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The Coca-Cola Co. (KO)

Consumer Analyst Group of New York Conference

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MANAGEMENT DISCUSSION SECTION

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Make our way back. Time for our next presenting company, The Coca-Cola Company. So before we start, first of all, I'd like to have you join me in thanking The Coca-Cola Company for providing beverages for us all week. And I also want to thank them for hosting the Topo Chico mixer tasting this afternoon, which starts at 4:45 on the Spanish Terrace. So, please.

If there's one thing that's really defined Coke over the last couple of years is how well they've executed in what has obviously been a really difficult environment. And I think it's been a function of the streamlining of the portfolio in the organization they've made, the networking of the organization, better bottling alignment. It really couldn't have timed all the actions that this management team has taken better with this environment. So, please join me – we are pleased to have Chairman and CEO, James Quincey; President and CFO, John Murphy with us here today.

And James, I'll turn it over to you.

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

I thought maybe you were going to do the presentation, Bryan. You started off so well. Okay. Good morning, everyone. We're in the new early slots at the beginning of the week rather than Friday afternoon. So it's good to see you all looking lively, not at your computer screens half asleep. So maybe we'll stick with this slot.

Forward-looking statements, I know you all enjoy seeing it. I hope it's different to everyone else's. Okay. What do we want to do today? John and I want to talk about four things. We want to talk about a bit about a retrospective of the last number of years, how we've been delivering in a dynamic world, and really set up the hypothesis that

this is an all-weather strategy and an all-weather company. Then we want to talk about how we're doing it, how we've been pursuing excellence globally, and how we marry that with executing and winning locally. And then, of course, talk about how we see that creating compounding value into the future, bringing to life the promise of being an all-weather stock.

So with that, let me jump in. Let me start with a brief retrospective on the numbers. I think if we took ourselves back five years, I'm not sure how many of you would have agreed that this was the most likely outcome over the next five years. And certainly with the pandemic, I think we all lost sight of which way was up and which way was down. But let's turn back, let's say what have we, the company achieved over the last five years and these are the numbers.

In currency neutral, we've grown revenue 7% on a compound basis. Operating income has grown 10% on a currency neutral basis. And that has turned, as we – the much talked about $2 EPS per share. We've broken out almost $2.50, 6% compound CAGR in the dollar EPS number. And the free cash flow, free cash flow getting on the way to doubling, growing in double digits. And certainly not on the page, but no less important, we've gone from having an uncovered dividend and leverage under pressure to having a well-covered dividend and a leverage ratio below our long-term target.

And we've done that really through all sorts of weird and wonderful economic, the competitive landscape, the geopolitics environment, but centered, as the bottom of the page shows, on keeping the consumer at the center of everything we do and that has produced the results you see here.

And we did that because through it all we stayed clear on what our purpose was. We stayed clear on what the North Star was, which is to refresh the world and make a difference. We kept this front and center because it allowed us in the early years to re-orientate our business and drive ourselves forward, and it allowed us to manage through the pandemic. We said about trying to return to our roots of refreshing the consumers in body, mind and spirit, about having to dial up the pace that was always actually inherent and intrinsic in the Coke company strategy, but how we continue to refresh the planet, limiting the footprint that we leave behind and do it in a way that also spreads the wealth of the business system.

From the very early days, Robert Woodruff had said – the eponymous CEO of the Coke company that everyone needs to make money on Coke who touches it. So we kept that purpose in mind and it's still our purpose going forward. And we believe it will guide us as we seek to drive this company into the future.

So, let's talk about the future. We've made an innovation in the page, but the message is still the same. Three years ago, it had two bottles. Now, it's got lots of little symbols of people. But the message is profoundly the same. There's a world out there of developed economies, developed markets, which is about 20% of the world's population. And you can see here that a good number of the people, almost 30%, are colored red. And those are people who drink one of our products every week, all year long.

Now, as you can visually see, virtually all the other little people are colored gray, which means that they're consuming some other commercial beverage on a weekly basis. And there's relatively little white space at the top and there's relatively little the top left-hand people are the people who are to be born in the future. And so, the name of the game in the developed economy is clearly share gain. Clearly, eating our way into a greater commercial beverage market and bringing those consumers into our franchise.

