



James Quincey

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

Hi everyone. Good to see you all, virtually speaking, CAGNY 2021. I guess our first virtual CAGNY Presentation. Let's jump straight in. You'll recognize this forward-looking statement, which I draw your attention to. It's in your book. So, I won't dwell on it any further.

John and I would like to talk to you about three things. We'd like to talk about our progress so far on emerging stronger. About how we see our accelerators for growth going forward. And how we see that being a part of a driver of sustainable value creation well into the future. Let me start with the actions we took to accelerate our transformation in the last year. Now, as you know, as a system, we went into this crisis in a strong position. We really rallied around a focus on winning, and we had some good numbers and good results in 2018 and 2019.

And importantly, we leveraged the 2020 crisis as a catalyst to accelerate the business transformation that was already underway. We remain, of course, guided by our purpose, which is to refresh the world and make a difference. And rooted in our strategy to drive top line growth and generate good returns.

Now, we identified key objectives to navigate the pandemic, and propel us back to a growth trajectory, winning more consumers, gaining share, maintaining strong system economics, strengthening our impact with stakeholders, and equipping our organization to win in the future. These were our North Star in determining our approach to emerging stronger.

Now, over the course of the year, we were very encouraged by our progress in 2020. We got sequential improvement in the business as we went through 2020 and came out of the year. And as I said, the pandemic was a catalyst for change for our company. We highlighted five priorities to accelerate transformation in order to emerge stronger.

We moved swiftly against these priorities with a goal to reach pre-COVID levels for our business, well ahead of the general economic recovery. And we've had some initial wins. We are well on our way to emerging stronger. And yet, of course, there's still more to deliver on our objectives.

One of the things we did, very importantly, is we took the decision to optimize the portfolio so that we could really drive for quality leadership. We put deep analysis into our portfolio optimization process, to really focus on those brands that have the best potential to drive the Beverages for Life strategy, and to remove the weakest ones.

We undertook this exercise to shape our portfolio, ultimately, to really support and strengthen our growth agenda. And to ensure that we emerge from this crisis not just stronger, but able to grow at the top of our algorithm. So, as I said, we streamlined our portfolio. We came down from some 400, to under 200 master brands, allowing the global category teams to identify the greatest opportunities and

allocate resources accordingly. We aspire to achieve a balanced combination of global, regional, and local brands with scale.

These will be the ones with the strongest potential to help us grow our consumer base, increase frequency, and drive system margin accretion. We believe we now have a strong portfolio of brands that will enable us to address all drinking moments across day parts. And we will continue to grow these brands through focused execution and targeted innovation where relevant.

Now, to support this new portfolio and many other things in execution, our business strategy, we have transformed our organization. Our new networked organization is now coming together, and it's already changing the way we work. Striking a better balance between scale and local intimacy.

We've created global category leads with clear decision rights to modernize our approach to marketing and innovation. We've established Platform Services to elevate and accelerate data analytics and insight capabilities to help us accelerate top-line and bottom-line growth. And this will help us reduce duplication and drive scale.

These actions free up time, resources, and energy to focus for growth. And they facilitate accountability and speed of execution across the frontline areas closest to the consumer. So, great progress so far on emerging stronger. We fully anticipate, as we highlighted in our earning call last week, that we will emerge stronger in the course of 2021. So, let me turn, next, to talk about what are the accelerators that are really going to propel us, and move forward on that growth agenda.

Firstly, standing back, you all have seen these two bottles on the left-hand side before. And they have been our way of typifying the huge opportunity that continues to exist for us to be competitive and win in the marketplace. Both in the developed markets, where today three-quarters of what you drink is already some form of commercial beverage.

And yet we have a huge share opportunity within that total universe of commercial beverages. Or the developing markets where only a quarter of what people drink is a commercial beverage. So not only is there a share opportunity, but there's an even bigger opportunity to develop the industry in what is ultimately the place where 80% of the world's population still is. A huge opportunity still ahead of us, both in terms of developing the industry and gaining share. And we, the Coca-Cola system, we have the platform to take advantage of that.

