21-Feb-2020

# The Coca-Cola Co. (KO)

## Consumer Analyst Group of New York Conference

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# MANAGEMENT DISCUSSION SECTION

## Unverified Participant

We're ready for our next presentation. So, next up, we have The Coca-Cola Company. And I guess before we get started, please join me in thanking Coke for providing beverages this week. CAGNY values your support.

You know, Coke has come a long way in its transformation, pivoting its portfolio to align with shifting consumer trends and reshaping the Coke System to facilitate faster pace of change. Portfolio diversification through the Beverages for Life strategy is driving sustained improvement in revenue growth and now, importantly, earnings and free cash flow. We're excited to have Chairman and CEO, James Quincey, and Chief Financial Officer, John Murphy. Thank you for both being here.

James, I'll turn it over to you.

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

Thank you, [ph] Ryan (0:52). Okay. Good morning, everyone. So, I thought I'd do something unusual this year and actually say something on this page. You will have all seen our press release this morning, hopefully, where we just made a few comments about the impact of the coronavirus on the business. Obviously, we're focused on our typical approach in a crisis, which is: employee safety; helping the government out, whether it's donations or products; ensuring business resilience; and staying focused on investing for the long-term. So, that's our approach. We've called out some numbers for the first quarter, but, most importantly, we see this ultimately as temporary, at this stage. If it changes, of course, we'll say. And, therefore, we've reaffirmed our full year guidance.

So, that being said, let me dive into the longer-term outlook. I'd like to try and do three things today: one is to talk about how we see the size and scale of the long-term opportunity in the beverage industry and for The Coca-Cola

Company; then, to go into some detail and some examples of why we believe we have the platform to accelerate our performance in this space and to win in this space; and then, I'll hand over to John, who will take us through some of the approaches we're taking and the outlook in terms of how that's getting turned into value.

So, firstly, just recapping 2019, I think we can say it was a pretty good year, bar the currency. We exceeded, met or exceeded, our guidance in financial terms, whether that was the organic revenue growth of 6%, the operating income, even the US dollar EPS was at the top of the range. And, of course, last but by no means least, was a great performance on cash generation. And I think, importantly, even beyond the numbers, were the wins in a strategic and a qualitative sense, whether that be: share; the growth of Coke, the trademark itself; some of the progress we made on sustainability; and the integration and getting up and running with Costa. So, 2019 was a good strong year, coming off the back of a pretty good 2018 as well. So, now starting to get some momentum behind the Coke business.

But this section is about the compelling opportunity going forward. You'll have seen versions of these pages before. So, I'm not going to over-explain each graphic. But the essence of the idea is we're in a huge industry, $1.6 trillion industry today. So, it's already big. And we have lots of share opportunities, which I'll come back to. It's also growing. It's growing and it's growing in relative terms at the top end of consumer products, is growing faster than most of the categories out there, even given its size.

And also, importantly and interestingly, it's diversified in terms of channels and the universe of customers that we serve that allows us to move between some of the trends that are going on there in the retail landscape. So it's a big industry. It's a growth industry. And it's industry with diversification in terms of where it's bought and where it's served. But not only that, it has tremendous long-term potential.

If you look at the two bottles on the bottom, and they're kind of a graphic way of describing the world of beverages, if you take the developed markets of the world, which is only 20% of the world's population, just 20% of the world's population. There, we, three-quarters of what we drink, we have paid for in one way, shape or form. But even that part of the market, The Coca-Cola Company only has a small share. Despite our leadership position, we still have a small share of those three-quarters of the drinks, those six out of eight drinks you have every day. So there is a huge opportunity to continue to be competitive and win in the marketplace in developed markets.

But, most importantly, for the long-term growth, the 80% of the world in the developing bottle on the right-hand side, the 80% of the world, only one in four of what they drink is a commercial drink of any shape or form. And, therefore, there is a huge opportunity to continue to build the industry long into the future. And, again, even within that, as leader, we still have a substantive share opportunity, so big industry, growing industry, diversified industry, with a very strong long-term potential for growth.

And we believe we have the platform to take advantage of that. We have the platform to take advantage of that, because we've got a diversified portfolio of products. There, you've got the pie chart on the revenue split of our portfolio. We have a diversified portfolio of beverages and brands with which to address the opportunity. And those brands, we're number one in virtually every category we compete in globally. And even though we're number one, we have good share opportunities, because, typically, other than sparkling, where we're kind of almost number one everywhere – there's a tiny, tiny sliver there that those that are paying attention will notice, is not red. There's a tiny sliver. There are a couple of countries where we're not number one, but, other than that, we're number one.