But one of the great long-term reasons to believe in the trajectory of the beverage industry and in Coca-Cola is [ph] depicted (00:06:28) on the right, the developed and emerging markets. This is where 80% of the world's

population sits. And as you can see, obviously, the vast majority of the industry is yet to be created. It's all white space. And so, there is a huge task ahead of us as an industry and as the leader of that industry in creating the commercial beverage industry well, well, well into the future. Within that, yes, we have opportunities to continue to gain share, but the vast opportunity is creating the industry well into the future.

So we think the opportunity for beverages and for Coca-Cola is bright a long way into the future. And as we think about that, we describe that in commercial beverage terms. And so perhaps if you'd reflected back on this day in 2017, we'd have talked about an addressable market of $650 billion. But the categories we competed in were the ones that you knew we competed in. Coke, sparkling, juices, energy, water, sports drinks, those sorts of things. We have begun experiments in other categories, in the hot categories, in coffee, in some of the alcohol categories that we've called here emerging. And so, we have begun to think about how we expand our addressable market within the universe of commercial beverages.

So huge opportunity for the industry and a huge expanding opportunity for The Coca-Cola Company that allows us to remain true and strong in our core Coca-Cola and the other sparkling beverages, and yet expand broadly to meet the consumer wherever they want to be met. And that's how we're going to do it.

The portfolio, Bryan started to point out we had in the last few years trimmed down the portfolio and we will always have work to do to update the portfolio to make sure it's the one that is most consumer-centric. There will always be things that endure for many years. I mean, part of our task is to make sure our brands endure very far into the future. But there will always be new. There'll be new variants of those brands, and there'll be new brands and categories brought to the market.

So we think we've taken the roughly 400 brands, we slimmed it down. We took out half of the brands which was only a couple of percent of the sales. It was really the slowest rotation. We always have to remember that it's not just about the portfolio that will fit on the PowerPoint page, it's about the portfolio that will fit in the facings in a store. And that valuable real estate doesn't just have to do the most it can in terms of rotations and dollars for us. Most importantly, the customer is not going to put it there unless it works for them and works for the consumer. So a constant task of pruning and growing the portfolio.

We think we have the right strategy to bring that to life and we'll talk more about that in the coming pages. And then the organization. We undertook a lot of work. Five years ago, we took another big step during the pandemic of reorganizing the company to really get focus on the ability to leverage globally what's best on globally, like the platform services organization, some of the category leadership roles, some of the R&D and to stay local where it really is a competitive advantage for us.

All of that we do as a company in conjunction with our bottling partners. We still have about 200 bottling partners around the world. They collectively have about 950 manufacturing facilities, 950 – almost 1,000 factories out there producing our portfolio. And they work to deliver to 30 million customers around the world. And we're doing about 2.2 billion servings of our products every day. So we have the right portfolio with the right strategy, the organization and the partners, the bottling partners to really bring this to life.

And that system, all of us collectively together, we continue to invest against that opportunity that we so believe in. Yes, our portfolio gives us quite clearly the number one share position in non-alcoholic ready-to-drink around the world. We have $26 billion brands and perhaps more emblematic of the power of the portfolio married with the bottling partners [ph] has our – and our (00:11:11) ability since 2017 to gain 2 points of value share globally. And we've done that by continuing and continuing to invest. This is a solid compounding business.

We invest in strategic capabilities. The amount of money that has moved towards digital marketing, over $1 billion. The amount of investment by the bottling partners in capital expenditure, factories, trucks, et cetera, over $7 billion. Over $1 billion is invested every year in cold-drink equipment to make our beverages available immediately cold for the consumers.

And we've also continued to invest in the softer side, in the cultural side, in bringing our organization to life. Organizations obviously are not just the sum of the boxes and the lines on the page, but the culture that brings it to life. And we continue to invest. We have seen great improvements in our engagement of employees and so have our bottling partners. So we've been investing for the future, investing in the brands, investing in the system, in the infrastructure, and investing in the people to bring this strategy to life.