Our diversified portfolio of beverages and brands is the right one to address this opportunity. We have a strong share position, not just in total, but in most categories. And so we really are in a position to take all of that opportunity in general, and specifically by category. And as a company, we are laser focused on the core, whether that be sparkling, or hydration, or teas. And we have begun experimenting in adjacencies.

Whether that be Costa and the coffee or the Lemon-Do product in Japan, and the launch of Topo Chico Hard Seltzer in multiple markets around the world. They are all in line with our approach to test and learn so that we continue to become ever more consumer and customer centric. All of this is supported by an unparalleled distribution system, which are the Coca-Cola bottlers. It is tremendously powerful and has pervasive reach across the world. The combination of the right brands and the distribution system are an unbeatable combination.

And of course, we need to do what we do best, world-class marketing. And of course, great marketing begins with human insights, understanding what the consumer wants and making a superior tasting product to meet that taste profile.

And then through the consumers' passion points, telling a brand story in a relatable way. If we look at our new global Sprite campaign, it's a great example of our more effective and efficient marketing approach. As we look at the Gen Z centric insights, our new global campaign, Let's Be Clear, is rooted in some sharp, human insights around how Gen Zs today seek to refresh themselves so they can reset the unclear world with greater clarity and transparency. And in this campaign, we'll also be scaling up Sprite Zero based on winning recipes. This offers us a tremendous opportunity to replicate our proven success with Coke and Coke Zero Sugar into the Sprite franchise. We're complimenting that with some occasion-based marketing. So in addition to having strong films for TV, we've taken a close look at the consumer journey, and be mapping key moments where they need a reset, whether that be on the go or while chilling at home.

And accordingly, our campaign executions feature a wide array of content, ranging from refreshing digital films to iconic out of home and print, to user generated content. And we've produced all this with a one network, one global campaign approach. So this is actually our first ever global Sprite campaign. And it's going to be launched in approximately 50 markets this year. And it's a powerful example of how we've leveraged our network ways of working. Key markets around the world came together to align strategically and seek common human ground. Ultimately, everyone needs a refresh, or a reset. And the world indeed needs more clarity and more transparency.

And as we approach our reset to the marketing, we've reset the portfolio, optimized the portfolio, and started to work on better campaigns. We are also bringing a much more focused approach to resource allocation. And so we'll deliver the magic of marketing, through the lens of more efficiency and more effectiveness. It is ultimately about fundamentally transforming the way we execute our marketing programs, and no stone remains unturned in this process. And so, the model combines commercial prioritization, backed by advanced analytics that drives leverage through scale. And as we look across the eight areas we've looked at in the marketing resource allocation model, and I'll touch on four by example, we really are looking everywhere. So for example, campaign optimization. We're really focusing our investments behind fewer, bigger, and more efficient integrated campaigns.

When you look at media, leveraging the new media chassis platform, we've been consolidating media planning and buying agencies to drive transparency into the media buying process. On assets, aligned to consumer passion points like music and gaming, and take the example of Coke Studio, and how we can scale that across various countries to back the music passion point. Or even experiential promotions, simplifying our roster of agencies and reusing ideas, designs and assets across markets, also streamlining our marketing material sourcing to unlock better pricing. Ultimately, by improving our processes, eliminating duplication and optimizing spend on things like third-party agencies, we will increase our effectiveness and be able to fuel reinvestments in our brands.

Complementing our work to deliver great brands is an ever-increasing discipline to the critically important era of innovation, and we must continue to bring new, relevant product and equipment ideas to the table. And we're approaching innovation through an evolved set of lenses, and with more rigorous objectives. Our pipeline for 2021 has been developed through clear routines and processes to assess the purpose and right level of innovation. Innovation must be more than just flavor extensions, and it is being primarily driven by our commitment to be consumer-centric. They can also be tech

driven, or enhance a package, or enhance a formula, but in the end, it must be consumer-centric. And so, we're looking, yes, for more innovation, but also more impact. Overall, we have much more innovation activity in 2021, versus 2020, principally because 2020 was heavily impacted by our response to the pandemic, so we'll have 40% more projects, driving 20% incremental gross profits.

