Coca-Cola Investor Relations: Investor FAQ on COVID-19

(As of March 26, 2020 unless stated otherwise.)

Overview of the COVID-19 Situation

Our company's deepest sympathies go out to all who have been impacted by coronavirus outbreaks throughout the world. These are challenging times for everyone, which is why we are doing our part to help prevent the further spread of the virus, while also supporting the needs of our customers, consumers, employees and communities.

We have – and always will – put the health, safety and security of people first. Our approach is grounded in our company's purpose, which ensures that we continuously strive to make a difference for the people in our communities and in our workplace.

This is a rapidly changing situation that we are constantly monitoring. We are continuing to take guidance from governments and health officials, and we will adapt our efforts and responses around the world as needed.

Business Continuity

After the health and safety of our people, business continuity is of utmost importance.

As the virus continues to spread and significantly impact various markets around the world, the company has put preparedness plans in place at our facilities to ensure continued operations.

Our teams conducted preparedness exercises of their business continuity plans and in many places around the world are executing on them. We tested our IT infrastructure in advance, including at our global headquarters. In line with recommendations to reduce large gatherings and increase social distancing, the company is requiring most office-based employees to work remotely. This includes approximately 6,500 employees based at the company's global headquarters in Atlanta.

We have developed global, system-wide knowledge sharing routines and processes to aid in preempting potential supply chain challenges.

We are working diligently on contingency planning for continuous supply and, at this stage, we do not foresee any material disruptions in production or supply of concentrates or beverage bases to our bottling partners.

Further, we are working with all stakeholders, from local to national, to ensure all critical inputs to our products remain available for finished goods production by the company and our bottling partners.

While there are certain areas where we are working through challenges, currently we do not see a material risk of disruption in finished goods production or distribution to our customers.

We are also working with our customers to meet demand by focusing our portfolio on core products and SKUs to help our customers ensure supply, given the shifting dynamics in consumer purchasing patterns.

Financial Impact (as of March 20, 2020; based on the 8-K filed on that day)

Since our previous guidance update on Feb. 21, local market policies and initiatives to reduce the transmission of COVID-19 have significantly increased. These initiatives include the direction to refrain from dining at restaurants, the cancellation of major sporting and entertainment events, material reduction in travel, the promotion of social distancing and the adoption of work-from-home policies.

These initiatives, in combination with the latest movements in foreign exchange rates, will have a negative impact on our full year financial and operating results and, therefore, we do not expect to achieve our previously provided full year guidance.

Due to the speed at which the COVID-19 situation is evolving, there is uncertainty around its ultimate impact. The negative impact on our financial and operating results cannot be reasonably estimated at this time, but the impact could be material. We expect to provide an update during our Q1 2020 earnings release and call.

Areas of the Business Most Impacted

We continue to work as a system to ensure our products are available across all channels while abiding by market-specific measures being taken in light of COVID-19.

Currently, the area most impacted is the on-premise channel (e.g. restaurants). Globally, on-premise sales represent approximately 40% of our industry. This channel is being significantly affected by shelter-in-place announcements, forced closures of restaurants, and cancellation of major events.

In terms of how this directly impacts our financials, outside of North America we operate primarily a concentrate model with our revenues impacted in relative proportion to our bottler sales to their customers. Regarding our marketing and operating expenses, these are generally not directly tied to the channels in which our products are sold.

In North America, we own production and distribution for the fountain business, often called foodservice. The fountain business represents a large portion of the on-premise sales in North America. As this business is vertically integrated, the relative impact to revenue is generally higher to the company than in other parts of the world.

What We Are Doing to Mitigate the Impact

We have a clear strategy to continue to service our on-premise customers while also ensuring that our off-premise customers have adequate levels of inventory to meet increased demand.

We are adapting quickly to address our customers' needs as restaurants look to increase their home delivery and drive-through options. We are increasing our investments in e-commerce to support both retailers and meal delivery services. We have made solid progress with food aggregators to ensure there is an option to add our beverages to online orders. We are shifting toward package sizes that are fit-for-purpose for online sales, and we are redeploying consumer and trade promotions towards digital.