So let me perhaps populate that overall idea of the huge opportunity with some examples of how we're pursuing excellence globally and how we're winning together locally with our bottling partners. It all starts, of course, with the consumer. We continue to focus and bring to bear the consumer in everything we do and to dial up the starting point of what are the human insights involved in whatever question, whatever opportunity we're talking about. What is it we're focused on and how can we bring it to life?

And in the case of the beverage industry, of course, the taste of the product is the starting point. People aren't going to drink drinks they don't love and don't taste good. So we have to marry the human insights, ultimately, the branding and the execution with the intrinsic properties of the brand, you need great products. Yes, all of that is going to come and it's being levered and leveraged with more data, more use of data and analytics and driving it forward. And that is allowing us not just to analyze and produce more insights, but it is also the gateway to the connection with the consumer. We can talk more about that in a minute.

So what have we been doing to do justice to this consumer centricity? Firstly, we've been raising the bar in marketing. We've been not just pruning the portfolio and reorganizing the organization, but we've talked over the last few years of how we've changed our marketing model. We went from tremendously fragmented with lots of agencies to a much more coordinated and some parts centralized, one big global relationship with a set of marketing partners, but with opportunities for local creativity. And we've used that model to start redirecting where and how we talk to consumers.

Firstly, on passion points. We've got sharper and clear on which are the passion points that really matter for any given brand. Perhaps it would be true in the past, in the glory days of the 90s when Coke was doing well and had lots of money, but just wanted to have all the passion points and many of them were super effective and some of them were not. So we got more focused on the passion points that really matter. So, for example, Coke, music, gaming, sports and started to dial up those opportunities.

We've also started to dial up the personalized opportunities. As I mentioned in the previous page, we're building a large repository of first-party data as privacy has rightly begun to change the dynamic of how digital media is bought and used. The value of some first-party data as a guide to where to go and a way of engaging with consumers has come up. And we've expanded into that here with an example of Fanta and snacking.

The third is with partnerships. Clearly, the movement to endorsements to influencers understood in its broadest sense and collaborations is a big part of what we're doing. You can see a couple of examples here, one with smartwater on how we're using those connections to bring our brands to life and to drive brand awareness and brand engagement.

And then lastly, on the right, pioneering with AI, I'm sure everyone is talking about AI and I don't think we're even at the beginning of understanding what it might be able to do. But certainly this morning or last night, we announced that we'd done an alliance with ChatGPT of OpenAI to be the first partner to see what we can do in the consumer space. Can we use all their AI technology to drive and enhance creativity of our marketing department?

Actually, the two images on the page were created by DALL-E, the visual part of the AI. And this, for sure, fall into the experimental category, but the opportunity to greatly enhance the creativity of our marketing department using AI is something that is worth trying, could be very exciting going forward. Certainly as we've tried digital technologies across other aspects of our business, every time we've married the human with the technology, we've got a better result than either of the two alone. So we're very excited about what AI and the alliance with OpenAI can do for us and may do for us in terms of upping our game in terms of marketing creativity.

All of that together has allowed us to continue to improve our effectiveness of our marketing. Yes, digital marketing spend is now over half. Bear in mind, there are lots of parts of the world where digital is still more nascent or television is still very effective and very cheap, but digital is now over 50%. The use of the focus and the marketing model has increased our ability to go from idea to execution. Whether it's three or six months, it's made a big difference in bringing down the cycle time of getting an idea to the marketplace. And it's also driven up the amount of gross profit we can generate for every dollar of marketing spend. So we've been raising the bar in terms of our marketing.

We've been raising the bar in terms of our innovation. You can see some examples here. Most importantly, we've been focused on iterating and getting stuff done. So you can see examples here for the premiumization with Schweppes, you can see examples here of focusing in on wellness and recharge with Costa and smartwater. You can see the virtual interaction bringing a lot of our equipment here, the Freestyle machine, into a digital connection with the consumer and that's true of the Freestyle machine here in the US, it's true with a lot of our vending machines in Japan.

