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# The Coca-Cola Co. (KO)

Investor Day

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Ladies and gentlemen, please welcome to the stage Investor Relations Officer for the Coca-Cola Company, Mr. Tim Leveridge.

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### Timothy K. Leveridge

*Vice President & Investor Relations Officer, The Coca-Cola Co.*

Good afternoon, everyone. My name is Tim Leveridge and I have the honor of leading the Investor Relations function here at the Coca-Cola Company. On behalf of my team, the leadership of Coke and all of our associates worldwide, welcome to Atlanta, Georgia and our company headquarters. It's great to have you here.

As many of you know, it's been a while since we've done one of these. So, it's great to have you back on campus and we hope that today is both informative and helpful as you continue to make your decisions about our business.

Now as we get going today, I'm sure you all will be happy to know that we're going to have plenty of this available on the website. For those of you that are joining via the website, welcome, glad you're here as well. Also to and the spirit of digitizing the enterprise, we have created a nifty app for you to be able to download, if you've not already done so. All of the materials, presentation materials as well as a lot of the information we showed in the showcase will be available on that on that app. So definitely encourage you to do that.

Now, I wanted to share with you around the information that we shared in the press release today. We did reaffirm our 2017 outlook and we did talk about and reiterated our 2018 outlook considerations. We're not going to be talking about those in detail today, but we did talk about and provided some longer term expectations that I'm sure many of you've seen by now and we'll be covering those off in our presentations.

Now, I wanted to take a minute and talk quickly through what the day is going to look like. James Quincey, our CEO is going to be kicking us off followed by Francisco Crespo, our Chief Growth Officer. We're going to take about a 15-minute break at that point in time, then we're going to come back with three of our four group presidents, Alfredo Rivera, Brian Smith and John Murphy. And each of those individuals are going to take you through a bit of what they're doing in their groups and how it ties into the overall company strategy.

We'll take another break. So again, you have lots of time to try all the products outside. And we're going to come back and Jim Dinkins, who's our incoming Group President for North America, he is going to wrap up with that. And then Kathy is going to walk us through our financial overview as we go into the rest of the formal presentations. And then, we'll have plenty of time for Q&A at the end of that and then we'll wrap up and go from there.

So with that, welcome, once again and I'm going to turn, let's start the day.

[Break] (00:02:53-00:05:37)

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**Operator:** Ladies and gentlemen, please welcome to the stage, the President and Chief Executive Officer of the Coca-Cola Company, Mr. James Quincey.

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## James Quincey

*President, Chief Executive Officer & Director, The Coca-Cola Co.*

Good afternoon, everyone. As Tim said, welcome to Atlanta. It's been a while since we've had everyone here for an Investor Day. So welcome. Hopefully, you had an opportunity to see some of the stands out there, and dig into them, try some of the beverages, see some of the setups. If you didn't, of course, there'll be an opportunity in the breaks. I think, there's some interesting products, some interesting ideas out there and of course a degree of openness about where we're going and what we're trying to do. So let me jump in and start setting up the day of the presentations. Of course, you're all more than familiar with this statement, which you'll see repeatedly through the day.

Okay. Let me connect us in a way back to where we were earlier the year. We set out strategies earlier in the year, we set out a destination, we set out an idea of beverages for life. And I want to connect you back to that and start filling in some of the texture and some of the ideas and some of the things that we need to do to bring it to life. The destination was clear, yes, it was beverages for life. I think that in itself is as I talked about at CAGNY, encompasses the shift to a total beverage company that we're trying to push for. It's not a journey that started this year, actually it started a while ago, over 10 years ago. But, I think, we're being very decisive and assertive in saying we want to go for total beverages.

We want to be participating in each of the eight beverages people drink during the day and we want to round out that portfolio. So the first part of the destination that we set very clearly was accelerating the move to a total beverage company and we'll talk about that today. We also set and thankfully we're very close, as we closed obviously the U.S. at the end of last month, we're returning to being a brand focused organization. Returning to the core of what we've always been able to do well, which is building, nurturing and keeping relevant brands for consumers.

And lastly and also make all of that happen in the 21st century environment, we're driving culture change, we're driving culture change in the way we operate, the way we engage with the bottling system and the way we go to market collectively. So, the destination of where we want to go is clear.

It is worth just pausing for a second to remind ourselves of the strong foundation from which we're starting from. We are perhaps the envy of many companies in terms of our starting point, that foundation, yes, we're number one in sparkling beverages, which of course everyone knows and expects. We're also the number one company across any RTD, non-alcoholic ready to drink, with the number one juice, dairy plant company. We are the number one hydration company, we're the number of tea and coffee company around the world. So we already have a great position. Not all those share positions were born equal, but we have a great starting point in terms of the portfolio, and we've been able to build those brands over time.

Since 2007, just a little before the last analyst meeting, since then we've doubled the number of billion dollar brands we have. We have a fantastic go-to-market system with our 250 plus bottling partners. We reach those 27 million customer outlets which I think (importantly) covered 20 different channels, and we have a balanced global distribution, balanced global portfolio. In almost rough terms, our profit come a quarter each from each of the operating groups. So fantastic strong foundation of brands, distribution and knowhow.

We also participate in a great industry. I think, firstly, it's worth noting that this is an industry that has a diverse sales base. If you want to simplify those 20 channels down a little, to just the modern grocery trade, the traditional mom-and-pops and everything else eating and drinking, you will see that the industry of beverages is broadly distributed unlike virtually any other industry across multiple channels. So, there's diversity in our business.

There's also strong growth in our business. In percentage terms, beverages are growing faster than many other consumer products. And finally, it's not just a game of percentages; as you all know, it's about the dollars, and that growth rate of about 4% across the world in percentages is really going to drive about \$150 billion of extra growth through 2020. So it's got a diverse customer base, it's got leading CPG growth rates and it's a lot of dollars. So, got a clear destination, a great foundation and we're in a very attractive industry.

Of course, nothing in this world is without its challenges or opportunities depending on how you want to see them and that's just as true of the consumer products industry. Consumer preferences are changing. They're changing around ingredients, whether it be less sugar at times, whether it be more natural, whether it be organic, whether it be just really understanding the core provenance of where the product is coming from. Sometimes it's about where they buy them, how they buy them electronically. The shift from the bricks-and-mortar – and maybe not to everything online for grocery, but the digitization of the total experience of shopping is part of what's going on.

You can see it in your own lives, you can see it around the world; this is not just a First-World phenomenon, it's across the developing and emerging markets too. Consumer preferences are changing fundamentally and that's making the category shift, and it's making the products within the category shifts. Of course, some of these could be representative challenges, but for an industry or for a company better said like ourselves, with a great foundation and the capabilities, we can turn those into opportunities to drive not just the growth, but the share gains for ourselves.

The digital evolution, I touched on it in the sense of the consumers' preferences and how they're changing their behaviors, how that's affecting their interactions through social media, how that's changing the way they shop, but that digital evolution will flow back through the system. We will have to partner in different ways with our customers. We will have to re-engineer our own supply chain to be even more digital.

And of course last, certainly by no means least, regulation and taxation. The food and beverage industry is certainly coming under the microscope for more regulation around the world. There are instances of taxation particularly on sugared beverages and sometimes broader, but including sugar beverages, and we have to confront these realities. We have clear points of view and beliefs about why and when taxation is a useful vehicle and how it should be implemented, depending on the objective, depending on whether the objective is to generate funds for the government, or to try and help solve the obesity problem. We are clear we need to be part of the solution. We have a clear strategy, we obviously have a clear view as well on narrow taxation not being effective, but we think we can help to solve the obesity problem. But we have to turn each of these challenges into opportunities.

And with that, we focused on five clear strategies: Accelerating the growth of our consumer-leading, consumer-centric brand portfolio; driving the revenue growth algorithm; strengthening our system's value-creation advantage; digitizing the enterprise – or if you used the like the old phrase, "Our products need to be within an arm's reach of desire," maybe in the future that needs to include, they need to be within a click's reach of desire; and then last but not least, unlocking the power of our people. And in doing that, we need to make the right choices and invest for growth.

So hopefully that's connected a little bit back to where we've been talking about the story over the course of this year. The clear destination, the beverages for life, fantastic foundation, real growth industry, yes with challenges but with lots of opportunities. And so with our clear five strategies, let me take them – let me tell you a little bit about what's happened so far, but also talk about each one, sort of as a platform to lay out the pieces of the rest of the afternoon and connect with the rest of the presentations that you're going to see come along.

What have we done so far? We've done a lot. I mean, one of the principles we've been trying to live up to in this ever faster exponentially changing world is to move quickly. We've taken the bull by the horns – I'll talk a little bit about culture as we get to the end of this presentation, but speed and not waiting for everything to be perfect is one of the things we've been trying to do. And let me just, perhaps, highlight a couple of the things that we've done so far during the year, to really try and push ahead with these strategies. Rather than perhaps, talk about Coke Zero Sugar, which we'll touch on later, let me underline the bit on test and learn because I think that's becoming really important for us as part of the culture.

In the past, we would see ourselves more like the set piece battles. You prepare for a very long period of time, for a product launch, you try and make it perfect and you go for it; and that means it took a long time and you did relatively few of them and you bet big on whether it will work or not. The future is not going to be like that. We must be much more agile, get things to market quicker, maybe smaller, test, learn; if they don't work, they don't work, move on. If they do, take them to the next stage. So, I think part of what's embedded in that is the test and learn approach, and that's even true in Coke Zero Sugar. It wasn't one monolithic idea launched everywhere, there were waves that went through different iterations.

The next thing I'd perhaps underline in our journey so far this year is the revenue growth management acceleration. Of course, we've been trying to chase price, we've been trying to chase mix, we've talked about packaging strategy, and we've done a lot on revenue growth management over the years, but we've been refreshing the whole idea; and in some of the later presentations, we'll talk about how we're bringing that to life in new ways and also to places that perhaps haven't done it as profoundly as perhaps we should have done in the past.

We'll talk about the new re-energized bottling system; we're not going to be talking – mercifully, we're not going to be talking about progress on re-franchising; the map is finished, a couple of countries to go, but let's say in big terms the map is finished.

So, what we'll talk about is how this new system is energized to chase the beverages for life. Digital is coming, don't worry; and then I'll talk about unlocking the power of the people. You all know that we've done a number of things so far this year already, new operating model, the Lean Center, earlier this week we launched an update to our compensation approach, I'll touch on those a bit more later on. So, we've got out of the door fast, trying to bring new energy and new life to the year against the five strategies.

Let me now connect to each of those strategies and try and just tease out a little more information, give you the overall story, but also provide some connection points to the presentations that are coming up. Let me do that firstly by taking the first two strategies, the consumer-centric portfolio and in a way the revenue growth management, because they're kind of tied together.

On the kind of the top bit, to some extent, we've talked about that before; how do we drive our global portfolio? Clearly, a lot of it comes from our own internal innovation. We've talked at times over the years how actually the majority of those billion-dollar brands that we've got, the majority of them were actually created internally. So we have, working through our ecosystem of innovation partners, we have, between ourselves and those partners, an ability to generate new ideas and turn them into big brands. So, continuing to invest in world-class innovation, doing it in a different way, yes, we're becoming much more open-source if you like, than proprietary, trying to leverage the scale of all the supply base rather than just do everything ourselves, trying to do it more in a test and learn approach than big few set piece battles. We've got a track record of innovation and we believe we can leverage that to drive more progress in the marketplace.

Clearly, we operate in 200 countries plus, having a success in one country, unless it's a couple of countries frankly almost doesn't move the needle. The needle only really moves when it's a big success in more than one of the big countries. So, lifting and shifting, whether it ends up being the same brand or that idea reinterpreted under an existing brand elsewhere, our ability to lift and shift the best ideas and the most successful ideas around the world is absolutely critical to our ability to create these – more billion dollar brands on a diverse portfolio.

And yes, that was still be a role for bolt-on M&A. When Kathy talks, she'll talk about how that's reflected in the numbers, but we absolutely continue to believe there are opportunities to pick up some of the smaller companies, great brands, great companies, make them bigger where they are, and certainly make them bigger by taking them globally. So, bolt-on M&A will continue to play a role for us.

Now, to some extent, we said that before. I certainly said it in CAGNY and some of the other investor presentations. It's about doubling down. What I want to connect to, which Francisco is going to talk a lot about is how are we going to be disciplined with that growth. Because, the more innovation you have in the more countries, in more categories, the opportunity to get anarchy and total destruction starts going up.

So we need to being more discipline to our approach of how do we make sure that in the big amount of innovation we create ends up in fewer successes not in a kind of jam-sandwich approach without it resulting in good results. So Francisco will come and talk, talk about the discipline of growth.

How we are very clear on the importance of everything ending up and having quality leadership, if it's just a – also ran small few points of market share, it's not worth the hassle. Quality leadership is key. He'll talk about how we view, what needs to be done to build a brand on to the idea of quality leadership and how that's different by the different stages of growth.

So, we have a clear idea of how we need to grow our portfolio, the sorts of ways we need to grow it and we're super clear that, that only can be done if we're very disciplined. And as I said Francisco, we'll delve into that a little more deeply.

The third strategy was strengthening the system, system's value creation advantage. Reality is, as I said mercifully refranchising has ended. You know, the system is unclear, it's reenergized. In fact, we were, the Global System Meeting earlier this year in May, we were talking about what needs to be done to bring beverages for life, to life.

Now it's not exactly the same everywhere. It's the starting points different so as the group presidents come up and talk, they'll talk about how their parts of the world are pursuing the journey towards beverages for life. And yes the journey is in different stages in different places. So there'll be different mixes of how important is it to get into new categories at what speed, that the starting points are different. The role of our GM in that will be different.

So each of the groups will give a little more of a nuanced story about how that, where they are on the journey and how they go forward. But each of them will talk about how they're engaged and how energized the bottling partners are to go with us on that journey, having got the map finalized and having largely reset and clarified how economics work going forward.

So, progress on the portfolio, progress on the revenue algorithm and engage with the system going forward.

Fourth strategy is around digital. Clearly, digital is our core component and I think it's almost in danger of becoming everything and at times nothing. Therefore, I think it is really important we break it down and get

specific about some different parts. Digital marketing, I mean everyone knows the consumer needs to be engaged with us in a different way. Enough has been said about that in terms of how millennials, how the world is changing in terms of consumption of media. Francisco will talk a little bit about how we're starting to – how we're adapting – the progress we've made and what's left to be done in terms of engaging with consumer in terms of digital marketing. So that's one bucket the way we see it.

The second one, is kind of eCommerce. We see ourselves predominantly working with our customers across all those varieties of channels, I talked about, to help those customers succeed and win against their strategies, and many of them have an eCommerce component or a digital component, not just the pure online players, but also the ones whether they'd be supermarkets who are going online, whether they'd be takeaway food delivery going straight to the consumer, our approach has been to work with them through their platforms to create value in their strategies.

We've tried a few experiments in going direct-to-consumer, whether that'd be in developed countries or in places like China, in the end I think the majority is going to – large majority is going to go through the customer platforms and we're going to create value with them that way.

Obviously, we had to find somewhere in the presentation the room for a cute expression and so the next one is that, so the eKO system, the digital world needs a new eKO system. So, I don't know who got the creative prize for that, but that's the idea. We need an eKO system. Doing what needs to be done with the consumers in a new way, doing what needs to be done with the customers in a new way requires the system the bottlers and us to have a different set-up. We've got to be different, new eKO system. And Kathy will talk a little bit about some of the stuff, we're doing internally.

We've made some good progress in the last couple of years, reformulating the way all our systems work with the way our processes work. We've implemented a whole series of things between software like Workday between some of the robotics, the automated intelligence. We've got more to do. We've got more to do. Because there's no way we can aspire to help engage with our consumers and help our customers, if we ourselves can't be at least on the front-edge in terms of how things work digitally. So we've made a lot of investment and we're doing a lot of work to bring that up to speed internally. And we are working with our bottling system to do that. So digitizing enterprise three big buckets, the consumer, the customer, and the internal piece.

