfectionism or risk aversion, which is so critically important to succeeding and being competitive.

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

Fascinating. And I mean, we touched on it earlier, but you will emerge from the pandemic with a significantly leaner brand portfolio. Was that something that you always wanted to do and the pandemic simply accelerated the decision-making process? And in that vein of thought, how is the way the company approaches innovation change following the portfolio streamlining and the new organizational structure?

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

So, yeah, we always knew that we wanted to thin out the brands because it's a bit like cholesterol. It starts flaring up the arteries. Now the half of the portfolio we eliminated was 2% of the sales, yet every bottle needs the same amount of space on a shelf. And so if you are not constantly pruning it, you start to flare up the system with things that don't rotate and move through the supply chain and through the retailers as fast as the other stuff. So ultimately, you end up selling less, you have a reduced optimization. We've done a reasonable job of killing off what we'd call the zombie SKUs which would tend to be flavors of a certain brand [indiscernible] (25:08).

But we knew we had a set of zombie brands, these were very small and not just very small, they were not growing, they showed no signs of making any exponential growth and breaking out into some new stage of being relevant in the future. And so we did know we wanted to get rid of them, but there's a tremendous organizational inertia because back to the risk taking point of view, the year you get rid of them, someone has lost sales, some brand manager has lost sale, some country manager has lost sales, the bottle is commercial [indiscernible] (25:36) but they sell and now you're making it harder for me to reach the budget

So, you always face this challenge. And the opportunity in the pandemic was, of course, when the – when a crisis hits, and it is true of kind of whatever the nature of the crisis is, and in this case, it was a pandemic one. That in a crisis, everyone focus is the supply chain on the most important SKUs. And that's not just true of the manufacturers, that's true of the retailers as well, and that's true across categories.

So, in fact, if you go back to April 2020, demand of on-shelf SKUs shrunk dramatically across the world for reference to you. So we stopped producing a number of these smaller brands and SKUs because that was too complicated for the supply chain in the crisis. So therein is the perfect moment to actually take a top-down decision rather than trying to go one by one over time, which was probably what we would have done, we used to go, okay, now half of these things are actually just out of the market anyway. Let's just stop them, let's stop them coming back in. And so it was among the crisis, among the many things that have happened, there were opportunities actually to seize the moment and bring forward actions that needed to be taken and get them done in a fraction of the time that fraction of the pain, if it hadn't been for the opportunity afforded by the pandemic, so we just went for it.
Charlie Higgs  
*Analyst, Redburn (Europe) Ltd.*  

**Q**  
Yeah. Ruthless approach to the zombie trimming, but it hasn't all been about streamlining the portfolio. I mean, in your tenure, we've seen some pretty major acquisitions, including Costa Coffee in 2019, which obviously forms part of the business transformation towards becoming a total beverage company, which allows you to tap into more consumption occasions and attract new consumers. But traditionally, sparkling beverages have been the company's most profitable category. So over the long term, how do you think about balancing the transition towards a total beverages company whilst also growing the margins?

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

**A**  
Yeah. So it's a portfolio thing and now obviously, part of the benefit of getting rid of the half of the portfolio that was clogging up the system is there's more room for new innovation, whether it be the brands we either created or invested in or born pre-crisis or the ones that will come post-crisis, because now there's space in the system, in the shelf, in the truck, in the factory. We can refocus again on innovation as consumers go out and about and the world reopens in fits and starts.

And so we will be able to actually come back and drive the expansion of the total beverage company coming out of the crisis. And whilst, of course, Coke remains the heart and soul and probably given its incredible scale and success, we'll probably always have the best margin structure in the business. The biggest driver of our margin structure of many categories is not the nature of the product itself, but the level of market share you have in any given country that the business go one-on-one on, relative market share matters remains true in the beverage industry. And so there are kind of – if you take – if you look at Japan for example, where it's a very diverse portfolio of products and sparkling probably only represents sort of 20% of the business there, Coke is a great brand, super profitable.

When you look at some of the other categories where we have leadership too and they're also super profitable at the same sorts of levels as Coke, and why? Because they have leadership here in the categories therein at same levels of Coke or close to same levels of Coke. So, really relative market share in the category in the country is really important. Now, is that universally true? No. If you're in certain kind of lower margin like 100% juice or value-added milk, the margin structure in percentage terms is never going to be the same, but in money it can still be very attractive because the price points are much higher than they are for the regular drink.

So what we have to manage here is the portfolio and we have to manage the portfolio across the categories and also across the countries. We talk about how profitable Coke is, but actually it has three tiers of profitability. There's the developed world, there's kind of the middle income countries and then there's the emerging countries. And what we make on a Coke in India is a fraction of what we make on a Coke in the US or in Europe. In percentage terms, it might be similar, but in money terms, it's not because price points are very different.