Also, the functional benefits BODYARMOR, Thums Up Charged and sustainability. Here, you can see examples of bottles with no labels or where the cap is tethered on. So innovation has to be [ph] iterated (00:18:58) and has to be tried. We're expecting to see about a quarter of our growth this year come from innovation. And most importantly, we're starting to see the success rate we get from innovation go up over time and see the gross profit per launch go up over time.

And lastly, from a global perspective, looking at our sustainability agenda, I won't go through each one of the pillars. You'll be familiar with the goals we've set ourselves across the five big areas, and we're making progress, whether it's on water, where we've been water neutral since 2015 and looking to go water positive and to focusing on those areas, those factories, those countries where scarcity is the biggest problem. Almost 30% of our global portfolio is now sugar free or low calorie.

We're engaging on reducing our carbon footprint. We've linked some of the sustainability goals to executive compensation. You'll be able in – shortly, in a few weeks to see our fifth business and sustainability report where we integrate all our progress on our business with the progress on sustainability, lots of targets and lots of data against our targets. And we continue to believe that these targets are achievable and these targets are, no pun intended, sustainable. And so we'll continue to drive for that with local governments and with NGOs.

So, let me then turn to winning locally. Winning together locally with our bottling partners. Because the world is not flat. Everything isn't the same globally. And we have to marry what we've created and seen on a global basis with what is going to work for the consumer and work with the retailer at a local level.

What does that look like? Well, it also looks like brand building and innovation. Here are few examples of how we brought some of those things to life in the marketplace. So you've got an example there from EMEA, whether it's on the branding and the product, the Zero Words, how do you describe the taste of Coke Zero in Zero Words? Tremendous consumer engagement is [indiscernible] (00:21:14) produced a lot of consumer engagement. All the way over to the sustainability side we have a very clear goal on driving recyclability and a circular economy around all our packaging, but there are elements of what we use in our supply chain that have very poor recyclability. For example, the little plastic six pack ring that goes on the top of the cans is very difficult for the consumer to recycle. So we started rolling out a replacement that's made of cardboard called the KeelClip here is in Western Europe and it started arriving in the US. So innovation, that drives the brands and drives the sustainability.

The Asia Pacific example, here the Sprite Zero Sugar Activation in China drove a, I think, it was 60% increase in the volume of Sprite Zero in China, but also an example on the sustainability side. Here, these are label-less bottles for those of you get deep into the circular economy will know that labels are a complicating factor in recycling. So we sell online multi-packs of label-less bottles and they now account for a huge percentage of the online sales in places like Japan.

Revenue growth management, all of this branding and innovation is brought together in packaging and pricing and channel. We've talked a lot about this over the years. It continues to be an important feature of what allows the system to capture, actually to help earn and to capture the value we create with our brands for the retailer and for the consumer. So here, examples from North America, whether it be the rollout of Aguas Frescas that was working so well, we put it on the fountain machine and it's allowed us to really help drive – one of the things that's helped drive our basketing incidents in the US where we've been able since pre-pandemic to gain share in both the away-from-home channel and the at-home channel. So that combination of using premiumization opportunities like Aguas Frescas and Freestyle and the affordability like the 125-liter bottle for meal occasions.

Similarly, same conceptual strategy in Latin America, but brought to life differently. The mixer occasion, using Schweppes in Latin America to drive the premiumization of the mixer occasion, but complementing that with affordability through refillable bottles, which allow us to bring down the price point. That's allowed us to make huge leap forward, but also innovation in excellence – in execution. We brought over 70% of the traditional trade stores in Latin America onto our B2B electronic platforms and they use it one way or another, and it's allowed us to drive what ultimately is the net result of revenue growth management is that revenue grows faster than transactions, and transactions grow faster than our volume.

So, we've been driving that locally, but the portfolio also has an aspect of local, has an aspect of bringing some of the global thinking to life in local places. And here you can see a spectrum of the development of some of those ideas, from the early alcohol innovations. We put 27 different ideas out there for sure, they won't all survive. I'm very excited to see the Jack Daniel's and Coke coming to the US in March, but certainly the indications of the experiment continue to give us encouragement that there is an opportunity there for the Coke system.