We are also working closely with our bottlers and retail customers in the at home channel as we see increases from pantry loading as consumers stock-up on our products with the expectation of spending more time at home during the crisis.

Status in China

The Coca-Cola system in China has worked closely with all stakeholders throughout the crisis to ensure health & safety of system associates, supply chain continuity, uninterrupted customer service, and overall business recovery.

The vast majority of our system production facilities, distribution centers and salesforce have resumed operations.

Regarding consumer demand, we've seen sequential improvement in the on-premise channel during March; however, the industry is still not back to pre-crisis levels. There is also a risk that a portion of on-premise outlets may not reopen given the financial impact of the crisis. While we did see a minor benefit from pantry loading in the off-premise channel at the beginning of the crisis, we are seeing that normalize in the market. We also saw continued strong growth in the e-commerce channel throughout the crisis as consumers leveraged "to home" delivery options.

While we continue to navigate through the changing situation in China, we are optimistic on the outlook and confident in the strategies we have in place.

System Learnings and Best Practice Sharing

Although the pandemic seems to be unfolding differently across geographies, there are key insights and best practices we are leveraging to allow markets to take a more proactive approach to managing the situation.

We have implemented real-time collaboration routines to accelerate knowledge sharing on how to adapt local market strategies across supply chain, channel dynamics, stakeholder engagement and workforce management.

For example, we have developed “Joint Recovery Scorecards” with our bottling partners and “Phased Recovery Playbooks” that each of our markets can leverage in order to best serve customers, maintain consumer relevancy and capitalize on new opportunities that may arise in the wake of the crisis.

The power of the Coca-Cola system is our greatest strength in times of crisis. The resilience of our people, the equity in our brands, and our global footprint continue to be a competitive advantage in the market.

Managing Our Cost Base

We are looking across every aspect of our business on how and where we are spending our dollars. We are redirecting our spend to areas where we believe it can be most effective.

For example, we have taken actions to limit marketing spend until we have more clarity and visibility on the impact of the virus, recognizing marketing campaigns are often less effective in times like these.

Further, we are looking at options to reduce or shift marketing expenses from outdoor and experiential campaigns to TV and digital, if we decide to continue media investments in the near term.

We are also working to review all of our capital expenditures to ensure spending is directed to the right opportunities, recognizing the rapidly shifting demand.

Importantly, we are in close coordination with our global bottling partners to ensure we are adapting as quickly as possible as a system.

In terms of fixed versus variable costs in our business, an outsized proportion of our cost of goods sold is variable in nature at the consolidated level. Therefore, cost of goods sold can be managed based on overall demand. Regarding our SG&A expenses, they are more balanced between fixed and variable costs. Variable costs mainly pertain to marketing spend, travel, third-party services and so on. We have taken actions to limit spend across these areas and will continue to evaluate the appropriate level of spending throughout the crisis. SG&A fixed costs largely pertain to people and general overhead costs. Currently, we have no plans regarding headcount reduction. We're doing everything we can to protect roles and people.

Company and System Liquidity

We have moved quickly to address our balance sheet in these challenging times. We ended 2019 with approximately $8 billion in total cash, cash equivalents and short-term investments on our balance sheet. Further, we continue to drive a strong focus on free cash flow generation. Therefore, we are confident about our ability to navigate from a liquidity perspective.

On March 20th, we saw strong demand for our $5 billion debt offering across all our tenors. We believe this reaction is a sign of the long-term confidence in our business.

We have approximately $9 billion in backup lines of credit available at attractive rates, and at this time we have deemed it not necessary to draw on these lines. Additionally, we are continually evaluating additional opportunities to further strengthen our liquidity position.

For 2020 maturities, we have approximately $12 billion in commercial paper outstanding, and approximately $4 billion of long-term debt coming due, primarily in the fourth quarter. While the commercial paper market has been more challenging as of late, it is still manageable, and we have been able to access funding.

We also do not have liquidity concerns for our bottlers at this time.

Currency Movements

One of the benefits of our business is our global footprint, with a large portion of our earnings coming from our international operations. With the challenges we are seeing in the markets, the dollar has strengthened considerably in the last few weeks across almost every key currency.