So you end up with this need to manage your portfolio, not just of categories and brands, but which geographies are they selling in. Ultimately, in the long run as the economies develop, the value increases and the relative market share in the category in that country is going to be what drives the margins and we can manage the portfolio as we have been doing so. So we'll get the top line growth and increments of margin expansion as we go on.

Charlie Higgs  
*Analyst, Redburn (Europe) Ltd.*
Interesting. And then still on the theme of total beverage companies, I mean you acquired Costa in 2019 and then shortly thereafter unfortunately the pandemic struck, so we're yet to see it in full force. But throughout the pandemic, I mean the system pivoted more to the at-home channel with the ready-to-drink and the press reports and things like that coffee beans. But as we emerge from the other side, your main competitor in coffee has been quite aggressively expanding that brick-and-mortar store count particularly in exciting markets like China. Should we expect a similar capital-intensive strategy when we think about the Costa expansion in your markets?

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

Clearly, clearly buying Costa just before the COVID crisis was of unfortunate timing given the dependence of the business on the coffee shops which were all closed in the UK in the early stages. Obviously, as you know, in the early stages of a pandemic, What's interesting and goes back to the strategy, we said we wanted to. See, we did not want to have a coffee store only strategy and just kind of chase. What is still actually a tremendously fragmented industry, even though there's one successful standout in terms of coffee stores. Actually, the coffee shop market is tremendously fragmented on a global basis.

We said we wanted to pursue more of a platform. Yes, stores play an important role in creating the brand and sustaining the brand, but there were several other platforms. One was the Costa Express machines. Those of you in the UK will know, which is kind of a digital Barista with ready-to-drink Costa options and also what's called proud to serve, which is we're basically providing the kit, if you like, the beans, the machines, the signage so that people can serve Costa in their own outlets. And we felt what would work for us, Coke and for the bottling system is that four-pronged strategy. And so what you saw in COVID, obviously the rest of the coffee shops were affected and coming back over time. But the Costa Express machines [indiscernible] (33:18) grew all through the crisis. Like they didn't stop growing, they actually accelerated in growth. We launched the ready-to-drinks, which actually did very well in the initial launch markets out in Asia and so in the UK.

So that's sort of and then we've added thousands and thousands of proud to serve locations as we started to roll out. With the bottles sold – the way we look at it is, yeah, actually there's – whilst the coffee shop suffered, the branded coffee shop suffered, actually there are some proof points out there that this four-pronged strategy has a good shot of working for us.

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

That sounds good. And, yeah, so I was making a lot of use of the Costa Express machines in lockdown and it's got an embarrassing amount of free ones in the loyalty card now, but you're different, you recently acquired Bodyarmor, the number two US sports drink in retail. Can you talk a bit about the rationale for this acquisition given you already had brands like Powerade and Aquarius? And then how you see Bodyarmor scaling throughout the Coke system in conjunction with these existing brands?

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

Yeah. So we have over time – you had us part of our strategy sort of bolt-on M&A, investing in interesting brands that might disrupt categories and Bodyarmor would fit that bill. We invested in it a number of years ago because it looked like it might be a disruptor in the sports drink because it would bring something different. And I think over time very much demonstrated it didn't just gain share, it actually brought a lot of new consumers to the sports drinks category and grew the category itself. And that made it very interesting to us because it's clearly going to be much more effective from a momentum point of view if you're not just gaining share from someone else, but
you're creating category growth as well. And I think that's what BODYARMOR proved that it could do very successfully.

So then we boarded it. And how that then works as a portfolio, it's very segmentedly different to Powerade in the US. I mean, the BODYARMOR is basically just in the US and we just have Powerade in the US, we don't we don't have Aquarius here. And so, I think there's a relatively straightforward segmentation that can be executed in the US and actually is being executed because BODYARMOR was in the Coke System on the red truck over the last number of years, even before we acquired 100% of it. And we've driven a strategy of kind of the premium, disruptive difference of BODYARMOR with the kind of more mainstream sports drink of Powerade, and the two together have worked out nicely in terms of not just gaining share, but actually bringing growth to the category.

And so, then as we look around the world, we'll be obviously thinking through where does BODYARMOR make sense to go internationally. As you said, we have Aquarius, which tends – I mean, it's more European, which as a marketplace is a little less hardcore sports drink marketplace. The sports drink kind of category in Europe is less developed than US for lots of reasons. And Aquarius plays a great role in the kind of just a more refreshing everyday sports drink. And we'll look at where BODYARMOR makes a great complement to what we're already doing, but with a focus on how do we create category growth, not just how do we kind of just gain a little more share or a lot more share in the category in any particular place.