We are, of course, looking to drive bigger bets. There's a greater emphasis on big bets, or said another way: projects that can achieve scale that's relevant for the company. Our proxy here is global and regional big bets, and about 25% of the projects represent almost half the value in the pipeline, because we must not just innovate and experiment; we must achieve scale and converge on the biggest bets. But that, ultimately, also can't be at the cost of continuing to have some intelligent experimentation. There is a strategic shift to even more purposeful big bets, yes, but we must compliment that with thoughtful and intelligent experiments. We have approximately 11 of them for 2021, and they comprise 20% of the value in the global pipeline, and in future, we expect these intelligent, focused experiments to increase in number, and to increase in percentage of the pipeline value.

The digital frontier is vast and obviously has many fronts. And our view of digital is one that is of an integrated ecosystem of platform that creates value across both the digital and physical world. And our digital strategy creates value, not only for consumers and for customers, but across our organization and the system as well. And the pandemic has allowed us to accelerate our digital transformation and evolve into an organization that can execute its marketing, commercial, sales and distribution strategies, both in an online digital world, as well as in the physical world. At the heart of all this, of course, exists the data. And our recent organizational changes have set us up to leverage data across the enterprise, as well as the system. We've reshaped the organization around this opportunity, including a new O2O digital transformation officer, and a chief data officer role. This, combined with cutting edge digital tools, will facilitate more efficient marketing, strengthen our brands, and improve the execution.

It's still early days, but these digital investments are starting to transform logistics, transform the entire distribution model, transform client relationships, consumer engagement with the company, and with its brands.

As we execute all this, we, as I said at the beginning, continue to be guided by our purpose, and the objective to create shared value, and embedded in that is the idea that sustainability is about creating business value, in addition to living our values. We've stated very much that sustainability and our priorities around shared value are not a separate, adjacent piece of the business strategy; they are an integral piece of the strategy, and it's about pushing our enterprise to do what's right for the business, and for our stakeholders.

For example, in plastics, we recently announced our goal of reducing our use of virgin PET by 3 million metric tons. This is the equivalent of taking out one whole year's virgin plastic over the next five years.

On diversity and inclusion, we are ensuring we have diverse and equitable representation across our global workforce, with the goal of mirroring the diversity of the consumers and customers we serve. And beginning in this year's Business and Sustainability Report, we will be publicly sharing the data about our current company's diversity representation; we'll have representation on both race and gender across the general population employees, and across the various leadership levels.

And before I moved to summarize, let me just show you a quick video about how we're bringing together both our imperatives on ESG and plastic and recyclability and recycled use of plastics with

branding and the centrality of RGM and a great entry-level pack size with brand Coca-Cola. Let's see a video and then I'll come back and close.

Ultimately, we have a fantastic system that is guided by our purpose, and with a strategy rooted in Beverages for Life. It's a great industry. We have unparalleled system strengths. We've recentered ourselves on being consumer-centric with our marketing and being powered by greater effectiveness and efficiency. We're complimenting that with a robust innovation pipeline, balancing the big bets with ongoing intelligent experimentation. We didn't talk much about it today, but we continue to invest and to underpin everything with strong RGM and great executional capabilities to capture these opportunities. Our strategic transformation continues, and we are confident that we will deliver on long-term growth.

With that, let me hand over to John to take you through the next section.

John Murphy

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

Thank you, James. And let me start with the reaffirmation of our long-term growth targets. Organic revenue at 4% to 6%, operating income 6% to 8%, earnings per share 7% to 9%, and free cash flow in the 90% to 95% range. I'd also like to affirm that our focal points remain the two flywheels that drive our Beverages for Life strategy, enabling us to convert top line into value creation.

Our emerging stronger priorities and the acceleration of our transformation, has been designed to get us back to this long-term growth algorithm as fast as possible. Our confidence stems from the fact that we operate in an industry that will enjoy growth for a long time to come. James highlighted earlier a number of the growth drivers. And these will be complimented over time by a number of macro, social, economic, and behavioral factors that you see here on the slide.

In addition, it's important to keep in mind the following. Number one, the sparkling business, while large and often perceived as being tapped out, remains very healthy indeed, thanks to its enduring appeal to our consumer base across the world and supported by the great work being done to invigorate and keep relevant, brands like Coca-Cola and Sprite that we talked about earlier.