Last of the five strategies, but by no means least. We made a number of changes earlier this year to become even clearer on the operating model. Yes, part of that was in anticipation of the end of the refranchising. Simply put, a few years ago, we were a company trying to administer a 150,000-employee organization and by next year, we'll be sub-40,000 employees. So, we just needed a smaller center.

Second, we took advantage of the digitization internally I just talked about, and embedded some of those new ways of working. And third, we made some choices about what needed to be done at the center. We clearly have some leadership and governance roles, but we wanted to push more empowerment to the field, more empowerment to the countries. If you're in a process of divergence, if you're in a world that's becoming a little more local, you need the field to have more power to act and to move quickly.

So the sum of all that was we got clearer on what the lean center, corporate center needed to be. We've made some painful adjustments to the head count. We did it in a coat way with dignity and humanity, we got through that and we've got a smaller leaner center because it's more fit for purpose going into the future. Got clearer on what are the services that are needed to support the field and the field to be more empowered to act in this new broader portfolio and more local world.



Supporting the structure, we made some updates to compensation. It's not a 180 degrees change, it's an update. But we made some updates earlier this week to our compensation approaches. We've got – we've made it simpler and I think clearer on how it supports growth. We took out volume as one of the metrics, revenues there.

Now in lots of parts of the world, volume is going to be the principal driver of the revenue, if you're in the emerging markets in Southeast Asia or India. So it's not like volume disappeared from the equation, it's just let's get clear. We want revenue and whether that's places like the U.S. which is more price mix and not much volume or places like India, which is much more volume and less price mix; in the end we're after revenue and we're asking the countries to build the franchise. So we've made that adjustment.

We – in some of the long-term incentives we took out for example economic profit. Whilst it might have been the best mathematical or best theoretical answer, it's not so easy to people to follow. So we swapped that into EPS and cash flow, making it simple because they can see those numbers in our quarterly reports.

To trying to simplify things, trying to keep people focus on the very simple idea. It's about the top line, without the top line growth, we can't generate the profit growth and it's the profit growth which will help us drive our U.S. dollar EPS. So made some updates to compensation. And I think that will – and it's got some flexibility in it to help support those in the organization who contribute the most.

The last element, culture. Culture, as you all know, is super important, doesn't matter what you say on the structure should be, doesn't matter what you say the strategy should be, if the culture drives it in a different direction, that's always going to be a problem. So we need to continue to push on the culture. You, investment community, other people have given us feedback on our culture over the years, and it wasn't where we wanted it to be, too big, too slow, too bureaucratic. Not all of it was bad, but those were some of the elements that were on the negative side.

We're clear, we need to push it harder. We're clear that in order to drive a total beverage company, we need to be much simpler with people in saying, look, it's about growth, we need to have a growth orientation. And we can say there are lots of different pieces in the culture and culture can become very complex, it can become very nuanced.

Let's start with a simple idea. It needs to be growth orientated. And if we have to call out a few things, then I think it's about four. We have to be curious. If we're not curious about how the consumer is changing, if we're not curious about the customer strategy and how they create value, we're not going to come up with the right ideas. And every large organization, every large institution, the natural tendency of getting bigger and getting successful, it tends to be less curious about the outside world. So let's underline curious about the outside world. Let's underline inclusive. It's no point just being curious on your own if you're not bringing in divergent ideas, if you're not looking out across the broad world of Coke where something has probably already been done that you need, then you're missing a chance.

We also need to underline empowered. In a large institution, a successful larger institution, sometimes people in the field think there are more rules than there actually are. They have just assumed that they can't do things. Now we need to turn it around. We need them to think that they're allowed to do things unless it's very clear that they can't rather than them only thinking they can do the things that are authorized. We need to re-underline empowerment which is part of the structural approach.

And then lastly, back to the Version 1.0, Version 2.0, Version 3.0, if we can't become faster, more experimental, cycle faster through ideas, experiments, insights, learnings, on to the next iteration, we won't be able to expand not just across the categories, but across the number of countries we need to succeed in. If I would underline those four things all in the service of a greater growth orientation.

So with that, I hope, that I've started to paint a picture of what the day is going to be about, what we're trying to underline in these presentations we're sharing. I kind of tried just to summarize here against each of the presenters, where that connects to the things I've seen – things you've just seen, whether it's Francisco, who's going to talk about the discipline of quality leadership, the group presidents whether they got a more advanced portfolio or they're trying to catch up in terms of expanding out of sparkling and then of course, Kathy is going to come back at the end and talk about how we're delivering on shareholder value.

And let me perhaps leave with one last page, which is our reaffirmation of our long-term aspirations in terms of the numbers. We believe we can get the revenue into the 4% to 6% growth rate range organically. It's an industry that's growing and we have a track record of gaining share with a clearer focus on what we need to do, being this leader in the growth industry with our footprint, the destination and the strategies we can drive the top line. Because in this new model, the brand orientated model, it's the top line that drives the rest of the equation. Go get the top line. Yes, there'll be some leverage. We've talked about the margin expectations, we've talked about the growth of operating income and we believe we can turn that into not just EPS, but into cash. So, I think it's going to be an exciting journey, an exciting new phase of growth with a culture that underlines that expectation that we can turn this into a successful and growing future.

So, with that, I'm going to get off the stage and hand over the microphone.

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**Operator:** Ladies and gentlemen, please welcome to the stage, Chief Growth Officer, Francisco Crespo.

## Francisco Crespo Benítez

*Senior Vice President and Chief Growth Officer, The Coca-Cola Co.*

Good afternoon. Is this on? Yeah. I think it's on. I'm Francisco Crespo, I'm the Coca-Cola Company Chief Growth Officer. So, basically that means that if this company doesn't grow, it is my fault and if it grows, it's because the operations are doing it right. So, let's get that clear and right.

I've been six months in job and basically I have been traveling a lot. I had a lot to catch up. I have been in Asia, Africa, Europe, just trying to understand better all the world that I really don't know and don't understand as much as I need to. So I have been doing a lot of traveling. I also have been using the vast amount of information that we have available, trying to shape a growth agenda. And I think that's what I'm going to try to share with you. And I have been connecting with the team, figuring out how are we going to shape the things that we will be doing in the future, as we work to make that growth agenda move forward.

So here is the statement, I'm sure you already read it, when James presented it. And it's there in smaller print, so you can practice with your eyes reading smaller letters.

I would like to start with a thought that is very important and it's that growth is not an objective. Growth is not an objective. Growth is a discipline. A discipline is training people, lots of people to act consistently and follow certain behaviors and rules. But discipline is also a branch of knowledge and a field of study. And when you practice that discipline, then the outcome is growth, and that's what we are looking for here. But growth is necessarily

embedded in these five principles that I think explain with all clarity what is different, what is new, and why we will get the discipline of growth right?

Well, you see, rather than telling consumers what they should be drinking because we are the marketing experts, we will humbly align our portfolio to follow their tastes, their needs, their wills. Instead of defining volume as the sole metric of growth, well we will find how do we empower our brands with the ability to capture transactions and revenue, that is growth.

Beyond defining the picture of success in internal terms. So, how many coolers there has to be in this customer? We will ensure that in every outlet we are expanding our competitive advantage. And of course, we will jump out of the bench being a digital aficionado to be in the field, start playing the game and master the game and it boils down to the culture. The culture we want is one in which the values of curiosity, experimentation, learning and excuseless delivery are the values that are rewarded.

So, we are members of a club that has growth in it. Just by being a member of the club, we grow. You can argue that we are with our weight heavier into the lower growth. So, maybe rather than a 4%, we are more in the 3% simply that's where our weight is heavier. But there's \$150 billion to be created through 2020 and the argument that you have been hearing and it's simply logic is to accelerate growth beyond what the club will already provide. We need to expand our share in all those categories, where we don't have a decent share. Right.

Well, not exactly. The notion that I would like to share is the notion that we don't want any share, anywhere, at any cost. As James was saying, there is a key concept in quality leadership. Quality leadership for me is when you beat your next competitor two-three times, so you have two three times better brand preference, two-three times better brand love, two three times better share of visible inventory, two three times more items per store, two three times more coolers in the market. When, when you do that, well, simply put and I have gone through the correlations and study all of it, you double system margins.

So what we need to do is we need to deliberately build quality leadership in all these other categories. That's what we need to do and that is the first discipline, the discipline of building quality leadership. So, what is quality leadership. Well, it starts with edge. Edge is our competitive advantage. If we can't explain why our brand is better, why consumers should adopt our brand rather than any other brand for that occasion, then we'd probably don't have edge. The easy thing for me to do would have been to show you Coca-Cola, right, iconic brand, unique taste, incredible assets and then I could have shown you seven times more brand equity than our next competitor, four times better activation and that's how we earned the right to collect that value in prices.

But, I would rather do it with simply. You see having this distinctive tariff, distinctive packaging, having a product that has the fresh taste that brings you closer to nature, having an advertising with the voice of God that tells you that this is really the real thing, is a good start on edge.

And then when you put your connection plan in such a way that you start closing in the brand equity, the brand preference and then you execute and activate in the market and you start closing your gap in share of visible inventory, well, after that eventually you earned the right to collect better margins.

And then you start challenging the incumbent, but this is a dynamic thing. This is something that needs to be nurtured, that needs to be checked, that needs to be studied, that needs the learning. So, the discipline of building quality leadership takes me to the next discipline, which is the discipline of building a portfolio. So in the Y-axis, you have basically the profit pools. The higher the better the profit pools and brand edge or quality leadership in the X-axis. We have a legacy, a big legacy here in this space where we have quality leadership brands.

So, in these brands, it is probably okay to have a lot of research before we do anything. It's probably okay to call an agency and do advertising because we have the scale. And it's probably okay to be sure that we have thought through the value chain because anything that we execute is huge. But that discipline, that discipline does not work when we are trying to disrupt spaces where we are either inexistent or irrelevant. In those places, the best research is trying it and checking it in the market. The more agile we can do things with co-packers and distributors, the better because we are just figuring it out. If we are calling an agency to do advertising, we don't understand how brands are built here. Brands are built here on the experience, consumers simply get it when they see the design, the packaging and the occasion and they start getting it. It's a very different game.

Now we are not that bad in that part, and I'll talk to you about that in a while. Eventually because here the metric is exponential growth. Eventually with exponential growth, you build a position where you have double-digit market share. So, you're out of the ditch, you already have a position, but you're number two or three. Well, again, the game changes. The game changes because what we need is first of all to ensure that we have edge. Unfortunately a lot of times we all confuse innovation with imitation.

So, we see something moving, let's say a spinach soup with bubbles, is selling a lot and we go and ask our technician, can we produce that? Yeah, of course. Let's do it. Well, that, that is imitation. That is not edge. So, it requires the discipline of checking the previous chart. Where is our edge? And then, you need to consistently over invest and over-execute that edge. So, after quite some time, some years, you eventually bring the market to your side, totally different discipline. These are three disciplines we need to work. It is the discipline of the entrepreneurial audacity, the discipline of the fighter that has the stamina to fight and never give up and it is the discipline of the wisdom of the leader. Three different disciplines.

Let me talk about these disciplines starting with our leaders because sometimes when we are here, it sounds like yeah, yeah, not much to do here, let's focus over there. And if that is in your head, you're missing a lot of value. This area has a lot of value for us to capture, so I said we humbly have to follow consumers. Consumers are seeking for better tools to manage the sugar intake. That is the reality. Coca-Cola is one brand, only one brand. Coca-Cola has a unique taste. Coca-Cola is incredibly refreshing. Coca-Cola uplifts you.

Coca-Cola brings people together, your friends and family, Coca-Cola provides happiness for sense and you can have it with or without sugar. That is the one brand strategy. It's putting all the brains, all the marketing wisdom, all the execution power of Coca-Cola on shaping choice, not offering choice, but really shaping choice.

And this brings me to the next discipline, the discipline of recipes, experimentation and customization. You see, there is absolutely no way that out of the center we can devise a recipe that applied in every market in the world is going to give us maximum value, there is no way, that doesn't exist. Each market has its own culture, characteristics. Our own strengths, our competitors have different virtues. So, the recipe and here is the summarized version of the recipe of the Coke No Sugar are just things that we know are required.

So, let me give you – I always gives very silly, very, very silly examples. So, let's say that this recipe we have realized it is about a pancake, okay. So, don't bring a pizza, don't bring a burger, bring a pancake. Now if in a market we need to put eggs rather than one, fine, that's experimenting. If in another market, we should use a different kind of flour, fine, that's experimentation. There has to be a lot of experimentation happening in the BU levels around these recipes in order for us to customize this. So here you have how this is reinvigorating Coca-Cola trademark. Coke No Sugar growing 13%. But in places in Europe, Germany is growing almost 20%, Great Britain is growing almost 50%, Mexico is growing almost 90%. So, we are always adjusting how these recipes are applied and ensuring that we get the learnings right. These are the Fanta example, new bottle, new formula, new

campaign, boom, acceleration on the growth, we are growing 8%, that's not bad, right, high single-digits in revenues, that's quite nice. There is a lot of value to be captured on our leading brands. When you see margins improving here, there is a lot of discipline behind making that happen.

Second example, I already talked about the average. I might be totally wrong and this is my crude reading of the world. A lot of the fast-moving consumer goods were built on the average because they were worshipping economies of scale. Economies of scale gave you mass media, mass distribution, relevance in front of your customers and low cost, that was the game. So average was the game.

Now the problem is that, allowed for a lot of local small players to capture premium niche spaces. Our portfolio has a lot to say in that space. Local ingredients whether it is a Georgia peach or a California raspberry or Mexican sugarcane, we are already seeing that people are happy to pay more for having that type of product. Upliftment is at the epicenter of brand Coca-Cola. World-class coffee, some of you probably tried it, out there. It's an excuse to engage again with the brand, beautiful small cans, premium, news and the brand innovation in Coca-Cola. We also provide premium experiences. So, Royal Bliss in Spain, Schweppes in Great Britain and a lot of other countries, Blue Sky with organic ingredients in the States, VIO with local bio-ingredients in Germany, Appletiser with 100% apple juice out of South Africa. We have a lot in our portfolio to ensure that we are capturing that appetite for those ingredients and those benefit-driven products.

Leaders have a lot of space. We may have been leaving money in the table because we were chasing volume and not revenue. We do know how to reinvigorate following the right trends and understanding consumers. We do have an opportunity to have recipes that customize capture better value because they connect better with local consumers, and we have a lot of premium spaces that we can and should occupy.

So let me switch gears and try to talk a little bit about a different discipline. How do we disrupt spaces where we are not the leader? Well, I can give you a lot of examples. I can talk to you about innocent in Europe and Great Britain. Ayataka, fastest growing team in Japan. I could bring Maaza, a juice brand in India that has brand love – that is the brand love of a huge brand, probably one of the highest I've seen across beverages. But I would like to focus in Honest Tea and Powerade, because this is, as we said, a different discipline. It forces you to be sure. The first question here is, how can I be sure I am not simply imitated. That's the first question that we need to ask ourselves, and we have to better have a good answer.

Then, we have to incubate it. Because when we follow volume, we confuse consumers, and I'm going to prove it in the next example. Consumers need to understand these are brands that are not built with the DME, these brands are built with the experience. So, if you put it in more than one experience, consumers start thinking, oh, I don't understand what this brand is anymore. So, incubation, and then it requires obsessive segmentation to make it happen. So, let's jump into it.

Venture Emerging Beverages is a tool that has been brilliant in the U.S. and now has been deployed in other geographies. Venture Emerging Beverages found Seth Goldman who simply thought, I think these teas and these drinks have too much sugar, I do care about organic, I do care about fair trade, and I would like for a brand to be more transparent, that's edge. That is a perfect definition of edge, a different space. Then, he had the patience to only put it in the organic trade. If he could have – if he would have gone for volume and put it in every channel, probably consumers would have lost, I don't understand anymore what this is, but he built it slowly, just used digital and mouth-to-mouth, and then had the courage to kill the zombies. Because unfortunately, a lot of times when we discover something that does not work, rather than killing it, and avoiding it to drag our energy and distract everybody, we say, no, we're going to recycle it. We're going to try it again. No, tea bag, bad idea, kill it. Kombucha interesting, but it was just an imitation to kill it, and eventually they scale it up. Oops, we can take this

brand to others spaces, lemonade, sports drinks. This is going to be a billion dollar brand in a few years. So it's not that we don't know how to do it, but it requires the right discipline.