Charlie Higgs

Perfect. And I mean, delivering on this evolving portfolio obviously requires best-in-class execution, which brings us nicely on to the bottlers. Consolidation has been an ongoing feature of the network since at least the 1980s. Can you maybe talk about what are the benefits to the Coke System of bottler consolidation? And then I have to say alignment between The Coca-Cola Company and the bottlers is one of those areas that's noticeably strengthened under your tenure. Again, what advantages does that give the Coke System today versus, say, the Coke System of 20 or 10 years ago? And perhaps you could talk about how that's also helped you and the bottlers during the pandemic?

James Quincey

Yeah. I mean, alignment with the bottlers – think of it perhaps in this way. If you have a franchise system where you have, in our case, a company and the bottlers, and you compare it to a vertically integrated system. If you're a vertically integrated system, it's very hard to be good at everything in a vertically integrated system. You're almost inevitably going to skew your capabilities more to one or other of the very important things that need to get done.

The objective of a franchise system is to try and get both – to try and, in our case, have the company, which is very much brand, marketing, innovation orientated and have partners that are very much commercially, execution, manufacturing, scale orientated. And so, if you're aligned, you enable yourself to get the best of both worlds versus the rest of the competitors. The consequence of being unaligned is you're in the worst of all worlds. So, a well-aligned, well-coordinated, strategically coherent franchise system can be stronger and do more things than its competitors. An unaligned franchise system is the worst of all worlds and is a millstone around your neck, around everyone's necks. So, that's the importance of being aligned. It's the only way to leverage the biggest range of capabilities for competitive advantage, which over the time has proved to be a very successful model for Coke, but it's critical to have that alignment and to make it happen.

And so, let me go back to bottler consolidation, which, as you say, has been occurring. And the orientation of the consolidation has been to create or take another step towards bottlers that are not just aligned, but have the
capability, the wherewithal, the financial capacity, preferably with family or anchor shareholders that have a very long-term vision for the Coke System and so that they can invest in getting things done.

The other part of the consolidation has generally tend to be that it be more logical. In the past, it was a bit more free association. Anyone could go anywhere and it didn't matter if there wasn't a sort of industrial or a kind of synergy logic to the thing. If there was a willing buyer and a willing seller, you got consolidation. But that produced a kind of a patchwork quilt of operations. Most extreme was the US, but it was also true in some other places. And in the kind of the consolidation and the refranchise, we're like, no, we need to make the thing economically logical from a kind of manufacturing footprint, from a distribution footprint, from a scale to get the right amount of capability on IT or selling or whatever it was going to be.

And so, the consolidation has also been a vehicle because it went along with refranchising to actually create a much more coherent and logical structure to the bottling system, which then, of course, lends itself to having a greater degree of alignment, which then lends itself to having more clarity on strategy and more where both partners are executing at the maximum to drive the business forward. So, I think consolidation has been supportive of creating a much more capable and aligned system.

Charlie Higgs
 Analyst, Redburn (Europe) Ltd.

And behind the scenes, we’ve also had all the new networked organizational structure, which we’re now a year into, and I think one of the most exciting aspects for me was the formation of platform services to further enhance collaboration across the system. I mean, what are the key areas you see platform services making the most impact for yourself and the bottlers when it’s fully up and running?

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

Yeah. So, it's one of those things we have done where, generally speaking, the business is local, all the drinks are made and sold – drinks that are consumed in the UK, they're virtually all made in the UK. So, it's still a very local business both in consumer and retail terms. But there's always exceptions that prove rules. And the things that are the exceptions to that rule of localism we've largely moved into platform services. Historically, we let them be quite local. If I give you head start with a simple example and then move to a more interesting one.

The simple example is like an SAP implementation. Our last SAP implementation was in 1999 or the previous one was and I think it probably went down as the world’s most expensive because every country was allowed to import and localize the structure of the accounts and everything that was done. And so, it was a nightmare. Because the reality is something like an accounting system, there's one, it's just like it's needs to be one. And the more the world is digitized, the more it's completely mad to start having lots of different things everywhere and let everyone customize everything. And so, we've just turned on this year – turned off the old one from 1999 and turned on the new one that went seamlessly and smoothly and radically cheaper because the decision was, no, it's going to go into platform services and there's just going to be one way of doing it. You can have some local input but, no, you have no decision-making authority over it. And it's just going to be what it's going to be.

But that then also – that's kind of simple example goes much further when you start thinking about consumer engagement being much more digital and it's self-evident when you say it, it's like the idea that each country is going to come up with a platform and a software backbone on a server backbone to support that platform is going to be different in every country. I mean, it sounds mad when you say it aloud because it is mad. And so, the platform services exist to really generate scale and effectiveness on those things that are self-evidently going to be much better done organized and generally depend on being some sort of software or platform.
Data analytics, consumer engagement, all these sorts of things, the shift to a much more data and analytical business needs to be driven by a common backbone, which is what platform services are for. And then our objective with the bottlers is not that we necessarily will get on the same platforms, but we have different needs, different things we need to do. We don't need the world's most complicated SAP invoicing system because we don't send out many invoices each year because we send them to the bottlers who have very big shipments of concentrate whereas the bottlers send out zillions every day. So, we have different needs, but we need to connect the – you can only do data analytics if you can surf through the data lake. And if everything is disconnected, you have lots of puddles and no lake. And so, our objective is to be able to connect where value can be created for us and the bottlers connect these different pieces together.