Number two, we expect a tailwind from emerging markets as they continue to develop and grow. And last, but certainly not least, our global system is fitter than ever before, and with a ruthless focus on a few strategic initiatives. And this gives us the confidence to believe that 5% to 6% topline growth is very much in our reach.

For the flywheels to really work in tandem, we need to start with a very granular understanding of the sources and drivers of value across each line of business that we manage. Each of these businesses, as you know, have different margin profiles, and therefore different opportunities to be captured ahead. Costa, for example, is a multi-platform coffee business with unlimited potential to scale globally.

Each platform has its own margin characteristics and drivers as well as different routes to market. Many of which are being activated with our bottling partners. Our Bottling Investments Group is on a journey

to expand underlying margins with two consecutive years now in the bag and the very robust plan to make it three in a row this year.

We are injecting similar discipline and focus across all of these business lines so as to achieve, over time, our overarching margin expansion objectives. And in addition, we continue to navigate a very methodical path to becoming asset right over time.

On cash flow, we've made great progress, I have to say, in the past couple of years, thanks to a tremendous response across our entire organization to execute the comprehensive program we have put in place since 2019. But it's very much a continuous process, and we know there are still opportunities ahead for us to go after. Best-in-class working capital levels, through for example leveraging some innovative AR factoring programs and expanding our supply chain financing to all business lines. Minimal non-recurring costs as we drive inbuilt productivity in everything we do. Optimal capital spending with new rigor and discipline across the business.

I'll stare at this slide for a little bit longer because it's my favorite one in the entire presentation as some of you won't be surprised to hear. While intensely focused on the core business, we are very mindful of the importance of the pending tax dispute with the IRS and how our share owners think about it. And so we want to just reiterate our resolve to defend our position. I encourage you to refer to the updated disclosure in our 8K filing for further details.

Our capital allocation strategy will continue to support our growth ambition. And at the same time stay cognizant of our financial flexibility. We continue to prioritize investing in the business to drive long-term growth, as well as supporting dividend growth for our share owners.

Our improving level of visibility into the recovery as the year goes on, as well as many of the lessons we've learned in the past year, have enabled us to provide a clearer outlook for 2021. We currently expect organic sales percentage growth of high-single digits and comparable earnings per share percentage growth of high-single to low-double digits versus 2020.

Our free cash flow guidance is at least eight and a half billion dollars, which reflects a strong conversion ratio. It's important to mention that this free cash flow does not include any potential payments related to the ongoing tax litigation with the IRS. While we're confident we'll see recovery this year, the year no doubt is going to be known as a year of two parts.

And there is still some uncertainty as we speak today as to when the inflection takes place. Taking this into consideration, we've provided a wider range than usual to account for some lingering uncertainty in the near-term, as well as the potential for the acceleration to take a little longer to play out.

But our focus, as James outlined, is to emerge stronger and to return to top-tier growth, to continue to do what we need to do to expand margins across our lines of business, to continue with our efforts to maximize free cash flow conversion, to bring a disciplined approach to our capital allocation framework to support our growth ambitions. And all of this gives us great confidence in our long-term growth targets.

Thank you.

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Question and Answer Section

Tim Leveridge

Vice President, Investor Relations and FP&A, The Coca-Cola Co.

All right. Thanks for everyone for joining. Appreciate you all being here. Look forward to the next 30 minutes of Q and A. Hopefully you all had a chance to watch the video. We're going to go right into questions from here. And the first question comes from Callum Elliott. And the question is, "Can you talk about energy drinks? At Boca last year, you showcased KO Energy, obviously 2020 was a tough year for innovation, but you must be disappointed with its progress nevertheless. Where do you go from here?" I'll turn that over to James.

James Quincey

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

Yeah. Thanks, Tim. Clearly we were disappointed with the outcome in 2020 on Coke Energy and actually we've had to pull a number of innovations in 2020. Just was not the right thing to do for the supply chain. And many customers also focused their SKU ranges to keep the shelves full and to keep the supply chains flowing well. So, absolutely. Launching anything at the beginning of 2020 was very unfortunate timing and Coke Energy bore that.