Now let me talk about Powerade. Because Powerade in Mexico, you know, when you sweat, you lose four ions. So it is not a long argument to say that it is better if the drink that you're taking has four ions than only two of those. Power when you're doing exercise, you would have to agree that is better than having a [ph] reptile (00:56:21) number, a [ph] reptile (00:56:23) name on it. And we have in Mexico, the Mexico team, we have the Olympics, we have the World Cup. We activated all these spaces where we had an advantage, and we executed with passion. We incubated it for a while, we overinvested in the Emmy. We lost money. We accepted that we were over-executing and over-investing, while we were segmenting getting those customers where we were not present. Putting the right packaging and pricing in those core competition was harder, and now we are the leaders, 54% of the sports drinks market in Mexico. So, it's not that we don't know how to challenge and become leaders. It's that it requires discipline, it requires persistence, it requires for us to take it a different way.

As we do this, we need to [ph] disciplinarily (00:57:30) build certain capabilities. The first one is segmentation. You see, we can't continue to segment people simply age, group, gender, socioeconomical level. What matters is their behavior, their values, their lifestyle. What we are checking is, who is drinking my category, who is lapsing from it, what else are they drinking, what are the dual drinkers, that – those are the questions that matter. That is the information and the segmentation that we need. We – if you have seen FEMSA's digital platform [ph] anarchy (00:58:12), you will understand what I'm going to say. We know customer by customer, what is the competitive environment, what is the key occasion that happens there. And we know how to tailor execution. Segmentation is a big capability of making all these happen.

The second was integrated experiential brand building. Brands are built on the experiences that consumer has. So, it needs to start with the brand purpose and the brand essence. It needs to follow what is the brand strategy, what is the key occasion to activate to build a habit. It needs to explain what [ph] brand edge (00:58:53) and that has to go with across design, packaging, activation, communication. I [ph] laughingly (00:59:05) said that we talk a lot of times about precision marketing. And the truth is just, it's just sending the same message better tailored to different customers. This is precision diagnostics. This is a step behind.

Then, we need to develop 21st century storytelling, so what does that mean? That means that the diet, the media diet has changed. Those meals of 60 seconds and 30 seconds. Nobody is eating those as the only meal they get. That still exist, but now they are eating a lot of bites, six seconds, that's all the span of attention they have, and little bit of those snacks, those 50 seconds non-skippable. So checking in your mobile phone and making sure that we have enough of our diet offered in the right place and that we are not watching in a screen like these our advertising, but in the in the little screen, that is important, that is 21st century storytelling.

And as we speak, we have people from our team in Asia, expanding our roster of agencies. Our roster of agencies have been very good, fantastic. But mainly [ph] Hispano-American (01:00:31). We are getting three agencies from Asia in the roster, because we really need to understand how to connect the values of our brands to the values of that culture and we already hired an agency out of Amsterdam to get some different perspective there.

Partner value creation, the extraordinary jobs that our friends in North America have done with customers, we're trying to bring it to another level with some of our partners. There are platforms like Google and Facebook. I was there 10 days ago, telling them, listen, I don't want to tell you, I don't want to ask you tell me what is the best price for these word in Google ads or for these in your platform. I want for you to sign a non-disclosure agreement. I want to tell you all my strategy, I want you to poke all the holes in it and I want you to bring insights, and we're

doing that in December. Because, we are going to co-create our strategy with our partners. Now for that we need to build strategic value for them, as they build strategic value for us.

Agile supply chain, I already mentioned to explore, we need to be agile with [ph] co-packers (01:01:46) flexible distribution. But then as we scale, we need to be sure that the value chain of those ingredients is coming along with us. And finally in digital, we could boil the ocean. So we have focused, we have said it's three things, digital marketing, eCommerce and analytics. And if there's something else, we will figure out later, but let's start with this.

So, we are building the community, the community that can and should talk and find the governance between our bottlers and us, on how are we doing on these three categories. And the interesting thing is we're not doing it that bad. We have 89 CokeTV among the best channels in YouTube, not bad. We are number one across fast-moving consumer goods in Twitter, also in Facebook across beverages, Fanta, Sprite and Coca-Cola and best positive sentiment across five digital platforms in fast-moving consumer goods.

Coke Studio, this is an incredible, incredible story. Ten years of Coke Studio, this year, 1 billion views, and it's in a few countries. Now, we have to expand that through a lot more countries. Probably, one of the reasons why Pakistan is doing such an incredible job in recruiting and bringing teens into the franchise. Then, in Japan, we already have 5 million apps downloaded for our loyalty program that allows you to interact with our vending machines. In China, 5 five million transactions with an e-coupon that every time temperature is above 35 Celsius, you can go and get a free Sprite that is sampling with the refreshing sprite.

Our numbers on eCommerce, not bad, good solid growth, actually, Diet Coke is the number one grocery SKU in digital commerce in the states, and we are building partnership with our customers and with any player and platform that is in this space, because this is not a channel.

So, we are in a club that grows, that's granted. The discipline of growth will allow us to accelerate growth. The discipline of growth will allow us to build quality leadership in more spaces. And as we do that, we will get better margins and we will get accelerated growth.

For that, we need to build capabilities, we build segmentation, Edge-driven marketing, experiential brand marketing. We have to build digital, agile supply chain, but the journey is only beginning. The journey is only beginning. We know that there is a lot of value in our leadership positions that we can and we will capture by not chasing volume, but revenues by connecting better our brands with those consumers and by going after niche and premium spaces. That money is good growth for us and will help us fund the experiments that we need to have to explore.

As those experiments bloom, we're going to have an incredible spring, unlike Game of Thrones, I have to tell you winter is going away. So, one chart to finish, I have change here, because I really think that discipline is here. It's just not evenly distributed. You go across the world and you see that we do understand certain things. But now, what we have to do is we have to spread it and elevate the knowledge that we have on them and the quality with which we practice it.

And I've been told that you like mathematics, for me the definition of discipline is numerically that one, that basically says that when you are 1% better every day, at the end of the year, you're 38 times better. That's 1.01 elevated at the 365 power. Now when you are 1% worse every day of the year, you end up almost killing yourself. That's 0.99 elevated at 365 power. The difference between those two things for me is discipline. Thank you.

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**Operator:** So, ladies and gentlemen, we'll be taking a brief 10 minute break and our program will resume at 1:50. Once again, ladies and gentlemen, our program will resume at 1:50. Thank you.

[Break] (01:06:46-01:28:39)

**Operator:** Ladies and gentlemen, please welcome to the stage President of the Latin America Group, Alfredo Rivera.

## Mario Alfredo Rivera García

*President-Latin America Group, The Coca-Cola Co.*

So hello, everyone, we're getting part of the group back in. My name is Alfredo Rivera, I'm President of the Latin America Group. I've been here for – in this role for over a year now. And I'm very excited to be here today to let you know – to let – tell you about quality leadership, the power of quality leadership, what it looks like and what it allows us to do in Latin America.

But before I jump into that, I want to give you a brief overview of the region, of the context we're operating in and of the opportunity we have in our industry in Latin America. So forward-looking statement.

The region, 39 countries, over 500 million consumers, and a very vibrant industry with the retail value of \$90 billion, in which we have a 48% value share. We operate in Latin America through four business units. Mexico, Latin Center, Brazil and South Latin. And we partner with 49 bottlers. Our four largest ones are on the screen. And through them we served over 4 million in the region.

So, we've been facing challenging times in Latin America. As many of you know, after the – at the end of the commodity supercycle that we had, growth has been a problem in general in economies. We've had bouts of very high inflation in several countries and currency depreciation. A lot of that. But we see this changing. We see stability returning to this part of the world. And what it means for us is that, we can now price to restore growth, which is about having more balance between transaction growth and price growth in order to drive revenue growth.

So, under a high inflation and devaluation scenario, we were having to raise prices constantly to keep up and that was affecting our growth and transactions. Now we see the opportunity to balance growth and we've been seeing some good results.

The second item is what we see is budgetary constraints. James mentioned governments under duress, financially because again the source of revenue that was a commodity boom ended and they have to look for revenue through taxes. And of course cutting subsidies, but through taxes, the food and beverage industry has become a target.

But more importantly, I think it has impacted the way people look at our category, but in general governments are raising taxes and cutting subsidies, which in the end game is consumers end up paying the bill, which actually has an impact on purchasing power. So, we have to adapt to that and we've been evolving our portfolio to smaller packs and in particularly looking at magic price points at that are relevant for consumers. So that they stay within the franchise, and so that we can also bring consumers, more consumers into the franchise. This is very important for us.



But there are some good news also on political transitions. We're moving to governments that are more business friendly now, and that bodes well for investments, for investing ahead of demand. And finally, there is a very interesting phenomenon in Latin America over the last 10 years.

Latin American companies have been expanding within Latin America. They're consolidating across Latin America. Which drives home a point which is we're more similar than dissimilar in Latin America with our consumers, and in general, in our culture. And that's an opportunity as I see it for us, as we, as we expand and grow our portfolio across geographies and looking at the best brands we have and making sure they're available across our 39 countries.

So, we're very excited and I want to take a look at this, \$30 billion in growth over the next three years in retail value, it's a CAGR of 7%. But what's interesting is that half of that growth will come from the sparkling category, which is our natural stronghold. We are very strong here. So we're very confident that we can continue building our position, our strong position. As you can see on the far end, we have over a 50 share in value share and we've been consistent in gaining share.

But you can also see the next two categories that are almost are equal to the sparkling category in terms of opportunity for growth. And there again, we have a pretty solid position equal to a sparkling category in terms of opportunity for growth and there again we have a pretty solid position and we've been gaining share in both of them. So, guess what our business plan is about focusing on those categories and really driving growth through those three categories in particular.

Let me now jump over to quality leadership. In Latin America, quality leadership is the foundation for growth. And it's been for many years. And there's two ways in which quality leadership enables growth. The first is in leader category. So you heard Francisco explain the importance of leader categories for us.

When we operate in Latin America with strong leadership. We can take more risks. We can test and learn, and not worry about losing our leadership position. So what we're looking for is, to test and change our approach to the different problems that we face. So for example in Mexico. In 2014 a tax was placed on the food and beverage industry along with a broader tax reform that actually put pressure on consumers and consumer spending. So we had to adapt to that. And what we put together is a plan that's actually ongoing but it's a plan which had four components to it.

The first one was we need to keep consumers within the franchise and we need to bring in more consumers. Understanding that there is a tax on the category. There is this obesity issue that's affecting the category and we need to address it. And so we started looking at around the world and we found a program called Share a Coke out of Australia and we implemented this.

This program along with our approach to revenue growth management helped us maintain our consumer base and helped us grow our consumer base. On revenue management, what we looked at was expanding our portfolio, particularly in single serve packages and focusing on magic price points to make sure that we remained relevant with consumers.

The third component was about execution discipline, Francisco alluded to this. In Mexico execution has been good consistently, but we redoubled our efforts and we actually expanded our share of visible inventory and our share of cold inventory through this period of time. So, we were able to gain visibility even more visibility for our portfolio.

And finally, our biggest move, our strongest move is around reformulation, reducing the sugar content in our beverages and energizing Coca-Cola Zero and then moving to Coca-Cola No Sugar. And again I won't repeat what Francisco said, but this has been a big part of our growth in Mexico in the last couple of years. And as you can see on the far right, you see the results, sparkling value share up, NARTD value share up. And more importantly, we were able to grow revenue at a 13% CAGR over the last three years.

From that learning in Mexico, we go to Chile. Again, a tax on the category on food and beverages, but with an added complication, regulation on labeling and on and add a ban on sugary beverages during the day. And we applied the same four actions as in Mexico, but added one, which was about engaging with the government, engaging with critics, engaging with all of the stakeholders to work together to find something that was more effective in addressing their concerns and our concerns are around obesity. So we were able to establish thresholds of different levels of sugar and so it was a staged approach on taxes. And we were able to again adapt our portfolio.

On the labeling piece, the law says that if you're high in sugars, high in sodium, high in fats and high in calories, you have to have this black label on the package. So we were very focused on changing our portfolio. Today, 65% of our sales in Chile don't have a label, okay. Only 35% of our sales have one label.

There are products in the food business that can have more than one. So we think that by working together with the government, we found something that worked for them, worked with the critics, worked for the business. And of course at the end, we were able to transform our portfolio and reduce the content of sugar.

On the far right again, the results. We grew our consumer base. We were able to reduce our sugar content in our products by 9%. And we grew the mix of Coca-Cola Zero. Now, Sin Azúcar, No Sugar by 5 points. And again we're able to double revenue growth from one year to the next.

So with those learnings, what we're doing is taking these learnings to all the other markets that we have in Latin America and basically asking them to focus on three things. Expand the portfolio, focus on reducing sugar and focus on developing small packages and positioning them with magic price point. Second, execute relentlessly. Every day, we have to generate transaction growth and price smart, so, we get consumers to continue to buy our products, and executing at the point of sale to win. And finally engaging in dialog. I think that the big learning for us is at people want to sit down and talk and find solutions to the concerns they have.

Finally, what's making this successful in my opinion is that we have a strong backbone, which is a strong marketing sales and distribution structure that we have across Latin America. And this is important, because this is what allows us then to move aggressively in changing our formulations to less sugar across our portfolio. And then some of those work and some of those don't, I was talking to – I think it was Steve, earlier about a problem we had in Costa Rica, we put a Fanta out there, I think James addressed this in the past meaning, it didn't work, took it out. We continue working on new variants, and our commitment is to find a great tasting product that's going to have less sugar in the market, and we think we can do it.

So in conclusion on this piece is we feel confident that that \$14 billion in incremental growth in the sparkling category, that we're going to be able to capture more than our fair share of that going forward by doing these things. The second thing that quality leadership enables us to do is to invest, expand and win in our challenger and explorer categories. It also helps us to move – actually shorten the learning curve by using the best practices from our leader categories and applying them to these categories.

So, let me take you through an example. In Mexico in 2006, we were the number six player in non-sparkling categories, 10 years ago. Today – or by 2016, we were in the number one position in non-sparkling categories. And this came from a commitment from the system to go into those categories, and win. Those categories, where we had relevant profit pools, go in and win. So we put together a vision. We put together an operating model different than the concentrate model, we agreed on a joint venture with our bottling partners, and then we looked out and look to acquire and build capabilities. All this using the platform of our system marketing, sales and distribution to grow.

So what have been the results? We have grown our volume almost by 3 times in the 10 year period. And more importantly, we have been able to improve our operating income almost 6 times over that period of time.

Another aspect building on what I've been saying on acquisition, Jugos del Valle was our acquisition in 2007, it was the number two juice player in Mexico at the time. And we've been able to gain 31 points of value share over that 10-year period. More importantly, this has been a platform for growth in other categories, as we put it inside the joint venture.

On category development, Francisco talked about Powerade, so I'm not going to repeat it, but we went from, I would even say explorer to challenger very quickly and then from challenger to leader over that 10-year period. And again we've gained 39 value share points in the last 10 years.

And finally on the hydration category, we created a masterbrand. We acquired bottler brands, created one masterbrand and in a low value category, we were able to be more efficient and also launch flavored waters that helped our profitability. And we've been able to make this a profitable category for us.

So having this roadmap has helped us think how we can accelerate growth across Latin America where we do have number one and number two positions across several markets but we're still very small in those markets. So we believe that with this roadmap we'll be successful. And again as I mentioned in sparkling, we're confident that we can capture more than our fair share of the growth that's coming particularly in the juice, dairy and plant category and in the hydration category.

So, well, I went through this very fast. So good. So to close, I want to leave you with a thought about quality leadership. Quality leadership allows us to take more risks because we believe that we have so much – there are so much advantage that we have, relative to competitors, that we can make mistakes and we can recover in time. So, back to James' point on culture is we're trying to convince everyone in our organization is that we can go faster, we can learn faster, we can adapt faster, and we will continue to have a leadership – as a matter of fact, I think that what's going to help us sustain our leadership position going forward.