Charlie Higgs  
Analyst, Redburn (Europe) Ltd.

That's a good analogy. And then moving on to the important topic of ESG, I mean, you set out the World Without Waste program in early 2018 and we received a very comprehensive update in November, covering all aspects of the system's plans to reduce carbon emissions all the way to refillable packaging. But much of the responsibility for achieving the World Without Waste targets rests with the bottlers. So, how does The Coca-Cola Company collaborate with the bottlers to ensure that those targets are achieved?

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

Yeah. And actually it doesn't just rest with – well, first, let me back up. I mean, firstly, many of the things we do, the company's role is to help set, if you like, set policy and direction, and then the bottlers are the execution on there are no cokes – well, not no cokes, the cokes are not generally sold unless the bottlers is making them and selling them and distributing them. So, the bottler is the implementation arm. But World Without Waste, which is the idea that we will collect back a bottle or a can for every one we sell and use at least 50% making new bottles and cans ourselves isn't just the bottlers needing to do it. I mean, we input firstly by designing to make all that possible. So, designing the packaging to make sure it's all 100% recyclable, designing the packaging to use the least possible material consistent with consumer acceptability. So, we have a lot to do on the frontend.

The bottler clearly has a lot to do in making and selling them. But the collection, which is the critical piece because once the bottler gets them back, we have plenty of countries in the world, whether it's Mexico or France or UK, where the bottlers we invested in recycling facilities with partners so we can take the bales of collected bottles and chop them up and make them back into new bottles. That's not the hard part. And the bottlers have demonstrated that it's relatively straightforward to get up and running with some ecosystem partners.

The key is collection. And way the company, the bottlers, all of us together on our own can't make it happen. We need and we are working with other manufacturers and with retailers and with local government to put in place one way or another the collection system so that we can get the separated PET or aluminum cans back again. Because if we get them back, they can be made into new packages and you truly can operate a circular economy. And this isn't rocket science because there are countries in the world which have collection rates way over 90% and there are countries in the world where all the bottlers we sell are made from recycled PET. So, it's doable. It's a scale and a organizing of stakeholders problem rather than a technological problem.

Charlie Higgs  
Analyst, Redburn (Europe) Ltd.
That's great. And we're quickly approaching the end. So, maybe time to fit in a quick Q&A and just I'm looking at the board. There's quite a few Greek letters going on here around Omicron. I was just wondering if you could maybe touch on your early thoughts on Omicron and how you feel the system is positioned today versus, say, in March 2020 when this was all kicking off and how that would help your response to new variants?

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

Yeah. First of all, I mean, it was shocking to everyone in March and April of 2020 and we very much leveraged our much high level of border alignment. We had like weekly calls basically from the countries that were at the frontend of the crisis explain to countries at the backend of the crisis in terms of COVID arriving. What's going to happen, which channels – exactly like here's what's going to happen, here's what you need to think about so that the maximum level of preparedness could be established across the system right at the beginning of the crisis.

Obviously, it's still affected us quite deeply, particularly in April, but relatively quick we learnt how are we going to adapt the business, so that each successive wave of lockdown have less of an impact on our business because we were able to move to new places. And I think that adaptability and flexibility that we've developed to kind of move to where the people are and where the business is going to be in the case of lockdowns or more restrictions makes us feel better that if Omicron turns out to be something more material than the previous variants that the business is ready to adapt and to keep going. Now that we've got above our 2019 level, we'd very much like to stay and build from there going forward. I, like the rest of you, don't know whether Omicron is going to be material or just another letter that unfortunately we're going to have to wait a few more weeks to find that out.

Charlie Higgs  
Analyst, Redburn (Europe) Ltd.

Yes. No. Fingers crossed. And I mean, just conscious we've approached the time and you've been very generous. So, I mean, James, it's been an absolute pleasure and I thank you very much for joining us at the Redburn Conference this year.

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

You're welcome. Thanks. Hopefully, I'll make it in person one day.

Charlie Higgs  
Analyst, Redburn (Europe) Ltd.

Hopefully, yes. And I'll just say thank you to everyone on the webcast for joining, your interest in the company. I'll endeavor to get back to as many questions as possible afterwards. But on that note, I mean, I hope everyone has a great festive period and thank you for joining.

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

Thank you. Cheers.
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