What was interesting about 2020 was the data that did come in, looking at where the sources of our business were for Coke Energy and what it did show was that it was bringing new consumers, a lot of new consumers into the energy category. It's given us good insights on how the brand and the package and everything resonates with consumers. It did add some data points on the hypothesis that this is accretive to the category and we will be back this year looking to reboot Coke Energy and try and make much better progress this year, which hopefully will be more auspicious for innovations in general and Coke Energy in particular. And I think that will compliment our total energy portfolio, which has been a winning approach for all the people and the partners on the Coke side in this category.

Tim Leveridge

Vice President, Investor Relations and FP&A, The Coca-Cola Co.

Okay. Thanks, James. Next question is for you, John. Hopefully your audio is working now and the slide mentioning the different business models and margin priorities. You mentioned evaluating asset-light models in the finished goods business. If changes were made, how should we think about the potential earnings dilution in the near term?

John Murphy

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

Thanks Tim. Thanks, Lauren, for the question. Yeah, the reference to asset-light models in the finished goods business, it actually primarily relates to our US business, given the current footprint we have in the US. And from a dilution perspective, I would not say that has been a significant factor. We're looking at, as we move to sort of an asset right kind of model, we're looking to shape our own sort of structure and business model so that over time actually, we are in a position to increase our return on invested capital. And so earnings dilution, I don't think is really a key issue for us in that regard.

Tim Leveridge

Vice President, Investor Relations and FP&A, The Coca-Cola Co.

Thanks, John. Next question, we'll come back to you, John. This morning in the press release, there was an announcement you would be taking majority shares in BodyArmor. Could you please elaborate in how the brand will be prioritized versus Powerade?

John Murphy

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

Yeah, let me just give context. This morning's announcement is just part of the process that we have in place that we need to go through. As we announced in prior periods, there is an option towards the end of 2021 to increase in our stake in BodyArmor, which we continue to be very interested in, focused on. The business has performed very well over the last couple of years, but for now I think, today's announcement just is really a process step and consistent with what we have described in the past. The role that BodyArmor could play is one where it complements the other brands that we have that compete against consumer needs in that space.

Tim Leveridge

Vice President, Investor Relations and FP&A, The Coca-Cola Co.

Great. Thanks, John. Next question for James, to ensure innovation is consumer driven and balanced between big bets and intelligent experimentation, how much work is done inside the Coca-Cola Company versus undertaken with bottlers, partners? Is that internal, external balance of work in the right place? How are you thinking about innovation overall? And that's from Steve Powers.

James Quincey

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

Yeah, thanks Steve. Clearly our objective is to ramp up the innovation in '21 and going forward versus the decrease in 2020. And really the idea of the big bets and the experimentation in the end is think of it as a funnel. The experimentation is about generating new ideas with consumers, but ultimately given that the scale of the Coke company and the bottlers in the Coke system, it has to reach some critical level of scale to earn its place in the supply chain and in the coolers, on the shelf. And that's about turning them into big bets. So, in a way it is a funnel.

And how we go about developing those innovations is absolutely as a system. Now obviously, the majority of the categories we work as a company with suppliers of ingredients, we work with the bottlers who have to produce and carry these innovations to the marketplace. Think of it as an orchestration of the idea that has to go through a series of steps before it'll even make it to the marketplace. And then when it's made it to the marketplace, we have to decide, is it worth it? Or is it a zombie? And if it's worth it, how do we scale it? So, it's more thought of it as an ecosystem between those people who help us upstream and the bottlers and occasionally co-packers who help us downstream.

Tim Leveridge

Vice President, Investor Relations and FP&A, The Coca-Cola Co.

Great. Thanks, James. Next question's going to come back to you in terms of, and it's from Nancy Aversa, it's mentions in your prepared remarks that the network organization is beginning to work. Can you elaborate on some early learnings or successes to help us better understand what's changing and how we see it's going to drive long-term growth and profitability into the future?

James Quincey

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

Sure. I think it's allowing us to do a number of things. And so examples would be, it is increasing the speed at which we can bring ideas to the marketplace, whether they be marketing programs or innovation. As the world gets faster and speed to market becomes a competitive question, an advantage or a disadvantage, the networked organization has allowed us to move much faster in getting things to the marketplace at scale. As I said, whether that be marketing programs or innovation, but it has also allowed us to cut across the enterprise on a global basis.