The second piece is around investing, quality leadership allows – generates the resources that we need to invest in and explorers and challengers. And finally, it focuses on executing with discipline, which as Francisco mentioned several time, discipline is a important word now in the Coca-Cola Company. But it's been for a long time in Latin America. And if we do this, we should be able to profitably expand beverages for life. Thank you very much.

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**Operator:** Ladies and gentlemen, please welcome the President of Europe, Middle East and Africa Group, Brian Smith.

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## Brian John S. Smith

*Global President-EMEA Group, The Coca-Cola Co.*

Good afternoon. Thanks for being here. I'm going to talk to you about EMEA. I was – actually just a year ago when Alfredo moved to the Head of Latin America I moved to the Head of EMEA from Latin America. So I want to leave you with three messages today. The first is that we have extremely compelling growth opportunities in EMEA. And I'll try to give you the proof points around that. The second is the way we're going to drive that growth and capitalize on that growth opportunity is by going back to execution basics in our base business – the leader business that Francisco and James talked to you about.

And the third one is as we do that over the next two or three years, we're going to layer in brand platforms from other parts of the world to those white spaces that we have in the categories, so that we can build explorers, eventually challengers and then drive our top line growth with our base business from 2020 onward. And with hope, you'll walk away with a little more belief that we in fact have those growth opportunities and know how to capitalize upon them.

So what's EMEA? It's big, it's vast, it goes all the way from Iceland all the way to the Eastern most tip of Russia, down through Pakistan, down to the southernmost tip of Africa. We have 2.5 billion consumers. It's a \$275 billion retail industry. It's – our share in that is about 25%. It's very diverse in terms of the kinds of markets that we have from a mature Europe all the way down to low per capita sub-Sahara countries. We have four bottlers. We have a four big bottlers. We have six business units. Our base business is – 80% of our business is in sparkling, followed by water. So it's vast, it's diverse; it's very diverse demographically, culturally. But there are commonalities in terms of the growth opportunities across all the BUs and the way that we're going to go about addressing them.

So the first message, why is it a compelling growth opportunity? Well, if you look across all the different categories that we have, there's a lot of growth going forward. We expect to grow between now and 2020. The industry growth is about \$45 billion in incremental growth. And all of the categories are growing, even sparkling at 3%. And if you don't see this is compelling. I mean just consider for a minute that our share in sparkling is 50%, but in everything else, they're relatively low. So there's a high ceiling in terms of what we can go after, in terms of the opportunities.

So again, the leader, challenger, explorer model. What we're going to do to justify our strategy is to go back to execution basics with our leaders, to be able to drive top line growth. That's the basic business that we're doing. And it's something that we know how to do; it's something that we know how to do because it's something we're doing in a lot of places around the world. Then what we want to do is upscale our standards in EMEA, and that will then fuel our challengers and our explorers over the next three years to build explorers into challengers, and hopefully challengers into leaders and then we can drive our growth going forward.

So you're maybe asking yourselves why is this going to work. I mean, why do we believe this is going to work? Because we could have said the same thing to you three years ago, instead of why haven't we done it yet. One of the biggest shifts that we've made as a system is to pivot from volume to value. We keep saying it, but it's really important. And the reason that's important is because, if we don't – if we're not aligned with our bottling system, if we get this aligned, we have a lot of weak flanks. And if we are totally aligned with our bottling system, there's no other system in the world that can beat us, in terms of what we're doing, brand building and distribution and building value in the beverage sector.

And so what happens if you chase volume, especially in say mature markets like in Europe where we have strong chains and private labels? We have to discount to be able to chase that volume, or in emerging markets where

you have a lot of B brands and you also have to discount to be able to go after volume, you essentially have diminishing returns. And that drives system misalignment, because we're essentially fighting over what the pie is. So, we under-invest in terms of capabilities. We get little traction in new categories and essentially it's a vicious cycle.

If you pivot over to value – if we pivot over to value, then what happens is, you immediately start to take some of the unprofitable volume out at the margin. And what that does is, it drives higher returns and if you combine that with refranchising your bottling system, you essentially have the wherewithal to continue or to begin to reinvest in a more dynamic and a bigger way into execution fundamentals and then ultimately into new categories, and then you have a virtuous circle.

And so don't underestimate the impact that this decision that's been made about a year, year-and-a-half ago or thereabouts on our ability to go after top line growth. It's fundamental in our ability to enable that to happen. So, again, what's the strategy to upscale our execution. What does that mean? It means essentially – it's an innovative and integrative process, through which our consumer marketing and our bottler execution, self reinforce and leverage on the competitive advantages that we have in our system. So it's kind of a mouthful. So let me just give you an example.

In Poland, which is a market that we did revenue growth management a couple of years ago. As a result of that work, we came up with Hellenic – we came up with one of the key initiatives was a 200 ml can. A great example of pivoting from volume to value, right. Smaller pack, higher price, consumer centric, it's a great packaged to go out and market to our consumer base to bring more people into our franchise and once we decided with Hellenic that it was the right pack and we decided which price through the consumer elasticities that we had in the revenue growth management analysis, which was essentially 80% of what a bus fare would be for young adults and teens.

We decided on the one hand to invest in marketing commercials specifically for that package and brand – and package graphics, which had celebrities which would resonate with our consumer target base. And Hellenic on their hand increased distribution up to 50%, and put racks in the marketplace. And also most importantly put that package next to the highest frequency packages that they had in the market, which is – which they have in the markets today, which is the regular can. By doing that, what we've been able to do is to grow that package 40% year-over-year and increased our immediate consumption transactions by 10% year-over-year as well.

So, it's one example of the kinds of things that we're doing and we're going to do more of, because what we're going to do is essentially rollout RGM across between now and the mid of next year 25 markets, of which 14 are top markets in EMEA. And we're also going to double our placement of incremental coolers, which we found to be highly correlated with our ability to drive top-line growth.

So, let me just tell you a little bit more about RGM, for those of you that may not be familiar with it. It's an analysis and what it takes as data is all the competitive information from our system. So be it, our products, our brands, our packs, our channels blah, blah, blah, our competitors and other information and puts it in and through algorithms we figure out what the right initiatives are to be able to capitalize on our strengths as a system and our competitors' weaknesses.

And when you do that, you come up with initiatives that, as you can see here, that are perfectly aimed to be able to drive top line growth; hence, revenue growth management. If we do that, when we do that, we're able to drive at least 1% more top line growth in the markets in which we do it and then implement it. So, we have to do it and then put the money behind as I just described in that example to be able to make it happen.

So, let me show you some proof points. Yes, they're selected, I selected them. Not all markets are like this, but these are proof points that there's some green shoots. And we know what we're doing, we know what we have to do. Again, we're not doing it everywhere all at the same time and so on so forth. But we are rolling this out and over the next year or so, we'll be in 25 markets, implementing, executing this, not just with Hellenic, but with CCP, with the CCBA and the other bottlers.

So, we're not only able to drive absolute revenue growth, anywhere from 2% in Spain to 29% in Nigeria, but we're also gaining value share, which is the acid test, right. I mean, if we were doing the first part and we were losing share, then you'd say, well you're mortgaging the future. We're not. We're able to do both of those things, and I think that's the trick. And the trick for us is to be able to measure ourselves to keep ourselves honest that we're taking the price mix that we can take without going overboard and balancing that with volume growth in such a way that we have the top line growth that will generate the cash flows to be able to fund the investments that we need to make, not only in the base business, but in all the new categories that we want to go after.

So, that's my first part of my first message, which is how we're going to build, how we're going to grow the base. Second part of my message is, how are we going to layer in the stuff in the other categories where we have whitespaces, and we have many across EMEA. As you saw before, our share is relatively low in a lot of the categories. So, what we're going to do or what we're actually doing, as we speak, is taking brand platforms like smartwater, Honest, FUZE Tea and we're rolling those across Europe, obviously, sequentially as fast as we can, but obviously we need to do in such a way that the bottler can handle the new brands successfully and not drop the ball on the base business.

We are also solidifying our position with Chi in Nigeria, which is a fantastic company that makes juices and makes dairy products and is a very strong challenger in Nigeria, and which we hope to be able to take and expand across other parts of Africa in the future.

I have two developments I want to tell you about today, two new things. I mean, we alluded to them before, James alluded to it. The first is VEB. We've launched VEB in Central and Eastern Europe business unit with Hellenic, and it's a joint effort between us and the bottler. And we've launched three products, smartwater, ZICO, and Appletiser from South Africa. And it's a dedicated sales force. It's a dedicated set of people and [indiscernible] (02:00:44) because we're much smaller but the intent is in the future that we'll be able to build that not only in CEE but in other business units as well.

And the other development is we're bringing AdeS from Latin America to Europe. And so, by January in 2018, we will launch AdeS. It's been changed somewhat from Latin America. My instructions to the team were, don't change anything. They changed everything, but it's a much better product. Believe me. It's fantastic. And it's a huge growing market and plant based throughout Europe, not only in Western but in Eastern Europe. We're going to launch in Spain and then we're going to roll out from there.

So that's what we're doing in terms of – and there's other things that are going on. There's all kinds of things depending on the business units where they are, where the starting point is, where the best opportunities in terms of profit pools and so on and so forth. Remember, what we said is, they're empowered to make their own choices with respect to how they are going to build the spaces into the whitespaces that they need to build into.

We will be prescriptive in terms of ensuring that they don't drag their feet in terms of getting in, leaning into those spaces. And it's okay to fail, it's ok to experiment, it's okay to bring the platforms in to adapt them, to make them work, and then eventually to make them grow.

So, with that, let me just reiterate my three key messages. First, compelling opportunity. Second, our growth is already happening. This year we've had a step change in terms of what we're doing in terms of top line. We were going to continue to push that going forward. As I said, RGM in 25 markets by mid-next year, doubling the cooler placements, back to basics in terms of Coca-Cola Company.

One of the areas of opportunity that we have is, the way that we invest our DME monies. We believe that we can be more effective in spending those more intelligent and how we allocate those across brands and across the different types of media and across different types of market assets as well. And we will also be, to a certain extent, prescriptive in ensuring that the business units, even though they're empowered to make their own decisions, are paying attention to the things that are coming out of the growth office that are helping to shape and make understand how that expended – those expenditures could be used most effectively. So, a combination of us spending more intelligently, the bottler investing more in terms of their execution acumen will drive our base business, our current base business. And all the other stuff we're going to layer in over the next two or three years, we'll get growth from it, but really those are the kinds of things that will eventually fuel much more material growth from 2020 onward.

And let me just say that we're super bullish with respect to the opportunities. We're fully convinced that we know how to capitalize on them, and we're in the process of building a winning mindset in EMEA with our associates through massive amount of talent deployment, the right people in the right place to do the right job, and restructuring in such a way that we're more agile with our bottling system.

Thank you very much.

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**Operator:** Ladies and gentlemen, please welcome the President of Asia Pacific Group, John Murphy.

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## John Murphy

*President-Asia Pacific Group, The Coca-Cola Co.*

Good afternoon to everybody here. And good morning to the brave few who are listening live from my part of the world in Asia. My name is John Murphy, and it's a great privilege actually to be here to represent those people on the other side of the world. I'd like to talk about three topics. First of all, the runway for growth that we have across Asia Pacific. Secondly, to talk about some of the lessons that we are, not only learning, but applying in many of our markets. And thirdly, I'd like to talk about the playbook that Francisco is leading, and how it can be applied differently, depending on the market context.

So with that, let me start, like my colleagues have done, with little context on Asia Pacific. 52% of the world's population live here, Brian's impressive 2.5 billion consumers pales in comparison to my 4.5 billion consumers. They live in 32 countries of every shape, size and stage of development. We service – we service The Coca-Cola System, I have had to double-check this today, because the numbers seem too big, but we service either directly or indirectly 15 million customers, there's 15 million more we don't service.

We're organized into five business units and we work with a handful of pretty good partners, about whom I'll talk a little bit as we go forward. Our core business, like the other guys where we have 60% of our business, is in sparkling, but the other 40% tells you we're not immaterial when it comes to the other categories. The runway for growth ahead is significant. Over the next three years, the industry will add \$50 billion of retail value, all the core categories will grow, somewhat different rates of growth than you've seen in some other parts of the world. And if that's not an advertisement for beverages for life, well then I don't know what is. If there was one slide I was going to rip out of my deck and make sure I had on my desk every morning is this one, the beverage landscape in Asia

Pacific is very different today than you see in other parts of the world. 7 out of every 10 beverages consumed in Asia Pacific today is non-commercial, that compares into developed world for 7 out of every 10 beverages is commercial. If we were just to get to the global average, we would create \$100 billion -almost \$120 billion of value. I'm pretty excited about that chart and I have it close by, in the good and the not so good days.

To better understand though the [ph] why (02:08:23) of that chart, and to tap into what does it take to make it different as we go forward. The obvious place to start is with the consumer. And far be it from me to sort of broad-brush the Asian consumer. But there are common traits that one can pick up whether you're talking about the Japanese, whether you're talking about India or whether you're talking about China. Home rituals are important. Hence the prevalence of homebrew teas, homemade juices. They love a lot of stuff, sweet, un-sweet, hot, cold, gooey, un-gooey you have, you name it. They are very trend conscious increasingly in today's environment and those trends are influencing the repertoire of beverages that they're trying, and they love to try, they love to try new stuff, and they love to try it frequently.

And with the adoption of digital technologies, the rate of trial is even higher, because of the access that digital is creating. We've got a pretty decent portfolio today. In fact over the last three years, we've launched in Asia-Pacific alone over 500 new products some of which you've seen in the booth earlier, I've got three or four favorites, [ph] Coca-Cola Plus (02:10:09) is a good example of what Francisco talked about earlier today and how you can create value in the leader category.

[ph] Coca-Cola Plus (02:10:18) is got some fiber, it's scientifically stamped with the approval of the Japanese Government, which only takes two years to secure, and it helps to absorb the fat in your blood. So the sign-up sheet is outside. We also are excited with what we're doing in India, James and I launched middle Minute Maid Mosambi with the Chief Minister of Maharashtra a few months ago. Mosambi is the second most popular local fruit in India. It's a sweet lime, and marrying a locally desired fruit to a global brand creates value and we're pretty excited about what we're doing.

And the third one Chun Yue. Chun Yue is a water we have launched in China in the last couple of years with a view to bring in the consumer up to the value curve in their ongoing pursuit for more quality and for more purity. The reality though is, we're really just getting started.

The size of the gray bars tells you that, that's all that we do not own and participate today. Keep in mind, we still have just 15% value share. But we're not starting from scratch is the good news. And in one of our markets, Japan we have what has now become an example. And indeed an inspiration for not only for those of us in Asia, but for across the world with what has evolved in Japan over the last 20 years, 25 years.

I was actually in Japan, in my first assignment in the early 1990s. And at that time, the business there launched the strategy to become a total beverage company, with a simple vision to provide consumers a superior choice for every beverage occasion. And in those days we were primarily a sparkling business, with some momentum in coffee.

Fast forward to today, and we've got a very diverse portfolio. We have leader positions in three of the largest categories and strong number [ph] two's (02:12:42) in two of the other ones. As a side point, it's interesting that even with that evolution, even with following the consumer, the brand, the product that generates the most retail value in Japan today is Coca-Cola. So, again, permission to believe in the importance of sustaining leadership positions and leveraging them.



I thought it'll be instructive to share with you just a few of the lessons that we have learned, and we are applying from the experience in Japan. Not only in Asia Pacific, but around the world and some of these fuse nicely actually with the playbook that Francisco has been talking about. Firstly, it's critical to anchor the portfolio around a few leader brands.

Today in Japan, we have a stable north of 30 brands. And yet of those 30, 7 of them represent the lion share of both, revenue and profit. Scale is critical. As we know, this is a proof point. And innovation actually paradoxically works better on scale brands. But it doesn't happen by chance. It requires a long-term commitment to selecting the categories you want to play and win in . It requires consistent multi-year investments and it requires a systematic approach to learning how to build categories.