But even in these other categories where we are leader globally, that's largely driven off a relatively few countries. And we have huge opportunity for share in the rest of the countries, so a really broad portfolio and a strong market position in terms of the brands, but also: a distribution system with the Coca-Cola bottlers that is tremendously powerful and pervasive across the world, not just in terms of its scale, but the numbers of channels it can serve; the sheer number of customer outlets, 30 million outlets that we reach on a weekly basis; and a platform of cold drink and now, increasingly, hot equipment that we can bring solutions to the customers and the consumers. So huge opportunity and a very powerful platform from which to continue to gain share and build the industry out.

And as we do that, we're thinking about how we set ourselves up for growth. And in a way, this page summarizes the transition we've been making over the last number of years. We've been going from a volume-centric kind of culture and setup to more of a value-centric culture and setup. And both I and John will talk more about that. The business model we've gone through, the epic process of refranchising and really getting focused on our core business of the brands and the innovation and the working with the bottling system on the RGM and the execution.

And then, an organization that has gone from being kind of classical geographic, relatively 20th century organizational setup, to an organization that will need to be more networked to deal with the fact that we have operations in over 200 countries. We are in many categories and we still need to have some direction functionally from above. And so culturally, there's a shift going on. And I'll talk a little bit more about that. So, opportunity, we got a platform and we got a way of working that's going to help get us there.

So, let me then talk about what that platform to accelerate the business really looks like. And what we've done over the last year is kind of tighten up and focus in certain parts of our strategy and the various components. We've talked over here and at other forums about Beverages for Life and how that's guiding our strategy. And what we've done over the last year, is help the organization by aligning and integrating the various other pieces of the kind of taxonomy that were out there, whether it's: reclarifying things that have been implicit, like the purpose, and making them explicit; by making the linkages from Beverages for Life more clearly, not just to the strategy, but to the sustainability pieces and the organizational strategy and culture.

If the technology gods are willing, in theory, you compress the bit that says click here to read and it will work. I offer no guarantee, but, in theory, it should work. If not, our IR team would be happy to help you. We'll see. We'll see how that one works out.

But this, in summary form, is how we brought the various pieces of Beverages for Life together. We've got a clear purpose. It's always been the soul of the company, the idea of refreshing the world. It started with one brand. Now, it's 500 brands. We're refreshing the world and making a difference and how we bring the strategy together. And let me walk through some of those pieces and how we think about building the loved brands, all the way through the sustainability, down to the growth mindset.

So building the loved brands; in its core essence, the building of the brand portfolio, the building of the portfolio of loved brands is really about four things. It's about the marketing and the thinking behind the brand building process. It's the innovation, often, most often, organic, but including M&A, to bring new pieces of relevant product or equipment or ideas to the table. Three, integrating the revenue growth management approaches of how is this going to bring value to the consumer, to the customer and to everyone else in the ecosystem. And then, getting it done, getting it done in the marketplace.

So let me perhaps just walk through how we're seeing each of these four elements continuing to come to life in the coming years and helping us to continue to gain share. So firstly, on the brand building capabilities, of course, there are some enduring principles. It's not about throwing the baby out with the bathwater. This is about really staying focused and true to a few core principles, whether it's the centricity on the human. It's about the consumer and the people first, not about the brand first. It's about starting with them.

It's starting with the insights. I think I talked last year about one of the great dangers of being a large institution is you start to get internally-focused or focused on what you do or what you have rather than where the consumer is. So, restating again, this is about the consumer. It's about the insights. It's about superior tasting products.

Continuing to be great at the basics; the basics are going to continue to matter, whether it's: understanding what's the occasion, particularly when you're serving 20 channels; and how does the package and pricing architecture come to play; and making sure that as an organization where we can have lots of brand metrics and brand health metrics and ways of understanding the consumer marketing, that it does ultimately all boil down to drinkers, how many people are in the franchise at least once a week, of any of the brands and obviously the portfolio in total. Once a year doesn't really help the business. So when we talk to marketeers, it's like everything is great. Let's bring it down to the simplicity of how many people are in the franchise at least once a week.

But the basics won't take us into the future on their own. [ph] There are new engagement models (13:15). We've talked about it in previous years. We're clearly making a shift from, in simplest terms, from interruption to experiences. And there are lots of ways that we're going to bring that to life across the system. It's not just about from ads to apps. It's about the packaging.