For those things, and we've put them in the part of the business we've called Platform Services, as data and, therefore, as software platforms become ever more important for multiple reasons across the business system, you can't have 200 small islands. You need a platform that operates across the world. And so Platform Services has been able to start to bring together things that, given that we went global very early on in the world, bring together disparate ways of doing things into much more efficient and effective platforms, whether they be for our own internal operations, whether they be for the way we look at consumers or the way we support the bottlers as they go to the market. And so we're starting to see benefits, whether it be in Platform Services, whether it be across the operating units and the marketing innovation programs.

Tim Leveridge

Vice President, Investor Relations and FP&A, The Coca-Cola Co.

Great. Thanks James. Next question comes from Chris Carey and it's about promotional levels in the US and they remain historically low. Do you envision a normalization of promotional spend back to pre-COVID levels? Or is this another learning from 2020, basically an efficiency lever for the long term? How are we thinking about that?

James Quincey

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

Promotions are also an element of competitive nature. I think as time goes on, ultimately if categories, if people found promotions are useful in the past, they're likely to find them useful in the future. And so it would not surprise me if promotional levels returned to a kind of pre-COVID levels over time, not necessarily immediately because there are still issues of lockdown, still issues of compression in the supply chains, but ultimately, the logic of promotions pre-COVID, if that logic remains true post-COVID, then I would expect to see those come back. Of course, that's not to say that we like anyone else, are not looking for ways to more intelligently design and use anything in the promotional activity arsenal to be as competitive as we can be and to deliver value for consumers and deliver value for customers.

Tim Leveridge

Vice President, Investor Relations and FP&A, The Coca-Cola Co.

Great. Thanks, James. Next question is from Priya Ohri-Gupta. How large of a long term opportunity do you think alcoholic beverages are? What factors could contribute to this becoming a significant part of the portfolio over time?

James Quincey

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

I think the first thing to say is that we're at very early stages. If you want to think about how our portfolio in kind of four buckets, you've got brand Coca-Cola with all its variants. It's got clear leadership and that's about continuing to expand the relevance of the brand and its leadership position in colas and really its relevance in total beverages. Then you've got a second tier of the portfolio where we've got perhaps global leadership in many categories, but that's very concentrated in certain countries or channels. And we've proven to ourselves that we can do well in those categories, whether it be flavored sparkling or ready-to-drink teas and ready-to-drink coffees. It's about making those leadership positions both stronger, where we are strong and more pervasive as in more countries.

Then there's a third tier where we've got a vision of where we can go. And we're starting in relative terms small, which is in coffee, we've got a multi-platform approach to coffee and we've got a clear vision, we've got a belief on how we can generate a lot of value for the company and the system and now it's about executing and implementing and see whether that vision could be brought to life. Which brings me to the fourth position, which is really where alcohol is. Where one can see that there's disruption happening and disruption possible in a number of aspects of the alcohol market, but we're not sure yet how a vision works for us and the Coke system. And so we're undertaking a series of experiments to see and learn about a category or an industry structure which is not first nature to us. And the first step will be to learn before being able to set a vision and really answer the question that you're asking.

Tim Leveridge

Vice President, Investor Relations and FP&A, The Coca-Cola Co.

Thanks, James. Next question is for John. In your reorganization plan, you're expected to deliver approximately \$500 million in efficiency savings. How do you view the long-term productivity opportunity? And does the organization have the appropriate incentive structure in place to capture it? That's coming from Kevin Grundy.

John Murphy

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

Thanks Kevin. A couple of pieces of that. First and foremost, I think I've talked in the past about the organization focus on delivering our long-term growth algorithm over time. One of the key components embedded in the ability to expand margins, which is an implicit part of that model is productivity. Productivity will support over time, our ability to improve both our growth and operating margins. And in my presentation area I highlighted the differences we have with different lines of business. And I can just say that there's an intense focus up and down the organization today on the importance of building

plans to not just support our topline agenda, but to make sure that that converts into the right results for both gross and operating margin.