Costa, obviously inopportune time to have somewhere that's based on stores just before the pandemic, so really in a strategic sense, while we've learned a lot with the expansion of the express machines, which one is outside here and [indiscernible] (00:24:59) in strategic terms, we're really back in the beginning and we need to demonstrate we can execute against the vision.

BODYARMOR, a bit of a bump in the road as we integrated it last year, but there's still huge potential and we have the system in North America has great plans in combination with Powerade to recharge and get back to growth in 2023. And there's still huge potential. The brand awareness of BODYARMOR is still ultimately relatively low. fairlife, fairlife has quite simply been knocking it out of the park, eight years of consecutive growth, but really strong profitable growth is turning into a great platform and of course Monster continues to do very well and has gained almost 4 share points since 2017, great partnership with Monster.

And all of that comes together with the aligned system as we talked about it before. We really do have strong alignment with our global bottling partners, our local bottling partners, even down to the smallest bottling partners. And we've been raising collectively that bar on execution and really driving our system alignments focused on the desire to grow and capture and create value. And we're leveraging those advantages of the system, whether it be in execution in the marketplace or whether ultimately by the big circle on the right, whether it's in procurement, we collectively have an organization called the Cross Enterprise Procurement Group, which effectively coordinates and organizes commodity buying for the whole global system, us and the big bottlers all together. And it saves a huge amount of money and allows us to make sure we have continuity and access to supply, not just good prices and good economics from the suppliers.

So with that, hopefully we've been able to talk a little bit about how we've been adapting to the crazy world that's been out there? How we've been delivering across a very dynamic last five years. And we do that by pursuing excellence globally and focusing on winning together with our bottling partners locally.

So let me hand over to John, who will talk about how all of that turns us into a value compounder for many years to come.

[indiscernible] (00:27:30)

John Murphy

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

All right. Good morning, everybody. It's great to be back here with you. Let me start with just a point of emphasis on the momentum and the belief that we have as we enter 2023, having delivered what, I would say in a relative and absolute sense, steady returns in a very unsteady world over the last few years. Those returns have been ahead of our long-term growth algorithm and have been driven by a couple of key factors.

James and I grew up in the parts of the world where you have to get used to all kinds of weather, and it's been a core feature of the way we've approached the business over the last few years. We also believe in the power of iteration and of learning. And I'm just getting better at what we do in the core features. And so we've seen better marketing and innovation, a better performance in the marketplace driven a lot by some of the [indiscernible] (00:28:47) activities that we just talked about, better use of our resources. And last, but certainly not least in my time in the Coke system, better alignment, the best alignment I've seen with our bottling partners around the world.

Let me drill into the equation a little bit more. First of all, let's start with the top line. We remain very consumer and customer-centric. We have a very clear understanding of what is it that drives both volume, price and mix in our many markets across the world. And I think what we've seen over the last few years is a developing capability to toggle these levers, so that we can both win locally as well as deliver on our broader enterprise agenda.

And on the right-hand side, you can see coming out of a very difficult 2020, this approach is paying off and again, one of the reasons we enter this year with the belief and the momentum that we have.

It's not just about the top line, a close companion is an ongoing ability to move the needle on operating margins, which, again, we have been able to do over the last few years and there's many ways that we go about doing it, whether it's to influence the quality of our gross margin, better use of trade spend, a much more agile, but efficient approach to managing our supply chain, both from a company perspective as well as system, Coca-Cola system.

We have made tremendous progress in resetting the marketing investment equation, that's allowed us to both invest as our brands and businesses need, but by the same token, to do it with less. And we believe that that is an ongoing advantage that we can and we will enjoy.

And we've talked a lot about productivity is not an event, it's a habit. And building that habit over time is a tailwind when it comes to our overall trajectory on operating margins.