Once you have brands, you can't rest on your laurels. Keeping brands relevant is a 24x7 job. My first visit to Japan, Georgia coffee was available in one can. It was a 250 milliliter long can, and it was called [ph] Georgia Original (02:14:57). It was a sweetened, it basically was a flavor, a flavored milk with coffee sweetener. Today, we have a stable of sub-brands built for different consumer segments. Within those segments there are flavors and pack variance to meet needs on specific occasions. And underneath that, we have tactical extensions. I was talking to somebody earlier today about in Fukuoka, they prefer a sweeter coffee, so we got one there. We leverage the seasons, we leverage the rhythm of the country, and this is a 365-day job. Okay. Yeah. We have big time failed, but persisted.

I in my second tour of [indiscernible] (02:15:50) in Japan, we thought we've cracked the code in green tea. The great – the paradoxical thing about expect failures, you don't actually set up to fail. You don't say, okay I'm going to fail gloriously next month. You set out with in search of those unique insights, you search out in search of the ability to convert those into product solutions.

And we thought we had it with [ph] Marocha (02:16:14). We filled every vending machine in Japan in one night, best – biggest product launch in the history of Japan. And six months later, the consumer said, no thanks. We don't like you, and we were out of the market. It's important to set realistic expectations on these exploration journeys. It's important to have the ability to have many irons in the fire. And perhaps the most important lesson we're religious about at the moment is, never stop searching for those unique insights.

Consumer-led is not for the fainthearted. Following them is Olympian in task and in persistence required. This thing here is not designed for this presentation. This is a copy of the Japan [ph] plan (02:17:13) from last year. This is our launch calendar.

To be able to execute that launch calendar, it's a different skill. It requires us to embrace complexity and not be afraid of it. And in order to embrace complexity, you need to build sophistication into how you work end-to-end. It requires the courage to invest ahead of the curve before the consumer has actually got there, and more importantly, before your competitor has gotten there. And it requires, yes, in that pursuit of the new, it requires incredible discipline to stay with it.

When I had my first bottler meeting in Japan, we needed a room around this size to house all of the attendees. We had a big, big system, lots of bottlers. Today, we would need one of the small meeting rooms over there. But the journey to get from where we were to where we are, it's a never ending pursuit. It's, about leadership, it's about trust, it's about shared vision alignment for what's required, what will win in the longer term and it's something that we can never forget, no matter where we're operating or with whomever we're operating with.

So, as we search for the path to quality leadership in Asia-Pacific and as I segment all of our markets, we've got about 90 countries, important country category combinations, most of them are in the left-hand side of the chart and the objective over the next few years is to have most of them on the right-hand side of the chart. As James alluded to earlier, we have very different starting points. India, we have leader brands, but we have an industry that is very underdeveloped. On the other hand in China, we have a 9% value share of an industry that is actually quite huge. And the good news about both beverages for life and the [ph] playbook (02:19:41) and the lessons from Japan is that we can apply them differently to different contexts.

Take China for example. In China, it's a stretch, frankly speaking, to say that we have for you to take away that these brands here are leader brands. You know when you've got a 9% share, it's a bit of a stretch. But what we are clear on is, we believe they will be and can be leader brands and we're doing the things that Francisco and the other guys have talked about to get there.

We also recognize that there is a couple of other categories that we need systematic [ph] place (02:20:22) in and we're excited with some of the work we have in our pipeline. We're investing in really understanding the Chinese consumer.

When you've got a country, where you've got a 100 cities with a population of more than one million people, you need to take pretty deep to really understand the rhythm of the nation, what's happening and why we're investing significantly in there. We have rewired completely our supply chain with our R&D center in Shanghai.

I would invite any of you, if you are in China, to let us know, I'd love to show you around some of the things we've been building and developing. And with the refranchising that took place earlier this year, I believe, we have in place a tremendous, tremendous platform with COFCO and Swire to really drive our business in China towards this vision of being a total beverage company.

India is a different story. We have leader brands. Sprite, Maaza, Thumps Up, in particular, [ph] on (02:21:33) their categories tremendous equity. Our job now is to leverage those brands to help grow the industry. And we're excited with the work we have underway to do that. In addition, we have a couple of other categories that we believe we have tremendous room for growth as we go forward. And the good news is there are not too many there yet who've cracked the code on leadership in those categories.

The triangle in the middle. The bottom half of the pyramid in India, almost 300 million people, we have tried so many times in my time in the Coca-Cola system to crack the code there and we haven't done it. But we've got a team of pretty smart people who want to have the legacy to be the first to do so. So we're excited with some of the work that they're doing. We're also building a unique value system in India partnering with the government, partnering with a company called Jain in the private sector, with our bottlers to leverage the tremendous opportunity that's the largest fruit growing nation in the world offers and there will be lot more to come on that.

And finally with Bottling Investments Group, we've a really great partnership there to make sure that we build the right foundations over the coming years. And we do so in partnership with the 13 other smaller bottlers we have there. With BIG we can now do one system, one voice communications and planning with our customers. We have a one infrastructure plan and most importantly, we have the executional excellence mindset being applied at the same levels across the country.

I've been asked more than once, since I've taken on this role just over a year ago, I've been asked, look, what's different John, like we've had many here and they've tried it and they've either been promoted or they've moved on. So what's different. I'd offer you four thoughts to take. The first thing is that beverages for life for me is about

opening the lens. And opening that lens creates just in the next three years, the opportunities that we talked about earlier, \$50 billion and if we move the needle from noncommercial to commercial the sky is the limit with that broader lens.

Secondly, I'd say is we have without question, the most aligned and motivated group of fairly small – a small group of partners in Asia Pacific, today. I believe we've got a shared vision for the future, we've got investors who are willing to take the risks that are needed to build demand ahead of the curve. And we've got the same beliefs and the importance of building world class capabilities up and down our respective organizations. We have a great [ph] playbook (02:25:24) on growth that we are now applying with discipline across our 32 markets.

And last but not least, as James alluded to, we have a culture that's changing. Growth is a discipline, but it's also a mindset and we're instilling that within our people. Capabilities is a broad word, but understanding the distinctive ones, the differential ones that are needed, are equally important, we're clear what they are. And giving people belief that they can win is incredibly, incredibly motivating and powerful.

In fact, I invited our top 75 people to join me at a meeting earlier this year to help roll out the beverages for life down to the Asia-Pac level. I asked them to come back to me with a slogan for the meeting and this here's what they came back with, they said John this is our time to win and I really believe it is.

Thank you, pleasure being here. Thank you.

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**Operator:** Ladies and gentlemen, we will now take a brief 10-minute break and our program will resume at 3:05. Once again, we will take a brief 10 minute break and we will resume at 3:05. Thank you.

[Break] (02:26:55-02:39:35)

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**Operator:** Ladies and gentlemen, please welcome to the stage the Incoming President of Coca-Cola North America, Jim Dinkins.

## James L. Dinkins

*President-Minute Maid Business Unit, Chief Retail Sales Officer and Incoming President-Coca-Cola North America, The Coca-Cola Co.*

Good afternoon, everyone. It looks like we still got a lot of people enjoying their break. So I'll just wait just a minute and we'll get started. Well as the announcer said I'm Jim Dinkins, I'm the Incoming Group President for Coca-Cola North America. I've had the chance to meet several of you while I've been here this morning as I'm looking forward to working with you. My official start date is January 1. So I'm looking forward to that.

How many of you are from the North America, live in North America most of you? Okay. Excellent. So we'll be able to talk about the North American business and what I want to do is share a little bit information with you about the marketplace which I know you're very familiar. But talk about our growth model and then talk about three key strategies that we're focused on in North America to drive growth. The first is building strong brands. The second is creating customer value. And the third is building our capabilities to sustain and repeat results. So, as my colleagues have done here's our forward-looking statement. And then here's an outlook on a roadmap of the marketplace.

Coca-Cola North America as many of you know is the flagship market for the Coca-Cola Company. There's over 350 million consumers in the marketplace, of which many of you are, so thank you for your business. Please drink a lot when you're here. Really appreciate that. But it's a big marketplace there's over \$200 billion in retail value in

the marketplace. And as you can see we've got a good business in North America, \$10 billion in revenue in North America. And we've been able to maintain and grow value share for 30 consecutive quarters.

And as you can see our pie chart across our portfolio a little more diverse than some of you maybe you are seeing today, except for Japan. And we enjoy number one position across many of those categories. And the other thing that's material as you've heard about as we have finished our map. So, James talked about finishing the map and you've probably heard from Sandy Douglas over the last few years about that initiative and a few weeks ago that was complete; so, really excited about that.

The other thing that might be new to you is how much growth opportunity there is in North America. You saw some of the developing markets. But let's look at North America over \$30 billion of growth over the next three years, \$30 billion. And in that \$20 billion of that growth is going to come from categories where we have a 25 year or less year, and there will be over \$7 billion of growth in categories where we have a leading share. So, I feel like coming into this role although I've worked in North America for 25 years, that North America is a big market with big opportunity.

So let's take a minute and look at the growth model that we as a team developed a few years ago, and we affectionately call it the 5-4-3-2-1 strategy, maybe you've seen this before, our model. And it starts with our key metrics, five key metrics; incidence, margin growth, revenue, value share and transactions. And the key takeaway which you heard from a lot of my colleagues today is the movement from volume to value.

The fourth element or the fourth number in the 5-4-3-2-1, is around categories, four category clusters around sparkling and hydration and juice plant and dairy, tea and coffee and our partnership with Monster. Three, and three advantage routes to market, which is really unique for our North American business. A strong food service business, a DSD business that most of you are familiar with our bottlers, but also having one of the largest warehouse chilled businesses in the United States.

Where our brands come to life, is through our sales force. Two large sales forces in the food service and on premise business and also with national retail sales. Now most recently, I was working in national retail sales and the Minute Maid business unit in chilled. So I enjoy doing that. That all comes together for one vision and one team, a vision and a team for Canada and for United States. And that team is focused on three key strategies building strong brands, creating customer value, and building our capabilities to sustain and repeat results.

So I'm going to spend the rest of my time talking about those areas. Before I do that, I want to talk about what have been our results? How our results been?

We can see that we've been driving growth. For the last three years, organic revenue plus 4%, price mix of plus 4% with a combination of movement in the categories, and also diversification of packages. And the profit before tax of 6% by doing the two things that I just mentioned and also leveraging productivity, which is translated into value share, value share across the categories above soft drinks, juice, dairy plant, tea and coffee and energy, but some work to do on hydration. And we're developing plans right now and implementing them in the marketplace to address that opportunity.

So let's talk about building strong brands. North America is well positioned to execute the beverages for life strategy. And as you heard today, I'm going to talk about the leadership position and then the explorer position. And the leadership position around our sparkling portfolio and the explorer position around how you've heard about VEB or Venturing Emerging Brands and I am going to talk more about that about how we explore – how we build explorers by finding and nurturing early brands.

So let's talk about sparkling. As you see in our part sparkling portfolio, we've been successful around base core Coca-Cola One Coke with original Coke and Coke Zero growing at plus 1%. And you can see Fanta and Sprite at plus 6%. Now Diet Coke isn't doing what we want so far as you can see it's minus 4%, but we're working hard on Diet Coke, we have plans to improve that number.

Now the model for success we've implemented in North America around our sparkling business is really comprises of four key elements. The first one is around media investment, having great content, where we can reach the target consumers in ways that they want, and invested a double digit level in investment in media to reach those consumers.

The second is around segmentation, having the right packages in the marketplace that meet consumers' needs.

The third is around innovation. Innovation not only in packaging and products and promotions but also in technology and equipment. So, you might be familiar with the Freestyle platform. The Freestyle platform is an excellent example of innovation in sparkling that unlock the choice barrier for us in sparkling beverages and fountain. And it also gives us information about how consumers buy our products, so that we can then innovate around that information.

And last but not least is execution. Making sure we work with our bottling partners in this example to meet the consumers' needs quickly in the stores they serve.

So I want to double click on Coke Zero Sugar, we've talked about that a lot today, but now I'll talk about what we're doing in North America, and specifically the United States. So we talked about sharing information between countries, well this is an example of how we've imported a best practice from the UK. And we imported that best practice around a lot of things you see at the bottom link to the model that I just explained. So first, we had significant media investment. Media investment where the core target lives and the platform we use for that was ESPN College GameDay. The second area was segmentation, so you can see mini cans, you can see glass packages, you can also see a frequency pack, and 12 packs.

Innovation, changing the recipe, having the product taste more like original Coca-Cola with zero sugar and zero calories. And then execution. Making sure that we develop the stores and hit the stores quickly and get that up to speed quickly with our new bottling system – our new franchise bottling system.

And what have been the results, a +7 point increase in trends since we've implemented in this process. So really, really great success on Coke Zero Sugar.

So let's pivot to explorer brands, you heard about VEB during the day, but I want to give you some more detail and dig into that a little closer. So Venturing & Emerging Brands is a group we have that goes and finds explorer brands and they have a model that they implement around four key areas. The first one is leveraging the industry knowhow that we have across our system. And a lot of that has to do with insights about the business and insights about consumers.

The second area is around leveraging our world class commercialization capabilities across lots of areas of the business, but specifically brand building, helping these young brands, understand their consumer and understand the opportunity.

The third area is around the business model, and you can see we use a venture approach or either a minority investment or either – actually an outright acquisition. And then lastly, what's really great about our model in North America is our multiple routes to market. We can leverage these brands and leverage those routes to market to drive these brands faster.

So let's look an example that we feel like is a brand that has real edge in Francisco's terms, and that's fairlife, has everybody tried fairlife on the back, if you don't please get a chance to do it, it's an amazing brand. And Venturing & Emerging Brands, we're able to find fairlife and find it in the marketplace and see that edge that it had. An edge that it had really fell in three areas. One is that one of the founders was a veterinarian and that veterinarian believed there was a better way to run a dairy farm. The second was a patented filtration system where we could actually take the best parts of milk and provide them to the consumer. The third was state-of-the-art manufacturing to make sure we could get to market quickly with these brands, and the fourth was leveraging the model in the marketplace that we talked about with our Coca-Cola brands.

So, we looked at information, we looked at brand building, we looked at the routes to market that we have. So, for example the chilled products are distributed through our warehouse business. Our ambient products are distributed through the bottlers. And then we have natural channel distributors and foodservice distributors as well. So thus – that's where we can really build our brands and bring those brands to life in North America, which is a key strategic pillar for us.

Let's pivot to customer value creation. Having strong brands is a great way to build customer value, but having great customer relationships is a great way to build strong brands. And some of you said to me, how is it working in a tough market environment with customers today. And really, what I tell you the key is a couple of things. When you're growing faster than your customer, you're accretive to their business and you're in a different position.

So, how do you get that way? Well, the way that we do that in Coke North America has art and science too, and here's the science. The science is, we have a collaborative planning process that we use business planning process that we use with customers that really digs in deep with them to understand their objectives, understand their strategies, developing joint plans often beyond beverages. Then we go to our value proposition, which we call the Coca-Cola commitment, and that value proposition brings out unique elements to the customers' needs – that provides customized solutions to their needs against growth and that helps us drive our growth faster than them, and makes – and we're accretive to their business.

So, what's happened, well you can see that, we've been the number one NARTD in driving retail value growth for customers. And we're doing it in a way that they feel really good about, because they've ranked us at the top quartile of people that do business with them. So, we're going to continue to build strong brands and continue to build customer value in North America.

And the third element I would say is around – that we're focused on is around building our own capabilities to sustain and repeat results. And the first starts with our refranchise bottling system, you heard James talk about that earlier, you heard some of my colleagues talk about that, but the map is complete, and with that map as complete, we have an energized bottling system that's investing in the market both in people and capital to drive results; so we're going to leverage that.

The third area hopefully we get a chance to see to the right here today with our – with our showcase is around digitization and accelerating that. The first example, sip & scan. You familiar with My Coke Rewards, it used to be

on top of a cap, you punch in codes, we've digitized that. Now it's a package to mobile interaction with consumers right away for them to interact with our products and receive rewards.