So this example here is about touch sensitive LEDs being printed in the labels. The example here from Asia is you pick up the bottle and touch it and the lightsaber comes on, as a light. So whether it's new materials and packaging and labeling, whether it's the new ways of setting up stores, the point-of-sale store, I think this is a Mexican example. The Coke Studio assets is, again, is much more in Asia, the Indian subcontinent, but lots of different ways of shifting from traditional approaches to experiences through many different vehicles, not just ads to apps.

And as we move from the marketing to the innovation, we have been bringing a greater filter or organizing in streams of works behind a fixed number of innovation spaces, so really trying to understand where the consumer is going and what's driving the trends. And we put it down in 10 innovation spaces. Of course, as we learn, we'll will update and change, but trying to get focused on what needs we're trying to address. And then being clear about the sort of metrics and routines that we have to be able to do.

And at the want of – we were going to put the simple expression of walk and chew gum in, but we thought we'd be sophisticated and put ambidextrous culture in. Because we ultimately do need to have innovation that works for next year, but we need to be doing the research on things that are going to work in five years' time and 10 years' time. We need to be able to do innovation on the sparkling beverage categories that we know. And there's many of those products [ph] out the front (15:24), but we also need to be able to do innovation in categories where we aren't necessarily as accustomed to bringing new things to the marketplace.

Similarly, we have to make sure that this is not something that's done in a skunk-works and then kind of revealed to the world fully formed. It doesn't tend to work that way anymore. We need to be able to bring our system in early, bring our customers in sometimes early, so that we can go through an iterative process of really bringing the right things to the marketplace. And so on into the organization, whether it be the innovation routines or having a rigorous process of understanding how innovation matches where that brand is in terms of its [ph] element (16:15). Is the brand an explorer? Is it just at the beginning of its life? Is it a challenger or is it a leader that's looking to cement its position? And understanding how innovation plays a different role for different stages of growth.

The result of all that so far has been a good increase in the gross profit that has been derived from innovation over the last few years, so we're starting to see the business benefit from innovation flowing through. And, of course, we have to pay a lot of attention to the risk of failed innovations clogging up the system. So we have a rigorous process of exiting the zombie projects, those that have been launched, are dead, but are still in the system and aren't going anyway. And we've managed to take out a lot of those, just in 2019, building on the success from 2018. It's not always the sexiest part of innovation, but, if it doesn't happen, the system clogs up quickly.

So, an approach to brand building that marries the basics and being brilliant at them, we're shifting to the future with the innovation that's supportive of the development of that brand and its role in the portfolio.

Now – oops. I walked away too far. I know it's been a few years since we've shown an ad, but, as I just said, ads are on the way out and it's on the way to apps. Instead of showing an ad, we thought we'd show a little small sizzle video of some of the innovation that's coming up. So if you could play the video.

[Video Presentation] (17:55-19:24]

Great. Thank you. Hopefully, you got some entertainment value out of that. And it was an example of how we're bringing new things to the marketplace. Of course, you got the brand. You got the innovation that's going to support it. You got to have the commercial strategy to make it work. And we've had a long track record of thinking about how revenue growth management helps the system to derive value, not just the right solution for the consumer in terms of the pack price, but working with the customers and the system.

And we've been driving over the last few years a 2.0 of revenue growth management. I think if the previous 10 years were 1.0, 2.0 has been working. And let me give you perhaps some examples of how that's rolled out. So we've refranchised the North America business, the portfolio, the RGM and the execution upgrade by the new North America system.

And whichever group of the bottlers you look at, whether it's the international bottlers that expanded to the US and the big investments they made, $250 million in a facility down in Houston, winning the Global Execution Cup for the Coke System, really driving growth. All the legacy bottlers, the bottlers that were already in the US, seeing them be able to step up and add new outlets, leading the US system in terms of overall execution, growing faster than the industry or even the new bottlers. We're here in the territory of Coca-Cola Florida bottling, Troy Taylor, one of the new bottlers to the system. And the great result, strong focus on RGM and execution, they're growing faster than the industry. They're gaining share and they're being innovative. So when we bring together the brands, the RGM and the execution power, good things happen. I think North America, the refranchising there is a great example.