And within that, there's a range of productivity opportunities that will continue to be there for us to capture over time. I think on the operating front, I believe that the reorganization that we are in the midst of completing will not necessarily exhaust the opportunity, but will ensure that we have the ability to operate at the right levels of efficiency over time. And with regard to the incentive structure, I think our incentive structures are well positioned today to motivate the organization to ensure that productivity is a key part of the winning equation that we need going forward.

Tim Leveridge

Vice President, Investor Relations and FP&A, The Coca-Cola Co.

Thanks, John. We're going to come back to you on this next question as well from Jake Gamerman, given the structure of your business, how do you think about the impact of input cost inflation on your P&L?

John Murphy

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

Thanks Jacob. I divide that again into two parts. Part one, if I look at the immediate horizon for 2021, I believe we are in pretty good shape given the work that we've done on hedging, the work we have done on the productivity front and the way in which the procurement and other operating teams, supply chain teams have built the plan for 2021. Yes, there's going to be some more pressure I think overall on input costs in 2021. But I think that we have, for the company, we are well positioned to be able to manage those. I think from a system perspective, some of the commodities may place a little more pressure on the system, which we're cognizant of. And obviously that'll be a key factor in how we manage our go-to-market plans locally.

For 2022, it's a little early to be overly sure as to what will happen in 2022. But current trends would indicate that input costs will continue to have inflation in them. And so we're not as well hedged for '22 yet and we'll continue to look very closely at that timeframe and take actions as appropriate either on the productivity front or elsewhere. But overall, I think we're very clear on what's ahead in both '21 and '22 and comfortable with the plans that we have to address some of those slight headwinds, as I said, that are coming at us.

Tim Leveridge

Vice President, Investor Relations and FP&A, The Coca-Cola Co.

Great. Thanks, John. Next question is for you, James, from Vivien Azer. What ESG mandates are you attaching your 2021 innovation priorities and initiatives? And is the introduction of the 13.2 ounce PET offering included in your 2021 innovation targets?

James Quincey

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

Think of the ESG mandates perhaps separately. We don't see them as separate and in parallel to the core business, we see them as integral to the core business. In other words, everything that we're going to do, whether that be in the core business or with innovation, has to contribute to the advancing of the

ESG objective, certainly not to go backwards. And therefore, as we think about every innovation, whether it be in the formula or in the package or any of the other types of innovation, they have to work to contribute to the objectives, whether that be the World Without Waste objective of recovering and recycling and reusing the PET plastic or whether it be our carbon footprint goals, we absolutely see that as integral to the way we approach new innovations.

And as it relates to the 13.2 ounce, that's absolutely self-evident that that's part of demonstrating the innovation, particularly on the World Without Waste. When you stand back from the PET plastic bottle waste challenge, and you start globally with collecting the bottles back, the US marketplace is one of the biggest markets where we need to make progress in collecting bottles back. And so, while our 13.2 ounce a bottle is hopefully and intentionally intended to be attractive for consumers and certainly after only a few days, its penetration in convenience retail where it's available is rising rapidly, it is very much intended to help drive the idea of both increased collection in the US and demonstrate that a circular economy on plastic PET is entirely possible. And I think this is a symbolic and big push by the US business to make a step forward in this regard.

Tim Leveridge

Vice President, Investor Relations and FP&A, The Coca-Cola Co.

Great. Thanks James. Next question we'll move to you, John. Can you give some concrete examples of your progress on RGM?

John Murphy

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

Thanks, Robert. Yeah, sure. The ones that come to mind immediately would be let's say in some of the developing markets, our ability to leverage our refillable capabilities, continues to provide tremendous opportunity for our system. Not only in Latin America, where it has been a core part of our equation for many years now, but more recently in South Africa is a good example of a market that has included refillables in their mix and it's been working very successfully. If I go to a more developed market like Japan, for the first time in many, many years in Japan, there has been some pretty agile work done around our single serve offerings in the immediate consumption channels and that is proving to also be very effective, it's a consumer centric game plan to drive greater frequency and is working well.

James just talked about the, the 13.2 ounce in the US, it's part of the broader revenue growth management equation, but within the US, the work that our system is doing and has been doing to manage the significant increase in at home activity with multi-packs and different configurations would be another example. And I think, I think zooming out though, from the examples, I would highlight that while it was not a featured chapter in today's presentation, it continues to be at the very core of the work that we do locally to make sure that we get the balance right of winning with the consumer in the marketplace, but at the same time, in a way that economically works for our system.