If there's one area where I feel we've made the biggest step change in the last four to five years, a lot of us fueled by necessity coming out of the pandemic, it's in how we think, talk and take action on the resources available to us, whether it's dollars, whether it's people, whether it's time.

We start with an enterprise view. We leverage the network that we now have in place to focus on what's the most important set of decisions for the enterprise. And one of the areas that James has had the greatest influence on across our company is to invoke a spirit of learning. It's okay to try as long as we learn and iterate better the next time.

And last, but certainly not least, I think the world is moving to being more data-driven. And we have made great strides in building the foundations to allow us to turn that from concepts into real life examples, whether it's to do with driving the growth equation. Our team in North America has had a complete reset of how we invest behind brand Coca-Cola, and it's resulted in tremendous upside, whether it's managing volatility, our European team last year were faced with – around this time of year with the Russia-Ukraine situation, and we're able to, with our bottling partners, refresh the agenda for the year, so us have actually finished the year ahead of original targets.

Our team in India has had just come off a stellar 2022 and earlier in the year was able to double down on both a couple of key categories and a couple of regions that were fueling outsized growth and came out of 2022 with the strongest year we've ever had in India, leading to, I think, a period of tremendous growth ahead.

And across the enterprise, driving a discipline around where we play and how we invest using a very methodical country category combination algorithm is helping us have confidence that the dollars we're investing can and will generate even greater returns.

When I think about the balance sheet, I think about getting to a fit-for-purpose balance sheet for our business and for what will support our growth agenda going forward. We've talked about our desire to be thoughtful and purposeful on refranchising a number of the markets we still operate and manage. We continue to make progress on that most recently with the refranchising of Vietnam and Cambodia. And we will continue to have momentum in that space in the months to come.

We're very clear on where we have passive capital and taking actions to make that more active and help us drive the business at hand. In North America, we've done some really interesting work to streamline our supply chain. And that's on freeing – or that's freeing up resources to again to support our marketing and innovation agenda.

And along the way, as we see opportunities to expand and add to the portfolio, we can do so and we will continue to look at those opportunities. And so on the right hand side here, you'll see the impact that's having over the last couple of years.

Last week, we talked quite a bit about our underlying cash flow. It remains strong. We continue to expect it to remain strong. We do have a couple of discrete items this year that we've called out relating to an elevation in the final years of the transition tax payments and a couple of related items associated with some of our M&A activities. But we believe that the underlying momentum will continue and will support the broader capital agenda that we have at play.

And that capital agenda is one that we will continue to exercise discipline. We are primarily focused on supporting the core business, continue to invest in the brands and in the innovation that we need to drive the top line.

Last week we announced the 61st consecutive year of growing our dividend, and we continue to have that as a very important part of the allocation agenda. And we retain sufficient flexibility should other opportunities come our way. We've also mindful of the ongoing litigation we have with the IRS and have that's very much factored into our plans as we think about 2023 and into 2024.

So our outlook for 2023, we expect to deliver organic revenues in the 7% to 8% range, translating to currency neutral earnings per share of 7% to 8% (sic) [9%], comparable earnings per share of 4% to 5%, and free cash flow of $9.5 billion. When giving that outlook, we remain incredibly focused on the things we can control. We have momentum across all of our operating units. We will continue to invest with purpose and with precision to drive the performance of those segments with our brands. And we continue to toggle with and leverage the drivers that we know can move the needle on margins.

I have no doubt that something will happen in the next six to nine months that we have not even thought about. And I think it's a big lesson from the last three or four years is to make sure you have that flexibility to pivot when those items arrive. Hopefully there can be opportunities as well as some of the challenges that we've seen over the last couple of years.

So in closing, let me just emphasize a few points. We continue to build a very strong business on a purpose that we believe in. We are in an industry that is primed to grow consistently for the next number of years. And we continue to expand the footprint in that industry to create even more headroom for our business. We keep the consumer and indeed the customer at the very center of our equation. We're confident that we have the financial wherewithal and flexibility to manage the agenda that we've just outlined. And we continue to build with our bottling partners a system that can compete in just about every market in the world. And hence we believe that the compound effect that I highlighted in my opening slide is one that's possible and achievable in the years to come.