Another example, Europe, by focusing on bringing those things into the marketplace for the consumer, at the end of the day it, also has to work for the customer. We are very focused on making sure the customers who are ultimately selling these products to the consumers who are selling our brands to the consumers, our focus is that the beverage category should grow faster than their business. And we've got an example here of how we worked with one customer, really thinking about RGM and small entry packages, to really drive incremental transactions for them, drive for them greater revenue per case and to drive their margin.

And what you can see, in aggregate, those bars on the right, that's the whole of Europe. The whole consumer products industry of Europe, who added how much revenue to the mainstream grocery retailers. So, the Coke System last year added, in aggregate, $462 million of incremental retail revenue to essentially chain retailers in Europe. That's essentially the same amount as the next four biggest CPG companies put together. And I'm not including the ones who were flat or declining.

So when you get the brands, the innovation, the RGM and the execution, great things happen, not just for the consumer, but for the customers. And so overall, that's been working for us. We brought it together and it's working in aggregate. I think it's also important to call out that it's working for Coca-Cola, for Trademark Coca-Cola. You've got growth in revenue, growth in transactions, growth in volume globally, and all at the same time while reducing the amount of sugar we're selling to the marketplace.

So we can drive the portfolio. We can drive the aggregate. And actually, it's being led by Trademark Coke. In doing so – and that call-out of the sugar going down, in a way is part of our sustainability strategy. We've stated some very clear goals on where we want to be in terms of being water-neutral or actually being water-positive, reducing our carbon footprint and reducing our waste in plastics. And we see this as an integral part of the strategy. It's not an adjunct. It's doing things at the same time.

So let me perhaps take us – click down in terms of plastics and waste. Our approach on plastics is pretty straightforward. We've gone into it and we said, look the objective on plastic is not a religious debate about plastics, yes or no. It's about understanding what do we want in the world. And what we want is a business that can grow while generating zero waste and having a lower carbon footprint. If we set ourselves those objectives, and especially understanding that the carbon footprint is the biggest issue of the day, then we can start to understand the different types of plastics that are out there and what we need to do against each one.

So whether it's the high-value plastics like the clear PET bottles, we need to get a circular economy going. Whether it's making it, people use it. They dispose of it. They recycle it. This year, we will have the first country in the world where all of our PET bottles that we sell are 100% made from recycled PET, demonstrating and proving that not just can you get to zero waste, you can get to a fully circular economy with high-value PET. And that will come on stream later this year. All we have to do is do the other 200 countries. But it's doable. That's what we're committed to. That's what we're committed to.

Now, the other types of plastics we have different strategies. The mid-value types of plastics, colored PET, dirtier streams, here, we're going to have innovative approaches, enhanced recycling. We've managed to demonstrate at pilot levels how this can be done, taking dirty plastic streams and turning it into reusable PET, harder, requires innovation, but we're getting that.

And then, low-value plastic items, we're going to engineer them out of the supply chain. So in Western Europe, for example, we've got out of a lot of the shrink wrap that goes on the cans, which can't really be recycled or isn't easy to recycle and replacing it with carbon. So a clear approach to driving our business to be able to grow, whilst moving towards zero waste and a lower carbon footprint.

So, how do we do all that and how do we keep paying attention to what's going on in the marketplace? As I sort of referenced earlier, the key is to continue to push against the institutional center of gravity to bring everything internally and by driving a growth mindset. We've talked about this in previous years, but I think it's super important to underline that the thing that is going to keep us learning and progressing and advancing on all those strategies we just talked about is a growth mindset, about being, feeling curious about what's going on in the world to discover new things, to understand the consumer and the customer and then be empowered to act, inclusive. We've got a Coke System that's probably tried something similar before. And then, not waiting to perfect something, but to trial things and learn. And with a growth mindset, I truly think we can drive our business forward.

So, with that, I'm going to hand over to John. But the takeaways are pretty simple. We've got purpose-driven strategy. We know where we're going. We've got a big future and we've got the platform to get it done. So, John?

## John Murphy

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

Thank you, sir. Thank you, James. Good morning, everybody, both here and listening in. I'd like to start with just a quick reflection on our 2019 progress to complement what James has already said and particularly with regard to our financial objectives. Q4 of 2019 was our 10th consecutive quarter to deliver within or at our long-term targets. We continue to drive margin expansion. Last year, we made a lot of progress on our capital allocation work, driving free cash flow growth at 38%. And 2019 was the final year of the productivity program that we have previously talked about. And it delivered in line with expectations at $600 million.