In the other areas around eCommerce. So you're able to see that as well in the eCommerce space which is a broad definition, I think James talked about, but we're really focused on e-commerce from click-and-collect, we have white papers on that with our customers to make sure we help them in that space. We're working on things such as meal kits, so in the foodservice how we participate in meal kits that come to [ph] bear (02:53:51). And also forward looking things like [ph] voice (02:53:55), we're actively involved in that and with our pure-play players the digital shelf, so we're really focused on eCommerce.

And then last as a productivity mindset. And a productivity mindset that challenges every \$1 that simplifies how we work; that makes sure that we're leveraging technology to do those things as well; to invest back in the business for growth and drive margins.

So, as you think about Coke North America there's a couple of things that I'd ask you to think about. One is, it's a big business with big opportunity. The second is, there's a proven growth model of how we plan to drive growth in the marketplace. And three, key strategic pillars to do that, building strong brands, creating customer value and then building our own capabilities to sustain and repeat. But the consumer is in charge, and the marketplace is evolving, and we're going to continue to evolve in North America to make sure that we're capturing all the opportunities.

So I look forward to working with all of you in my new role, and to seeing you out in New York or wherever you might be. And as I close I want to leave you with a clip from a campaign we're running now, and hopefully you've seen it in your own homes, but it's a clip that we believe pulls together many of the elements that I've talked about today, and helps demonstrate how in North America we plan to bring beverages for life, to life. Thank you and let's roll the clip.

[Video Presentation] (02:55:29-02:56:59)

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**Operator:** Ladies and gentlemen, please welcome to the stage the Chief Financial Officer of the Coca-Cola Company, Miss Kathy Waller.

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## Kathy N. Waller

*Executive Vice President, Chief Financial Officer and President, Enabling Services, The Coca-Cola Co.*

So, good afternoon. Last presentation of the day, before we go into Q&A. So you've heard about our strategies to accelerate growth, and expand into other categories. And our Group Presidents walked you through the examples of how they're going to make these strategies come to life.

So, now I get to put the pieces together, and demonstrate how we create value, and how we're going to deliver our revenue and our profit targets, supported by our capital structure. So Francisco and the Group Presidents talked about the ways we're going to drive sustainable revenue growth, so I'm going to just do a quick and high level recap of those things.

So, we absolutely have a disciplined approach to gain scale in category leadership, based upon the explorer, challenger and leader model. And we're going to broaden the portfolio in many ways to do that, innovation, premium options and this reapplication, the lift and shifts to take a great product from one market and move it to another market.

As a good category leadership, you get pricing ability. And we have a very strong global system and we're going to continue to use both on the M&A. So, we absolutely believe and we will deliver our 4% to 6% long term growth target. And I'm going to break down a little bit of how we're going to do that.

So the industry is expected to grow approximately 4% by 2020. That's a \$150 billion. But you see the categories grow at different rates. So in the left hand side, we're going to start with sparkling. And I'm going to do this and – I'm going to break this down into sparkling and then all of the products. So it's sparkling, you say the industry is expected to grow at 3% to 4%. The outer ring is industry, the inner ring is us Coca-Cola.

So we are – we skew more to sparkling as you saw in the presentations and so over 50% of our portfolio is in sparkling beverages. Now we talked about the drivers that will help us to continue to grow sparkling and we believe sparkling will continue to grow. The one I've been focused on for just a minute is renewing category growth initiatives. So for us that means continuing to reduce the sugar content out of our beverages around the world. So, we offer our consumers choice. So consumers can have a full calorie great tasting beverage or they can have a reduced calorie reduced sugar content or zero calories, zero sugar content, great tasting beverage. It's all about consumers having choice. And sparkling again, we said will continue to grow.

So then when you look at the other categories, we obviously need to gain share in the other categories and balance out that portfolio a bit. So we definitely have products in those other categories and you see the retail value growth that we anticipate over the next three years for those categories. So we've talked about those drivers as well, it's been in all of their presentations. The one I would point out would be the export VEB model internationally. So the Venturing and Emerging Brands model started in North America as it's been discussed and it is our way to incubate products and allow them to grow without the weight of the entire Coca-Cola system on them. It has been great for North America. It is a capability that we need to continue to build and we're now going to shift – lift and shift that capability to other parts of the world.

Now a great example of the things I was just talking about would be innocent. So we did not buy all of innocent initially. We invested – made our first investment in 2009 and when it was the number one smoothie brand in the UK. And then we took that great company with a great entrepreneurial culture and a passion for their brands and we combine that with our resources and our consumer reach. And so together, we improved the company we improved innovation. And one example, recent example being we took their knowledge about coconut water and ZICO from the United States and we helped them to launch the coconut water in Europe.

So now they've got an expansive portfolio. We invested behind the brands to grow brand awareness. And then using our full experience and their experience it became a national brand. It's in all major retailers and it is now the number one chilled juice brand in Europe. And even better to this day they maintain their entrepreneurial culture.

So let's pivot to talk a little bit about M&A. So we have used both on M&A to help us to, over the years to drive our consumer centric portfolio. We have purchased brands, we have purchased and refranchised bottlers. We have created alliances and partnerships. Maybe what you don't think about though is we've created capabilities. And AdeS is a great example of that. So we bought this great brand in Latin America. And it was – it's a plant based, protein based beverage company.

We needed to learn about that supply chain. We needed to learn about that manufacturing process. So we've now as we build out those capabilities, we can transport those capabilities around the world. So it was important to get that great brand, but just importantly, we've got great capabilities that we can now use around the world.



Now I recognize that this chart is a little busy. But it is only an illustration of how we have taken great products around the world, lifted them and shifted them to other places around the world and we will do more of that. AdeS again being another great example, as Brian mentioned, although he changed it maybe a little different, but we did lift and shift the brand to Europe this year, and we will be in next year.

So as I go back to where I started from revenue of this chart. So we start with the 4% industry retail value growth, right. So we took off a point because we skewed, which is sparkling, right and sparkling is growing at 3% to 4%. So, we said in all fairness, we'll take off a point. But we've got great growth initiatives. Some of which you're seeing today that will give us back 1 percentage point to 2 percentage points of growth, which then gives us 4% to 5% of revenue that we absolutely control.

And then when emerging markets rebound and we believe they will rebound. Now I can't tell you when, but we will believe that rebound will occur. We pick up another point that gets us to our 4% to 6% long-term growth target. So we absolutely believe that we can deliver the 4% to 6% long-term target.

So let's shift to profitability and our margins. So we announced earlier today that we will deliver operating margin expansion and that it will – our margins will be 35% plus going about the year 2020. Now refranchising helps that significantly, as well as productivity. Productivity allows us to – has helped us to deliver that. But in addition making the right portfolio choices helps. Continuing to grow sparkling helps, getting scale helps.

So if I break that down a little further, on the left hand side is gross margin by category cluster, relative gross margin by category cluster. So it's very clear as the category margins will vary. And it's not lost on anyone that sparkling gross margins are superior to the other categories. We've all known that.

But – well I shouldn't say but I should say and when we expand, we know we're going to get some margin pressure, but we absolutely believe in any one year, in any one year, we can manage that pressure. We don't believe any one year will be significant enough that we cannot manage it. So we believe, we will be able to manage that margin pressure. And there are lots of different ways in which you can manage the pressure.

So one of these ways, people are talking about all morning, afternoon Francisco being one of them is our explorer, challenger, leader framework. Our products will go through that framework at different stages at different rates. And as – but the one thing that's very clear is as they get category leadership and scale, our margins are improved. We have a very positive impact to our margins.

And then, the other things you can do, and example on this page is with any category, you have options. You can add – so the example here would be juice in North America. Sol, we got Minute Maid, great brand; and we've got Simply, more premium. Simply's margins are a little bit better than the Minute Maid margins.

So, we've got options that will allow us to improve our margins over time, but the good news is, Sparkling continues to grow, which is a positive. And we will continue to take products to category leadership to allow us to gain – to get to that margin level and beyond.

So, let's talk about productivity. I need to say productivity is ongoing and it is absolutely built into our long-term growth targets. So we have current program underway and it is focused against all categories of our spend, including our latest program Lean Enterprise. Lean Enterprise started earlier this year as James talked about. Purpose of it being to flatten the organization and to drive faster and more effective decision making.

But across our category spend, we've done other things. So in marketing, we drove more efficient marketing. The goal was to take – to reduce the amount of promotional marketing and non-media spend, and absolutely invest in our brands and invest in media spending. We've done things in the supply chain. We've changed designs of our packaging and we this example is that we've light-weighted bottles. We've taken cost out of our manufacturing systems. We have standardized and reformulated our manufacturing. So we have – you've heard examples of reformulations. And then we've standardized recipes around the world which also took out costs, and then we have leveraged technology and automation to continue to drive costs down.

In the IT systems and capabilities, it's ongoing. We are upgrading our systems including, I'm happy to say, our financial systems. And we've trained our associates on the Agile Methodology. The Agile Methodology is a different way of working. It's a way of problem solving where you take big problems and you put them into small manageable pieces and you solve them in a couple of weeks at a time until you solve the entire problem. The beauty about Agile is that it gives them a different way of thinking about their work. And the work that seemed like daunting and very difficult to change becomes easier to change.

So we've taken the productivity, and we have reinvested and in our brands and in innovation. We've absolutely used it to cover category mix inflation and currency. And we've expanded our margins. The beauty of the productivity program is that you know we've been involved in productivity for a long time and it's always been part of our long-term targets. So, it is now become just part of the DNA. It is part of the way our employees think about doing their jobs. Part of – the reason is because they know it's an absolute expectation because it can't go away. We will always be using productivity to fuel growth. So it becomes an enabler for the organization. And we've given them different ways to think about how to go about it through the agile methodology and other ways. That that has helped them, not be as concerned about it and be more excited about it.

One example of why they're excited is about digitizing the organization. Ourselves is – we will benefit greatly from us digitizing the organization, they will benefit more than anybody else, and they are really looking forward to it. When I gave someone – an example of this earlier this afternoon about my finance associates looking forward to the SAP reimplementation, they looked at me like I had lost my mind.

However, when you know when it's over, what it does to their lives and how big it makes their lives and their jobs much easier. You understand why they are looking forward to that work. And it's a lot of work, but they're absolutely up for it, and they're looking forward to it. And it allows them to continue to find ways to be more productive, to continue to change the way in which they work, and they have more balance in their lives. It's very simple.

So we have done things and we're continuing to do things to digitize the organization. So we're – our infrastructure is moving to a service-based model, moving to the cloud. We've created tools, collaboration tools. We've done more in automation, we've robotics. So we've done a lot of different things that have absolutely helped us reduce costs. They've helped us make decisions faster and will continue to. But as important, they've improved the employee experience, which means a lot to me and to a lot of others around here personally.

So let's talk about our capital allocation strategy and cash flow. We have had a very consistent capital allocation strategy forever. Our priorities haven't changed. We reinvest in our business. So our cash from operations, we generate great cash from operations and we will continue to. Our capital expenditures as we've been refranchising have declined. We have given cash back to our investors primarily in the form of dividends and that will continue. We've used bolt-on M&A.

And going forward, given all of the strategies you saw and the needs to expand and accelerate our expansion into other categories, there may be an incremental need for more bolt-on M&A in the near-term. And as a result we are tapering our share repurchase program and we will only cover dilution going forward. So, as we're always going to look at how we can continue to improve, we've taken cost out of the net working capital, so we're improving our networking capital.

One example would be the extended payable terms that we are introducing and we started with Japan and the United States. Just those two really resulted in \$1.5 billion in improvement in our net working capital, and we are looking at other markets around the world. And our cash conversion cycle has reduced from approximately 64, 65 days down to 35 days. So improvement in net working capital.

We have, as I said, reduced our capital intensity. As we refranchised, our capital expenses have gone down, but also as we refranchised our – we have divested significant amounts of revenue. So going forward, you may want to think about that we've thought the better way to think about the capital expenses would be as a percent of net revenue, and that's only in the long-term.

In the near and intermediate term, we are going to continue to invest in digitalization and other things that help us to continue our productivity programs. So, in the near-term, the capital expenditure numbers are coming down as much as we are investing, but over the long-term 4.5% to 5% is probably a good way to think about – as a percent of net revenue is probably a good way to think about capital expenditures.

And then, our free cash flow and a free cash flow margin. So, on the left-hand side, I think we showed this at CAGNY. This assumes, so that number in 2016 is 16%. Assume that, if we had finished the refranchising at the beginning of 2016, so effectively 12/31/2015. We would have increased our free cash flow margin by about 700 basis points. And that – so the refranchising will complete, USA completed and got a little bit left to go, refranchising does complete. And then we determined that it was probably a good idea to put a target range out there. Now reinvestments we will – will lead to do different things to support the business going forward. So, we put a target range of 95% to 100% for free cash flow conversion ratio.

So then – so if you just start at the beginning. We are clearly a global leader. We have a strong foundation. Hopefully you've seen through all the presentations this afternoon that there is a clear destination. And hopefully, you've heard how our culture is changing and our teams are aligned for growth. And that means to me over the long-term, that we will absolutely and we were committed to delivering on our long-term targets including our new adjusted free cash flow conversion ratio target.

So with that, I will ask you guys to sit tight. I'm going to invite my colleagues back, that they're going to bring up chairs. And we're going to have to Q&A all right. So give us a few minutes to get set-up. And we will start Q&A. Thank you.

[Video Presentation] (03:17:58-03:19:38)

## QUESTION AND ANSWER SECTION

Timothy K. Leveridge

*Vice President & Investor Relations Officer, The Coca-Cola Co.*

A

All right. Little – couple of ground rules. So, when we get going, I'm going to cue, obviously call on folks in the audience. When I call on you, if you can please keep your hand up, we're going to have folks with microphones, so they're going to need to be able to find you. And if you'll please wait until the microphone gets to you before you start asking the question, because it's not just for folks here in the room, but obviously we have people on the webcast and we want to make sure that they get the chance to hear the question. So with that said, we'll open it up.

[ph] Bill (03:20:08) was the first one to raise his hand. So again if – once I call his name, if the rest of the people can put their hands down. It'll make it a whole lot easier for them to figure out who is being called on.

Q

Thank you. I think we'll zero-in on Cathy your comment about M&A and holding back on share repurchase because obviously we're thinking of the size deals of Topo Chico and others were, they shouldn't be mutually exclusive. So if you or James want to give us little more color about what you have in mind, when that's going to happen, anything else would be great.

Kathy N. Waller

*Executive Vice President, Chief Financial Officer and President, Enabling Services, The Coca-Cola Co.*

A

So I was clear that we will continue to be both-on M&A that we will be looking to do. But let me step back and say we have a cash allocation strategy, right. And you all know better than anybody that we have been doing a share repurchase through debt and our gross debt numbers are high. So we need to be careful on how we move forward, since none of us know at this point about, what tax reforms are going to look like and what's going to happen, we need to be more cautious. And so part of that caution is going to be – going to give us opportunity to as we need to expand and accelerate our growth because top-line growth is what we absolutely need and that's a driver for everything as James said this morning, and it would give us opportunities to be able to invest in more both-on M&A if we need it to deliver our numbers and to grow our business for the next 130 years. So it's just simple mathematics.

Timothy K. Leveridge

*Vice President & Investor Relations Officer, The Coca-Cola Co.*

A

Mark.

Mark David Swartzberg

*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Thank you too. Really great presentation. James, two part question, you've heard the phrase, culture eats strategy. So on the strategy side of things, what gives you the confidence in these big numbers for sparkling category growth and juice, dairy growth, because if those numbers don't play out then your strategy is at risk.

And then on the culture side of things, we've got a number of veterans here in the company who are demonstrably demonstrating habit change. So could you speak a little bit about this culture that has been criticized? How you think you're having some success you know leading habit change, so that culture can prevail over the strategy risk?

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**James Quincey**

*President, Chief Executive Officer & Director, The Coca-Cola Co.*

A

Well, [ph] with (03:22:36) the strategy hopefully. I think on the growth of sparkling and the juice and the plant and the dairy. I mean the growth is largely there. I mean the sparkling category notwithstanding that people want to keep saying it's sparking [indiscernible] (03:22:53). The factual reality remains the same. Revenue in sparkling category is growing in that 3% sort of range. So it's not a radically different number than what's been happening recently. Yes, NARTD category softened probably coming into the end of last year and the beginning of this year, and you can see in the Nielsen it's starting to tick back up.