So with that I'll close, and I think we'll take some questions. Thank you.

QUESTION AND ANSWER SECTION

Bryan D. Spillane
Analyst, BofA Securities, Inc.

Q

Okay, [ph] Lauren (00:41:01).

Q

Thanks. Good morning. I know I've asked you before about how you see category development and the proportion of your growth going forward, there would be more stills versus sparkling. And the answer is, it's consumer-centric, which is clearly the right answer. But one thing I was curious about is now that you are, I don't know, maybe roughly two years into having sort of global category lead structure in place, what you are hearing from your teams internally about capabilities outside of sparkling, whether it's from the bottling partners, whether it's from the category lead themselves, where do you think you stand on kind of that stills capability set.

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

A

I like the questions that are self-answering just in case anyone wants to help with any more of those. It's a mixed bag and it depends on where you are in the world. Self-evidently, we have 100-plus years developing the sparkling Coca-Cola, Fanta, Sprite, and they're very strong capabilities almost everywhere in the world.

In stills, firstly I have to break it down into the different categories and secondly, have to break it down into the countries. John mentioned the country category combinations and so I think the first part of the answer is to say we are very focused from the global categories in a prioritization of those country category combinations. Bringing a total beverage company to life doesn't happen overnight, nor are we likely to advance on all fronts at equal paces. And so within that, we have a constant focus on coming back into, okay, which categories in which countries are the places where we're excited and we just need to put more money because the things are flying. I used the example of fairlife. I mean, there's nothing you can do. I mean, you just have to build more factories to keep up with the pace of growth.

And there are other places where the economics are more challenged, the capabilities are more challenged. And the question is, what do we need to do to fix it? Do we need to pivot in places we've got out of bulk water, for example? So all of that to say it's about a laser focus on the country category combinations, about working, about where do we need to fuel growth, where do we need to fix things and prioritization of resources going forward to make progress to a total beverage company in an orderly and successful fashion.

A

Great. [ph] Dara (00:43:37)? He's behind you.

[indiscernible] (00:43:42)

Q

Thank you. James, you talked a little bit about the non-commercial opportunity in your presentation. Can you just give us a report card on how you've developed that customer over the last few years and what are the key strategies going forward to bring them into the commercial beverage opportunity and maybe compare and contrast [indiscernible] (00:44:07) versus developed markets and how you approach that?

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

A

Sure. So, I mean, the whitespaces are obviously in the biggest emerging markets, whether we're talking Africa, India, rural China, perhaps let me carve off the coastal cities, other parts of Southeast Asia, parts of Eurasia, because that's where the uncreated industry sits. Creating it has a number of features, probably you're starting with fewer products, a smaller portfolio. The things that drive it tend to be what we would have called the basics and still are the basics there. It's about horizontal distribution. If we go to India, for example, which as John mentioned, had a cracking year last year. We got a lot of help for driving the business in India, horizontal expansion, adding retailers, creating the distribution systems to support those retailers, investing in cold drink equipment and doing so with the right portfolio of packaging all needs to be put in place.

I mean, the number of lines going into India this year is extraordinary. And the numbers of lines that are order for next year are also extraordinary. So there is a piece of it which is just laying down the infrastructure to drive the business. And then, of course, you got the marketing innovation. They – it's a globally connected world. As soon as they can see the marketing, they can find out what it's like everywhere else and see what the products are. So you still need to bring a world-class level of marketing and thinking about the products, sticking with the India example, we had a world first in marketing there. Cricket, I know none of you understand cricket or 99% of you don't understand cricket. It's the biggest sport in India by miles. And we had a thing called the StumpCam. So think about think about in baseball terms, a camera in the bat kind of thing. It's actually in the cricket stumps the three things that stand there behind the batsman. And not only could they see what was happening from the batsmen's perspective, but they could participate in marketing programs and promotions. And it drove a tremendous amount of engagement.