Our 2020 guidance has been developed to continue our focus on these priorities. We anticipate top line growth in all of our major operating segments, fueled by a strong marketing and innovation pipeline. You've seen the headlines on that in the last few minutes. We continue to demand a step-up in performance at the execution level everywhere, aligned with our bottling partners. The productivity mindset that you hear a lot about is something that I'm going to touch upon later as to how we're instilling that across the organization. And, of course, we will continue to have a very strong focus on free cash flow generation.

All that being said, it gives us a lot of confidence in our long-term targets: organic revenue at 4% to 6%; operating income, 6% to 8%; earnings per share of 7% to 9%; and free cash flow at 90% to 95%. That confidence is really anchored in a few particular areas: one is continuing to expand our leadership position in an industry that we know is going to enjoy growth for a long time to come; to strengthen the strategic thrusts that we've spoken about for the last couple of years, connected to a purpose which is galvanizing and really inspiring for our system; bringing greater discipline into the portfolio that we are managing. It cannot be overstated the degree to which this is really a priority as we go into this next phase. Working very closely and in a aligned fashion with our bottling partners, not just in terms of clarity of vision, but also, as I just alluded to, stepping up our collective execution levels in all channels and in all markets, and continuing to foster the behaviors that are really critical to being able to sustain performance over the long haul.

Our capital allocation framework is pretty much in line with what we have discussed in the past. We continue to prioritize in four key areas: one, to reinvest as appropriately in the business; number two, we will continue to grow the dividend, returning cash to our shareowners; number three, we remain interested and on the alert for opportunistic additions to the portfolio, albeit we don't expect that to be a key area in 2020. And then finally, as we generate more excess cash over time, to return that to our shareowners, too. Our net debt leverage target continues to be a 2 to 2.5. We were just underneath the 2.5 in 2019. And we expect that to stay within the range in 2020.

James talked a lot about the drivers to give confidence on our ability to sustain the top line. I'd like to talk a little bit more now about the levers we are deploying in order to convert that top line into an attractive bottom line. Four areas I'd like to cover: resource allocation; margin expansion, really the P&L drivers; asset optimization, how do we get the balances fitter and healthier; and then finally, how that gets converted into free cash flow generation. Could spend the rest of the day talking about this topic, but I just want to cover the key headlines.

Resource allocation, in three parts; it's really the answer to the [ph] famous (32:14) what would you do if I gave you $100, is the first column. Second column is how can you stretch the $100 if I gave it to you. And the third one is how can we even improve returns more in a networked environment.

So, on the left, it's important to have context. It's important to be able to disaggregate the portfolio that we have at our disposal, both in terms of the brands we have in our portfolio, the markets that we operate in, and then the activities that we deploy to drive and fuel demand. And it's not a science formula, but it is a mixture of improving the analytics and insights that we have at our disposal with the judgment needed on a market-by-market basis.

Secondly, with respect to stretching our dollars further, three particular areas of focus. One is to continue to instill a mindset of zero-based work across our organization. And number two is to become masters of how to play in the digital world. There's a lot of waste in that world at the moment. And we're learning quickly as to how to operate more efficiently inside it.

And then thirdly, an area that I believe has got tremendous potential over the next couple of years, given the kind of alignment and collaboration we're fostering with our bottling partners, is to understand the total spend picture and how we optimize total system spend in a market-by-market basis.

And then finally, on the right-hand side, James talked about the network effect. It's not just a fancy expression. I think we have a tremendous opportunity, playing in 200 markets, to wire them better together so that we can leverage the power of being in a unique global position. We can truly convert best practices into monetary gains. And we can focus a greater percentage of our resources on ideas that can scale across the world.

Second area is on margin expansion, I've talked about this in the past. Couple of key headlines here, I'm not going to go through this chart in detail. One is the name of the game is in the aggregate to continue to fuel margin expansion. In order to do that, you have to start with a bottoms-up approach and understand at a very granular level how you can create the opportunity. We have different lines of business inside our company, our core business, our global ventures business, and the bottling operations that we currently own and manage. And within each one, there's a different range and different types of opportunities. And we have in place a very disciplined focus on understanding the value opportunities in each one of these boxes.

Moving to the balance sheet, we've talked in the past about asset-heavy, asset-light. I like to think of the balance sheet as having an asset-right model. What is the kind of fit for purpose model that's needed for a given point in time? And so, with that in mind, we're looking at all of our balance sheet investments to make sure that they stay relevant and appropriate for value creation in the future.