So sparkling category is in growth globally in revenue terms, and so is juice, dairy and plant. What's required for this strategy to win is not some massive step change in the growth rate of the industry. There is a little bit more as the emerging markets come back as Kathy had in her [indiscernible] (03:23:32) – it's not a radical change, and it's not like it's heading down it's got to head up, it's heading up and we just expect to see it go at a little faster. And there is so much innovation to be brought to it, that we are very confident in those numbers are going to continue to hold true and be robust.

And then in terms of the culture, you know I think the simple fact remains that while some of the old dogs here are managing to learn new tricks including myself. The most important thing is that the organization we won't say which one, so they all [indiscernible] (03:24:07). The most important thing is that the organization feels unleashed, because the reality is that those successes are going to be generated by the people in the field supported by the people in the head office. All we can do is encourage them and set a broad corridors of direction to the future. They're the ones that need to feel empowered. And I think you could absolutely feel that, you go around this campus, you go to any of the other offices, you can feel the change, they feel unleashed, they feel empowered to go and chase things. Is everyone with everything, no, nor you would ever expect it to be. But I think you see an energy and the momentum.

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**Timothy K. Leveridge**

*Vice President & Investor Relations Officer, The Coca-Cola Co.*

A

Ali. Hand up. Thanks.

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**Ali Dibadj**

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Thanks, guys. So, I want to ask a question about margins in particular probably surprised that I am asking that question. But – but if you think about structurally you're already going to 33%, that's structurally already there. You're then doing \$3.8 billion, you've been doing to be fair, so some of it is complete \$3.8 billion of gross cost savings call it that's 14-point something like that from a top-line perspective post-refranchising. You're then talking about further productivity perhaps that's lean, you're talking about scale benefits, you're talking about portfolio of choices, you're going from 33% to 35%, right; that's what you're saying. So are you saying you're going to have to reinvest all of this back in? And if you are, how does that jives at all with what you just said James from a top-line that we're not expecting much change in top line, you're not expecting a heroic effort I guess from a top-line perspective. So I don't – I don't get that.

And in particular I asked that question in terms of we've heard a lot about growth today. I don't think anybody said the words return on investment or return I believe so far on stage. So really kind of pushing to try to understand a little better please.

**Kathy N. Waller**

*Executive Vice President, Chief Financial Officer and President, Enabling Services, The Coca-Cola Co.*

A

So the 33% that you're referring to is what we showed at CAGNY, I believe, and that is, so given the currency impact that starts at 32% really, because currency took about a point, about 100 basis points. So, yes, going to 30% to 35% plus, the plus is very important, by the way, don't discount my plus. And I've got line of sight to what I gave you, 35% plus at this point and I don't think any of us want to over-commit to anything, but we believe that we can get there. Yes. We have delivered about over a – little over \$2 billion of the \$3 billion [indiscernible] (03:26:51) \$3 billion program and then we have the other program that started this year.

And yes, we are reinvesting, and yes, not just in marketing, we're investing in innovation, we're investing in a lot of the things that you saw today and we are investing in digitization and our people, right. So we are investing. And the things that we do are doing, we believe, make us a stronger company going forward and so we're committed to the 35% plus and we will see where we go, but we've committed to, by 2020, that 35% plus.

**Brian John S. Smith**

*Global President-EMEA Group, The Coca-Cola Co.*

A

And maybe let me just add a couple of thoughts. I think over the last year or so, especially given all of the induced complexity in the numbers of refranchising, we kind of got lost in the maze of tracking all the moving pieces of productivity, reinvestment, dropping to the bottom line, inflation, category mix, channel mix, geography and currency and it's just become very difficult to follow the breadcrumbs. So rather than trying to keep pouncing those down and then everyone making different assumptions about, well, okay, what are you assuming on, well, if productivity is one side, is everything else constant margin on it, it's like okay, let's put a margin target out, that so everyone has clarity on the sum of all the bread crumbs. And that's kind of what we've done.

**Timothy K. Leveridge**

*Vice President & Investor Relations Officer, The Coca-Cola Co.*

A

Judy?

**Judy Hong**

*Analyst, Goldman Sachs & Co. LLC*

Q

Thank you. So, obviously I think Coke is very focused on putting a growth mindset into the organization. So, we heard a lot about that today. I'm just wondering just realistically how does sort of change in the mindset actually translate into the performance because year-to-date, still category performance has been still a little bit lackluster. Clearly given the category mix issues, you need to accelerate it, accelerate that growth. So realistically, how quickly can we see that in 2018, can we see the mid-single digit growth emerging from a top-line perspective?

**James L. Dinkins**

*President-Minute Maid Business Unit, Chief Retail Sales Officer and Incoming President-Coca-Cola North America, The Coca-Cola Co.*

A

Yeah. Obviously we're not planning to give guidance on 2018. But let me offer a few thoughts. There's no question that as I've commented earlier, the category slowed at the backend, NARTD globally slowed at the back end last year through Nielsen coming into the first half and you can start to see it come back out now and it was in the [ph] 2.5 range rather than the floor (03:29:14).

So, you can start to see that come back up. So I think there's a part of it that's that and we expect and we see the category rebuilding. So that's partly going to lift the boat. The other thing and within the context that we're still gaining share. Now we have made our own choices in the short term on where we want to focus [indiscernible] (03:29:33) and particularly in China for example, we said, okay, look, we don't want, we want to de-prioritize some of this very low margin bulk order, it took at least three points off the growth rate in China just in the third quarter.

So we are, as we are more driving people to be choiceful and in the words of Francisco, just kill off the zombies, the things that aren't going anywhere, that aren't making any money. To be a bit more rigorous, we're starting to shed some volume at the edges, which is partly pressuring the other categories, but that's a short-term effect.

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**Timothy K. Leveridge**

*Vice President & Investor Relations Officer, The Coca-Cola Co.*

A

Kevin?

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**Kevin Grundy**

*Analyst, Jefferies LLC*

Q

Great. Thanks, so a question on the U.S. business, so for James, Francisco and Jim, maybe for you as well, just with the benefit of hindsight, maybe some of the learnings for some of these smaller competing brands that have had some success. So like [ph] Lucroy and Sparkling, BODYARMOR and sports drinks bias (03:30:39) had a lot of success. So a lot of the strategies you guys went through makes a lot of sense. And Coke seemingly was very well-positioned to capitalize on these trends and obviously does a ton of work around the consumer. But yet, you've had these smaller sort of niche brands that don't have anywhere near the scale of The Coca-Cola Company and they've had a good amount of success. So with the benefit of hindsight now, looking at some of these brands, how comfortable, James, do you feel with how nimble the company is at this point?

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**James Quincey**

*President, Chief Executive Officer & Director, The Coca-Cola Co.*

A

Sure. I mean I think we're trying to become more nimble, as I commented somewhere on one of the questions, as of date, it's kind of impossible to be happy or be content, so that you can never, you can never be nimble enough in a way. So no, we weren't nimble enough.

Now, having said that, it's not our expectation that we will capture every available opportunity and be the first to get them. I mean that's an unrealistic expectation and our ability to grow 4% to 6% doesn't require us to do so. We need to consistently gain share in a growing industry and that's what will take us to the right level of top line growth.

Competitors new and existing will find opportunities, they'll have ideas that are resonating with consumers and customers. What we need to do is pay as much attention as possible to what's happening in the real world, and to be quick to act and quicker to act in the future. But we will – the idea that there won't be other new ideas and new competitors emerging I think that would be unrealistic. We've just got to – we've got to learn, and we've got to stick to our game plan or building brands, building massive brands, building brands that have edge, creating leadership positions and if something new happens, we need to learn quickly from it and move on, but it's a very competitive market and there are lot of entrants I think there always will be.

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**Timothy K. Leveridge**

*Vice President & Investor Relations Officer, The Coca-Cola Co.*

A

Yeah. Lauren – sorry, sorry, Laurent.

Laurent Grandet

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Thank you. James, I mean you said this is the beauty of the categories is highly diversified. And you mentioned that almost in 50% of these sales, consumption is coming from eating or drinking out. So, could you please I mean tell us a bit more or give us more color about what you would be doing in the on-premise of foodservice category, Freestyle and should we expect because it's a high number 50%, the same level of growth in, I mean top line or profitability in that segment of the business, I mean, if you compare this to retail?

James Quincey

*President, Chief Executive Officer & Director, The Coca-Cola Co.*

A

Yeah, I mean let me make a few global comments and if you want to talk about foodservice in the U.S. So, the first big data point is eating out is growing faster than eating in globally, and it has been for a long period of time. So, I think the chances are that bit of the pie will be faster growing than the rest of it. Yes, you've got to net off that – the drinking at home will be supported by people coming into commercial beverages from non-commercial beverages. But I think the chances are that that will continue to be vibrant, because the global trend is towards eating out in all its different shapes and forms.

Now I'll let Jim talk about Freestyle and foodservice in the U.S. which is the kind of the fountain end, the more organized trade end of the spectrum, but around the world globally this is a growing trend now. In some places, most places, it's all about smaller packaging, it's all about getting the distribution. It's one of the core strengths of the global bottling system, a bit like the mom and pop stores is getting to these smaller eating and drinking outlets.

Now even those, case in point, China, there is a explosive use of e-commerce using the aggregator platforms, people order through an aggregator, direct it to a local mom and pop eating and drinking and they deliver. So even there we're having to innovate getting on the aggregator platform being part of the food and beverage combo making sure we have a package that can be shipped so maybe not a returnable glass bottle but something that can be shipped to the home. So we think that's going to be a vibrant part of the future.

James L. Dinkins

*President-Minute Maid Business Unit, Chief Retail Sales Officer and Incoming President-Coca-Cola North America, The Coca-Cola Co.*

A

Yeah, the only thing – the only thing I was going to add was – the foodservice business is a huge advantage for us in the U.S. it's the heritage of the company that really was never franchised in the U.S. So it's been a vertically integrated business for the beginning of the company. And it plays a unique role for us in a couple of ways, one it's a great brand building opportunity in terms of brand sampling. So, also one of our biggest advantages in the U.S. is our connection with food with our brands, special brand Coke. And you've seen a lot of that advertising I'm assuming recently about coke and meals which plays itself out in restaurants but in the Freestyle question, that's continuing to be a big strategy for us to implement. Freestyle has been very successful and foodservice will continue to be a big strategic focus for us.

Timothy K. Leveridge

*Vice President & Investor Relations Officer, The Coca-Cola Co.*

A

Lauren.

A



You're in the middle, you're not going to get it. I think, I can see you but.

Lauren Rae Lieberman

*Analyst, Barclays Capital, Inc.*

Q

Great. Thank you. I was hoping that some collection of you could talk a little bit about the process or relationship between corporate and in the markets specifically with the bottlers as you're just thinking about lift and shift or timeline to develop new categories, so I thought it was interesting in Europe it's like we've got to get the core right first and it's post 2020 before lift and shift matters.

In Latin America, still lots of growth in CSDs, but a decision to go early with a Powerade, right, you started expanding the other category. So just that process, and especially now with the bottling network set, how that idea and information flow goes back and forth? And who's making the decisions of what to do and when?

Brian John S. Smith

*Global President-EMEA Group, The Coca-Cola Co.*

A

Oh, yeah. I'm happy to start. And maybe I gave the wrong impression. We're actually feeling all that stuff now. What I was trying to explain is that in terms of materially impacting the top line growth, it will take a couple of years, because it takes time. I mean you put them in, the minute you decide to put something in it, it's usually in the case of [ph] bottlers (03:37:10) actually it was really quick. I mean, it took us six months, which is pretty unusual for us. But even then we launched at the beginning of the year, and you think a fixed time to get it out to begin to build some critical mass.

So, if you think about it that way then you say, okay, by the time you get to 2020 you have enough market share, value share to be able to build from there, and that's what I was trying to explain. But we're going to like crazy putting different things in different places.

Mario Alfredo Rivera García

*President-Latin America Group, The Coca-Cola Co.*

A

All right. I think a lot of it is the focus of that we want a system to have, a system being the bottlers and ourselves, our associates. So for us in Latin America, our focus or number one priority is around renewing category growth. We have the tax challenges around, we also see a movement from consumers into that space and it's very profitable. So, we've all agreed that this is an area of opportunity for us.

So we're working very fast to reduce sugar content in our products. But at the same time, we're driving smaller packages, better margins and we're being very focused about improving how we execute at the point of sale. So the process of deciding is we agree on what the big opportunities are, we think there are three big ones, so this is the first one. The second one is expand profitably in the non-sparkling categories and within that I mentioned earlier, juices, value added dairy and plant base where we see a lot of room to grow and in hydration. And again on the value added part of hydration, how do we make money in it.

There is a lot more opportunities, we think we need to be focused. I think our bottlers agree, because then you can direct your capital to where it has the biggest impact. So, but it's constant conversation, constant discussion around the opportunities and how to go capture. And other piece is are we bringing in the capabilities we need, are we leveraging the ones we have. So this is a constant conversation. Our business units are tasked with identifying those opportunities getting together with our bottlers and then deciding what is best with inside that framework that we've established where we want them, where Francisco talked about explorer, challenger and leader in that space. So that's what how we do it.

John Murphy

*President-Asia Pacific Group, The Coca-Cola Co.*

A

One example, take the R&D area, what's changing. R&D in Shanghai reporting to me, the five business unit presidents are reporting to me have a metric to move ideas faster and will be held accountable to not duplicate and not waste time. I'll give you an example, the [ph] RCD (03:40:04), the reformulation work that's been done in Asia has, I'd say, sped up six-fold in the last 12 months. We've appointed the Head of R&D [ph] was in Mexico, and she talked with (03:40:16) all the stuff that Alfredo and his team were doing in Mexico and implemented it within six weeks to eight weeks.

Timothy K. Leveridge

*Vice President & Investor Relations Officer, The Coca-Cola Co.*

A

Amit.

Amit Sharma

*Analyst, BMO Capital Markets (United States)*

Q

Thank you. Okay, two quick ones for Kathy and then one for James and Francisco as well, sorry. Kathy you talked about SAP reimplementation, can you talk about the scope of that and timing of that? And then you provided a category mix negative for – on the top line. Is there a way to think about that on the OI margin line as well if there is a mix impact to think about?

And then for James and Francisco, I think what Francisco laid out is a pretty compelling case for let's do things differently and that has big impact on our future growth. How much conviction you have of continuing to give him support for those initiatives if it takes four years, five years in some cases to pan out? Thanks.

Kathy N. Waller

*Executive Vice President, Chief Financial Officer and President, Enabling Services, The Coca-Cola Co.*

A

Okay. So first SAP reimplementation, that is just starting, we received board approval this past October. It will – the basic finance system will be in a year, right. So we will be able to turn that on in 2019. And then we start moving to other bolt-on things, our marketing [ph] sales, (03:41:42) management system, the logistic system, manufacturing system and they start after we get the basic financial system in. So all total, it's probably 24 months to 36 months, all total, but different things come in at different times and you start getting benefits faster, because different things come in at different times. So, we start to get benefit from this system in the first six months, frankly.

As far as the category, because we – that 1% we took off, because we [indiscernible] (03:42:16) the sparkling, the sparkling is growing at 3% to 4%. So, we took the point out to recognize that, in all fairness. And I would say, again, sparkling will continue to grow, as we, and the margins as the sparkling can grow, because as we do things like category – renewing category – growth initiatives, and so reformulating and changing our recipes and things and working with our supply chain, we still find ways to expand the margins in sparkling. So, we will manage that, right, and that's what we – the point we wanted to make, we'll manage the margin impact, so that we get to that 35% plus market.

Francisco Crespo Benítez

*Senior Vice President and Chief Growth Officer, The Coca-Cola Co.*

A

Yeah. Perhaps – is this on?

Timothy K. Leveridge

*Vice President & Investor Relations Officer, The Coca-Cola Co.*

Yeah.

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A

Yeah.