With that backdrop, we are well hedged on our developed market currencies but have higher exposure in our developing and emerging markets.

The situation continues to change quickly, and we will provide an update on our Q1 2020 earnings call regarding the latest currency forecasts.

Focusing on Long-Term Strategy

Though we are in the middle of a time of crisis, we won't lose sight of long-term opportunities, not only for our company but also for the beverage industry.

Fortunately, we have gone into this situation from a position of strength and are coming off strong results in 2019. The progress we've made from a strategic standpoint in terms of revenue growth management and stepped-up execution equips us to thrive in a multitude of macroeconomic environments.

We've been through challenging times before and firmly believe we've never been better positioned than we are today to manage through this challenging time and come out even stronger.

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Forward-Looking Statements

This document may contain statements, estimates or projections that constitute "forward-looking statements" as defined under U.S. federal securities laws. Generally, the words "believe," "expect," "intend," "estimate," "anticipate," "project," "will" and similar expressions identify forward-looking statements, which generally are not historical in nature. Forward-looking statements are subject to certain risks and uncertainties that could cause The Coca-Cola Company's actual results to differ materially from its historical experience and our present expectations or projections. These risks include, but are not limited to, obesity and other health-related concerns; evolving consumer product and shopping preferences; increased competition; water scarcity and poor quality; increased demand for food products and decreased agricultural productivity; product safety and quality concerns; perceived negative health consequences of certain ingredients, such as non-nutritive sweeteners and biotechnology-derived substances, and of other substances present in our beverage products or packaging materials; an inability to be successful in our innovation activities; an inability to protect our information systems against service interruption, misappropriation of data or breaches of security; failure to comply with personal data protection and privacy laws; failure to digitize the Coca-Cola system; changes in the retail landscape or the loss of key retail or foodservice customers; an inability to expand operations in emerging and developing markets; fluctuations in foreign currency exchange rates; interest rate increases; an inability to maintain good relationships with our bottling partners; a deterioration in our bottling partners' financial condition; increases in income tax rates, changes in income tax laws or unfavorable resolution of tax matters; increased or new indirect taxes in the United States and throughout the world; an inability to successfully manage the possible negative consequences of our productivity initiatives; an inability to attract or retain a highly skilled and diverse workforce; increased cost, disruption of supply or shortage of energy or fuel; increased cost, disruption of supply or shortage of ingredients, other raw materials, packaging materials, aluminum cans and other containers; increasing concerns about the environmental impact of plastic bottles and other plastic packaging materials; changes in laws and regulations relating to beverage containers and packaging; significant additional labeling or warning requirements or limitations on the marketing or sale of our products; unfavorable general economic conditions in the United States; unfavorable economic and political conditions in international markets; litigation or legal proceedings; conducting business in markets with high-risk legal compliance environments; failure by our third-party service providers and business partners to satisfactorily fulfill their commitments and responsibilities; failure to adequately protect, or disputes relating to, trademarks, formulae and other intellectual property rights; adverse weather conditions; climate change and legal or regulatory responses thereto; damage to our brand image, corporate reputation and social license to operate from negative publicity, whether or not warranted, concerning product safety or quality, workplace and human rights, obesity or other issues; changes in, or failure to comply with, the laws and regulations applicable to our products or our business operations; changes in accounting standards; an inability to achieve our overall long-term growth objectives; deterioration of global credit market conditions; default by or failure of one or more of our counterparty financial institutions; an inability to renew collective bargaining agreements on satisfactory terms, or we or our bottling partners experience strikes, work stoppages or labor unrest; future impairment charges; multi-employer pension plan withdrawal liabilities in the future; an inability to successfully integrate and manage our Company-owned or -controlled bottling operations or other acquired businesses or brands; an inability to successfully manage our refranchising activities; failure to realize a significant portion of the anticipated benefits of our strategic relationship with Monster Beverage Corporation; global or regional catastrophic events; and other risks discussed in our filings with the SEC, including our Annual Report on Form 10-K for the year ended

December 31, 2019, which filings are available from the SEC. You should not place undue reliance on forward-looking statements, which speak only at the date they are made. We undertake no obligation to publicly update or revise any forward-looking statements.