Tim Leveridge

Vice President, Investor Relations and FP&A, The Coca-Cola Co.

Great. Thanks, John. We're going to come back to you for this next question as well, and it's from Andrea Teixeira. Can you elaborate more on assumptions for guidance by channel and puts and takes for volumes in 2021, as it relates to out-of-home and also price mix benefit as on-premises reopen?

John Murphy

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

Maybe I'll disappoint you with this answer, Andrea, but one of the reasons that we gave a broader guidance range than normal, it's just due to the way in which we are going to see the year play out. I think we've talked, it's going to be a year of two parts. And the question is how long will the first part be and how long will the second part be? And within that, I think it's important that we give ourselves the flexibility to continue to manage how the market evolves in a pretty dynamic way. And for sure, we have internal targets that go into the buildup to the guidance that we provided. But as we've learned last year, those targets can change for the better or for the worse pretty quickly.

And so I think the more important focus for both the company and indeed working with our bottling partners is to have the flexibility and the speed to adapt to how COVID works through the year and how that impacts the way in which mobility evolves and from there, how it impacts the way that consumers buy and be ready for a number of different scenarios at any given time.

Tim Leveridge

Vice President, Investor Relations and FP&A, The Coca-Cola Co.

Thanks, John. Next questions will come to you, James and talking about the margin mix implications of faster growth outside of CSDs. Are you confident in your ability to offset this headwind over the long term? Or can you increase margins outside of CSDs in the process?

James Quincey

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

I think the important thing here about each of the categories is that actually the biggest driver of profitability is the degree of leadership or not leadership. And so, whilst there are some categories which have inherently lower margins, whether that be they're very competitive or they have a lot of input costs so they have a higher price and therefore a lower percentage margin and therefore they make a difference. And some of them we've done less of, but generally speaking, the most important thing about a category is its degree of leadership.

In other words, if you have a strong leadership position, whether it's in soft drinks or ready-to-drink tea or sports drinks, or ready-to-drink coffee or energy, you can make just as much money in any of those categories. The fundamental imperative for us is to create as many leadership positions as possible because that's the biggest driver of margin rather than it's a category X versus Y. Of course, obviously with the caveat around certain categories that I mentioned, but that's the predominant factor, which is why we think ultimately our long-term growth model is doable and is consistent with the Beverages for Life strategy.

Tim Leveridge

Vice President, Investor Relations and FP&A, The Coca-Cola Co.

Great. Thanks, James. Last question, I think we can sneak this in before we finish up and it's about small brands. They've been contributing more growth in the CPG industry in the past couple years compared to big brands. How does this inform your future approach on M&A?

James Quincey

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

Well, I think one has to kind of break down from CPG in general into beverages. And one can see that actually, for example, The Coca-Cola Company has been gaining share over time. There have been a lot more entrants in the smaller brand "category", if you like, certainly squeezing some of the more middle brands. And so really what we've seen is the case of the big brands have done well, the middle has got a little more squeeze and you've got a lot of growth in the smaller brands. That has also got an important geographic component to it. The rise of China over the last number of years and the growth of brands in the Chinese marketplace has been a big growth driver for the beverage industry over time.

And as that relates to our strategy, of course, that's why we've driven an innovation approach. That is innovation not just around the core brands, but in the newer and more interesting categories or subcategories from our point of view, which is why, of course, our portfolio has grown in number over the last 20 years, notwithstanding the weeding out of the weaker, less compelling brands going for the future. And therefore in our M&A, we try to be selective on what are the ones that are most interesting and most able to reach a scale which is interesting for The Coke Company and for the bottling system, scale in terms of revenue and scale in terms of profit opportunity.

Tim Leveridge

Vice President, Investor Relations and FP&A, The Coca-Cola Co.

Great. Thanks, James and John on behalf of yourselves, as well as myself and The Coca-Cola Company, thank you for joining us. I think we are right at about time and we'll call it there. As always, thank you for your interest in the company and please don't hesitate to reach out with follow up questions. We look forward to hearing from you. Thank you.

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