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A

Francisco Crespo Benítez

*Senior Vice President and Chief Growth Officer, The Coca-Cola Co.*

The only thing I would add to what Kathy said is, obviously we have mapped out the different category country combinations that we have. When we see that at least for the markets that do the vast majority of our business, we know that we have leadership positions where we are leaving money in the table. We are not capturing all the growth. We are not going as fast as we can to collect all that value. We have been having a conversation with the BUs that are ultimately empowered on what are the things that we can do to capture that part of the equation. How can we ensure that we really are looking for growth in revenues and transactions rather than volume particularly in those leadership positions.

A

Then we have checked the amount of experiments that we have, and we have mapped out how many experiments we have. And the truth is we need to multiply significantly the amount of experiments that we have. When you see those, it is a good number, but we should triple or quadruple that, because not all of them are going to work. And that is what will be the seed for our future. Actually we are not that bad in transforming – in getting exponential growth out of those experiments, probably because we are big, we have good execution, but that is not a bad point.

Now, we are not good in killing the zombies. So, we have an awful lot of things that three years, four years after they were launched, they are not getting exponential growth and they are only driving attention, taking space in the gondola, making our lines inefficient. So we need to get better at that. More experiments killing them faster.

And in the middle area is where I think we have probably one of the largest opportunities. The vicious circle there is it does take a longer period of time to challenge and become a leader. So, the trap is that normally you lose hope by September and you start cutting the DME, right, and the bottler already knows that. So, when you ask them please go and execute, we're really serious about this, it's like, yeah, let's wait till September. That requires a different way of thinking. And we have the batting average for each of these places. We do know that over 60% of our growth in the next two, three years is going to come from just getting slightly better in our leadership positions. If we get significantly better that would be nice money on top and above.

We are considering that we will get mildly better in the middle area, and that we will put more experiments out there, but not in a massive way at the beginning. When you project that 5 years, 10 years, then the growth changes, because you will get some of the experiments to become leaders in that timeframe and you will have the challengers becoming leaders. At that point, the growth comes in a very different way.

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Timothy K. Leveridge

*Vice President & Investor Relations Officer, The Coca-Cola Co.*

Carlos?

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A

**Carlos Laboy**

*Analyst, HSBC Securities USA, Inc.*



Thank you. I'm curious how do you see the bottlers accelerating their digital platforms for better, sharper and point of sale insights. And how do you inject yourself into the process of getting those best practices that some bottlers have transferred to other bottlers?

**James Quincey**

*President, Chief Executive Officer & Director, The Coca-Cola Co.*



First, I think we're making some good progress, but the world is going to be different in five years. So, I think it's going to be a question of being at the front edge now and staying over the course of the journey, because it's for sure going to keep changing. I think depending on what the local circumstances were, different bottlers will develop different parts of the toolkit for a digital future. You can go at the one end of the spectrum in a Mexico or in the Latin America where it's many more mom and pops, companies like [indiscernible] (03:47:36) develop in very extensive ways that I'm understanding at a sharp level of what's going on using many variables to drive the business, but that's kind of our systems to the fragmented trade.

You got developed markets; for example, the U.S., which have learnt how do you link through customers websites and help them sell more beverages with their things. So, if they're a delivery pizza, how do you help them sell more drinks? It's a very different piece of the digital puzzle. And then you got, perhaps in Asia, working through food aggregators and developing that – in different parts of the world there are different pieces being developed, based on the logic of the marketplace. So, what we've done with Barry in IT, is bring all the bottlers together and start sharing it.

In fact, what we do is, hey, look, this is such a big puzzle. Let's also agree on one way of doing an assessment. None of them will be perfectly [ph] just have (03:48:37) one. And let's just rank out, let's go out and work out where each country is on the whole digital journey from end-to-end, and let's see where everyone is. And so, actually, virtually all the bottlers signed up including ourselves. And we've literally gone through all the big bottling countries and said, where the consumer comes from all the way through, wait, how do we [ph] stuck (03:48:56) and of course it's dependent on market conditions and all the things you'd expect. So, there's a tremendous amount of energy across the system both for the digital journey sharing the learnings, but let's recognize that we don't need the same solutions everywhere at the same time, because the market conditions matter.

**Francisco Crespo Benítez**

*Senior Vice President and Chief Growth Officer, The Coca-Cola Co.*



Can I add...

**James Quincey**

*President, Chief Executive Officer & Director, The Coca-Cola Co.*



Sure.

**Francisco Crespo Benítez**

*Senior Vice President and Chief Growth Officer, The Coca-Cola Co.*



...to that? The other thing beyond the assessment is, we made the commitment in the BUs and in these bottlers to assign a digital champion that reports to the General Manager. Sometimes digital was reporting into marketing. So, obviously, it had a heavy weight towards just marketing.

One of the areas where we are making a big push is for those positions not to be filled in only with people that understand the business, but people that come from outside and bring fresh ideas and fresh blood. That is the community that we'll be able to agree on what is the right governance, the best practices and the shared learnings that we have to do that is being deployed as we speak. We have gotten five of the BUs already covered and some of the positions in the bottlers, but it is a journey that we still need to do. But I strongly believe that that community will make a huge difference in making sure that we are not learning 200 times the same thing.

Timothy K. Leveridge

*Vice President & Investor Relations Officer, The Coca-Cola Co.*

A

Brett?

Brett Cooper

*Analyst, Consumer Edge Research LLC*

Q

Thanks. You talked today and you've talked previously about cultural change within the company. I guess the other side of the page is the bottlers and retailers. So, you can more easily implement change within the company you control. How do you get the bottlers to reciprocate? And then, can you talk about you're increasing your willingness to fail, but the bottlers and the retailers need to accept that failure and learn as well?

James Quincey

*President, Chief Executive Officer & Director, The Coca-Cola Co.*

A

Let me offer a couple of thoughts. Firstly, I always find and I think it's always been true in the Coke system that the system is most energized when the company provides a clear path ahead, a clear vision for where the system needs to go, clear strategies on how we're going to get there and compelling reasons to believe that there'll be returns for the company and the bottlers. And I think that's the case now.

And I think that part of that is the cultural change at a global system meeting in Budapest. We talked about the strategies and we talked about the culture. We talked about the need for different talent. We talked about the need to infuse digital talent. So, I think are all the answer is there, absolutely not. But I think the bottlers are energized around the journey, their cultural change, their journey isn't exactly the same as us, we still need to do a lot of things, but think of the degree of change that's occurring in the sales force.

I mean, the most bottlers have been on a substantive journey to upgrade the capability of the sales force. Why? Well, if you went back 10 or even 20 years, maybe many salespeople who couldn't even read or they had a low level of literacy, they didn't even know how to use digital tools. Now, most of our bottlers have rolled out not just simple but high great sales force automation. They've had to go through a process of turning over the sales force to bring in greater levels of talent and capability. So, this journey is not just cultural, it's also capability and skill level and you can see that playing out in the bottling system as well.

And then, with the customers clearly you can go out there, well, if you're going to fail more often, you're going to cause me more problems. But in the end, the acid test is what Jim mentioned earlier. Are we helping the bottle, are we helping the customers grow the beverage category faster than their average business? Because, if we can help them do that even net of the failures, we're going to be a very attractive partner for them helping them grow their business. So, you can see that in Japan. I mean, in Japan I don't know what percent of SKUs we take out each year, but hundreds. So, we're taking out 10%, 20% of the SKUs every year. But we're injecting another 10%, 20% of the SKUs. And that's attractive for the retailers because we're driving growth. And so, I think it's all about the net value creation for the retailer and whether we can make beverages what we sell and as of [ph] category

captains (03:53:44) often what the industry sell, the beverage category sell for the customers and whether that creates value for them and that's what makes them interested in it.

Timothy K. Leveridge

*Vice President & Investor Relations Officer, The Coca-Cola Co.*

A

Robert.

Robert Ottenstein

*Analyst, Evercore Group LLC*

Q

All right. Great. Great. Two questions possibly related, and I think both for James. One, can you mention any sort of disruptive force that you think that we haven't really talked about today that we'll be talking about, let's say, five years from now?

And second, given everything you're doing on the digital side, given the fact that everybody in the world more or less in terms of your customer base has phones and can order, why isn't direct-to-consumer a bigger opportunity? I think there's so much you could do driving consumer to your portal, right? Give bundling products, giving them discounts, I mean, just from a marketing angle that has been enabled now. And I'd like to hear your thoughts on that please.

James Quincey

*President, Chief Executive Officer & Director, The Coca-Cola Co.*

A

Sure. Let me start with the second and go to the first. I think in the end, people don't shop by category. You don't wake up and go, okay, today I'm going to buy beverages, tomorrow I'll buy fruits, the next day bread or whatever, they want to do a grocery shop. I mean, the consumer insight is, I want to save time. The reason that I'm using my phone is that I don't want to be bothered to drive to the store, and I want it delivered to me because that optimizes the utility for me the consumer. Now that utility is reduced if I have to go to different portals for each of the different items. So, it's in like – not to say that we won't sell some things direct-to-consumer, because we do in some countries, but I still think the predominant way forward will be integration through customers sites in the digital world and the retail. In the same way, we don't have lots of beverage stores.

And I think that's going to be the predominant way, because that's ultimately what the consumer shopper wants out of the experience. They don't start by going, I'm going to buy beverages; they start by going, I'm going to do my weekly shop or daily shop or the meal filling and whatever the occasion is, beverages will be a part of it. And if we can do that really well, we'll always be an essential part of our – an essential partner for our customer.

I think the one thing that I think about in kind of over the horizon, not now, not in the next five years is the disruption available from autonomous vehicles. Tonight, whatever it is, Tesla is going to come out with its hybrid, its electric truck. Actually, the frontier is really autonomous. How is that going to change everything. Because once there's – and it's not 5, maybe it's not 10, maybe it's 20 years out. But once there is a large fleet of autonomous vehicles out there, how does it change who the customers are, what the shopping occasion is, what distribution is, it could change everything. But it's not going to change anything in the next 5 years, so in 20 years, it will have changed some things fundamentally. Bonnie?

Bonnie L. Herzog

*Analyst, Wells Fargo Securities LLC*

Q

Thanks. Hi. Today, everything was very impressive in terms of your long-term strategy. But to me just, listening to all this, clearly the complexities of the system have increased especially with the stepped up innovation. So I'd

really like to hear from you, what gives you the conviction that you're going to be able to deliver, given the greater execution risk because of everything that is going on and you're trying to do? If you could help frame that for us, that would be great, maybe a couple of examples. Thanks.

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**James Quincey**

*President, Chief Executive Officer & Director, The Coca-Cola Co.*

A

Sure. I'll say a few things and I'm going to invite John to say a few things because it's a bit like that old expression that Francisco changed, the future is here, it's just unevenly distributed, by which I mean there are countries where we have multiples more complexity. So, an emerging market might have 50 SKUs or 100 SKUs; the U.S. has 600 SKUs. Japan has 1,000 SKUs. So clearly the system has been able to adapt and manage much higher levels of complexity. And the other thing is, if we can do that, that in and of itself becomes a competitive advantage. So, I think we are further ahead in being able to administer that vast ecosystem of complexity than some of our other competitors and that will be an advantage to us over time. [indiscernible] (03:58:52) say something about, the journey in Japan to manage that complexity.

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**John Murphy**

*President-Asia Pacific Group, The Coca-Cola Co.*

A

Yeah, I think, if I can say one other thing though before that is, one of the biggest opportunities in the short term is to improve our level of execution, a traditional metric that we've had all around the world is availability, you all know that. Typically, the availability metric has been relative to one, if there's one SKU of a sparkling brand, well then that's the number that's given in availability terms. In most of our markets in Asia, at least, if you'd say what is the availability of our top five SKUs, it goes down dramatically from the high 80s, 90s down to the low 20s, 30s. And so while we need to embrace complexity as we go forward with this much broader portfolio, in the short term, there is significant upside in just doing, going from one to three to four. Cold drink investment, we didn't really talk about a lot today. We have 4 million pieces of cold drink equipment in Asia and over the next three years, the investment commitment from our bottling system is pretty significant to really increase the footprint.

Francisco, with his analytics, tells us that that is the number one driver of growth in the short term. So I think there's a lot of tactics and tools to deliver the short term while we build for the longer term and the complexity point that James referred to when it comes to an operation like Japan, it is, so you do need a little bit more time, like to bring in aseptic technology into Japan was a five-year journey plus. And then beyond that, when you leverage it in the marketplace, it takes another couple years for that to scale up. So I think there's multiple levers and we were pretty focused on the ones that we think are going to make it – make 2018 work.

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**Timothy K. Leveridge**

*Vice President & Investor Relations Officer, The Coca-Cola Co.*

A

Because [ph] Vivian (04:01:02) has been so patient you get the final question for today.

Q

Thank you. James, my question is for you. I really appreciated the call out in Brian's presentation of price elasticity. I know we've debated that back and forth. And I think the kind of the very clear acknowledgement of that is something that you really [indiscernible] (04:01:25) with this revenue-focused model makes a lot of sense. So I was hoping you could just offer a little bit more color around how you're thinking about that, in particular, in North America given that that's your slowest growth market understandably. But how do you think about cross-category price elasticities, number one? And number two, can you give us some color on how price elasticities within sparkling specifically have evolved over the last 5 or 10 years? Thank you.

## James Quincey

*President, Chief Executive Officer & Director, The Coca-Cola Co.*

A

Okay, I'll start. And I may pick on Jim somewhere along the way. I think actually in the recent history, we've been getting more price in North America than we have even in EMEA, which is [indiscernible] (04:02:08) Brian is chasing. Price elasticity is not equal all around the world quite clearly, and in part, it depends very much on what Francisco talks about. It's one of the components of the total brand picture. Well, I think the first thought is because it's not, the world is not flat, the value of what Brian talked about of doing the deep work on the analytics and the algorithm to find out what is it by country is super-important. And I mean that's why it ultimately turns into a competitive advantage. It was not like a competitor can do it in Country A and then apply it everywhere. You actually have to do it in the different countries, different by countries, different by brand, it's different by package. So I think the important idea in there is it's the capability that drives the value rather than knowing the numbers x or y in a country or in a package. I think we have perhaps in the past been too cautious about using the price elasticity or, in other words, thinking it's going to be more elastic than it is to price increases.

And I would argue that our recent experience over the last few years, I think U.S. is a great example of this is that the prices are a little more inelastic than we had previously thought, if we're doing the other things [indiscernible] (04:03:32) judged correctly, if we're investing in brand equity, if we're trying to capture some of the price through smart packaging options, through mix, if we're doing justice to the visible inventory, if we're doing justice to the cold drink equipment, then the elasticity starts to work a little more in our favor. And I think that's what we need to pursue. I don't know if you want to add anything.

## James L. Dinkins

*President-Minute Maid Business Unit, Chief Retail Sales Officer and Incoming President-Coca-Cola North America, The Coca-Cola Co.*

A

The only thing I was just going to add was bringing more science to the question. So when you heard about RGM, RGM, we've done a lot of work in North America on price points, multiple price points. So in other words, how does elasticity play itself out when you see a multiple offer on the shelf versus a single offer? How does that play versus packages? So let's say you have a package that's over – that's more of an entry package for a lighter user, while you may not want to have multiple price points because they are a lighter user. So we've looked at all that kind of science that we've implemented, which has helped us get some of the results that you've talked about as a multiple variable equation than we've looked at before.

## Timothy K. Leveridge

*Vice President & Investor Relations Officer, The Coca-Cola Co.*

Great, very good.

## James Quincey

*President, Chief Executive Officer & Director, The Coca-Cola Co.*

So, that brings to an end the stage part of the day. I hope you've taken out of that that we clearly believe in the growth opportunity, in our ability to perform within the long-term growth model numbers and that we have been able to share with you some of the science behind how we see growth as a discipline and some of the examples and the reasons to be able to feel the texture of how we can get growth done.

So, with that, let's bring this stage to a close. I think there's a reception somewhere, which I presume is close by, right outside. Okay. If you have an opportunity for all of those you didn't get your questions, I'm sure there's one more opportunity.



Thank you very much everyone.

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## Timothy K. Leveridge

*Vice President & Investor Relations Officer, The Coca-Cola Co.*

Thank you.

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