So just because it's developing and starting out doesn't mean they're going to put up with non-world class marketing and innovation. And that helps us drive. In terms of the marketing dollars and the economics, everything tends to be lower. Retail prices are higher in the US, marketing costs more money, people cost more money. But the P&L, the P&L is there in a margin construct sense, but the dollars are per unit, ultimately less.

Bryan D. Spillane
Analyst, BofA Securities, Inc.

Q

[ph] Kevin (00:46:53)?

Q

Thank you. Thanks for taking the question. Probably for James, building on the total beverage company theme, can you give us an update on the scope of your interest and potential pace of expansion in the alcohol category? I think folks who've been following the company for a while, there are pretty clear guardrails that you were going to stay in liquid refreshment beverages. If you go back five years ago or so, but you've had interesting success at this point with Topo Chico and Hard Seltzer. Jack-and-Coke is off to a good start in Mexico with the US launch upcoming. Maybe just provide an update here on the evolution of your alcohol strategy longer term. How large of a priority this could become for the company? Thank you.

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

A

Yeah. Thanks. The way we think it is, of course, we only want to do this if in the long run it can be material to The Coca-Cola Company. Like, we don't need extra hobbies. We need extra things that are material at scale. And so getting there what we are setting ourselves is milestones. If I can get to X, then I believe it's worth doing the next stage. If I can get to Y, then it might make sense to go to Z or whatever that is on the road to something material in 2030 or whatever.

And so, at the moment, we're just in the very experimental stage, but what's emerging as something that seems to function in the marketplace because it's a very fragmented and somewhat chaotic sector, the kind of the ready-to-drink alcohol sector. But if you can see in the marketplace an idea of pre-mix cocktails of which Jack-and-Coke should be the tip of the spear, so if that works then you can argue there's a pre-mix cocktail space, you can argue there's a Hard Seltzer's space, although it tends to be concentrated in the US. And you can argue there's a spiked version. So, simply spiked, all the kind of lemonade spiked version.

If between all these experiments, we can see three clusters emerging that can be put together into something that makes sense for the consumers and the retailers, then maybe there's – we can get to the next milestone, but we do want to be disciplined. We want to have a lot of experimentation. But it got to turn into disciplined achievement of milestones, all in the service of demonstrating to ourselves that there's a material end point. And we're just at the beginning.

Bryan D. Spillane
Analyst, BofA Securities, Inc.

Q

Andrea, make this the last question.

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Q

Andrea Teixeira from JPMorgan. So I wanted to go back and I think we spoke a lot about revenues and the opportunity. But if you think about margins, right, and thinking about OI, the opportunity that you added 220 basis points in the last five years and now you're investing a little more in equipment, which makes a lot of sense and [ph] you delayed (00:49:44) India could become potentially a re-franchising opportunity, Africa another re-franchising opportunity. How we should be thinking of the dream? I know you gave guidance for 2023, like how we should be thinking on the old days and we are thinking about potentially above 30% before Costa, how we should be thinking what the opportunity is from OI?

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

A

Sure. Let me start on that one, [ph] then you want to throw in (00:50:09). We're not going to put ourselves – I don't remember which year it was, we had to come back. And anyway, we're not going to put ourselves back in the trap of saying there's a number, but then saying we bought or sold something that's changing the basis of the number, that's going to drive everyone crazy, including ourselves.

So, yes, it's to be expected and John has the phrase, we want to be the world's smallest bottler. So we continue to believe we would like to set up an African model with the IPO. We talked about that's likely to be not this year. And we're still looking to re-franchise the rest of the business. So we want to be the world's smallest bottler, which will have a mechanical impact on our margin structure.

But I think what you can think about going forward is segregating the different bits of businesses and rather than worrying about the number in total, worry about the number relative to the different pieces of the business, because different business will come and go. But each bit follows its own dynamic and there you do see kind of small increments of gains going forward.

Bryan D. Spillane

Analyst, BofA Securities, Inc.

All right. With that, I think we're out of time. So we're ready to go to the breakout. Again, thank Coca-Cola for the presentation, for the beverages. Remember, Topo Chico mixer tasting 4:45.