Within that, we have, as you know, a footprint in Southeast Asia, Southwest Asia, and Africa with bottling investments. And the name of the game, while we continue to own them, is to step it up in terms of their contribution to the overall picture. And we've seen in 2019, a lot of progress in this regard. And we also continue to have an eye on refranchising our current operations to the right partners, when the timing and when the value proposition is right.

And last, but not least, cash flow. It's been a very, very important topic for us to demonstrate to many of you that we're serious about it and that we have the ability to convert the levers that we know work into real value. 2019 was the first year in which we have been able to, I think, give some confidence that we can make the progress that we have committed to. And for 2020, we're going to continue to be very, very clear on the opportunities in the area of capital investments, reducing over time the capital needs of the business.

Number two, continuing to move the needle towards best-in-class in the working capital arena. And number three is to reduce the number – the amount of dollars that are outlaid in the productivity arena. So all of these areas we've made progress and we will continue to do so in order to maximize free cash flow for the enterprise.

So that's a very quick snapshot of the focus we have going into 2020, driving the business from the top line, understanding the levers at play and converting it into value creation, with a very laser-sharp focus on, again, the drivers that we know work.

I'd normally finish here, but, given that James alluded to some of the work we've done over the last 12 months on purpose – I have to say I was a little skeptical at the outset as to why are we doing this and how is it going to translate into value. I've seen over the last six to nine months, how galvanizing and important it is to our associates to have a greater meaning to what they do. We've heard from many of you, many of our investors, that purpose is, in fact, – to quote one of them – the engine of long-term profitability. So I finally got – I finally clicked with me, if that is the case, then high performance, which we are endeavoring to deliver, will be the fuel for that for an enduring purpose so.

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

# QUESTION AND ANSWER SECTION

Q

Okay. Why don't we – is the microphones working? Dara.

**Dara W. Mohsenian**
*Analyst, Morgan Stanley & Co. LLC*

Q

James, you highlighted the shift from a volume to value-centric focus under your tenure and success with revenue growth management. You've obviously made a lot of progress in the US and Europe in the last couple of years. How much further can you push revenue growth management in developed markets, maybe what inning are you in, in terms of implementing that new approach? And maybe also touch on the opportunity in developing and emerging markets over time. And then, second, can you give us an update on plans for Costa, looking out over the next couple of years, in terms of geographic expansion, as we look around the world, and channel opportunity, et cetera?

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

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Sure. I'll probably forget the second one by the time I get there, but [ph] anyway (40:01). RGM is, if there is a question of innings, it's only a question of innings until you need to reinvent it again. And I think that we have a long track record, for example, of being very good at revenue growth management coming out of Latin America, going back 15, or maybe even as far as 20 years, but at least 15 years. But that everything needs to be reinvented. There comes a cycle where the set of ideas that drove it needs to be reinvented. So I don't see this as ever ending.

Now, having said that, whether it's RGM 2.0 or 3.0 or 4.0, it's all about understanding the consumer and using the consumer insights and then creating value for the customers, because it's ultimately, in all likelihood, going to be sold through some form of retailer and has to work for them, too. And so, RGM is about the science of looking across the landscape, thinking about all those different consumers, the different sorts of occasions they've got, and where they're going to find the product and putting it together in a way that creates value, because if it creates value for the consumer and creates value for the customer and works for the system, then it's going to be value driver. And we just need to keep finding ways to reinvent it.

In the same way that it happens on the brand side of the business, I mean, we've spent a 130-plus years finding ways to make the Coke trademark relevant, reinventing the way that brand building and marketing is done over and over again. And the same will be true of revenue growth management. So I think there's a philosophical principle of not accepting there's a lifecycle management to the idea of revenue growth management, but actually it's a question of what needs to be done to make it relevant again.

And then you look at that, whether it's the developed markets or the US or Europe, and I think you can see a lot of runway ahead. We just keep building new ideas. And it's a multi-year opportunity ahead of us, even with the versions that we've currently got.

In developing parts of the world, the sorts of things we bring to marketplace are often different, often affordability, low entry price points, smaller sizes, often that's more important in the developing markets. That's a very strong muscle in Latin America with revenue growth management 2.0. It's been developing in Asia and in Africa as well. And it's a lever of value growth. It's important to recognize in the developing markets, volume growth, in and of itself, is a much more important lever relative to the developed markets. So maybe in the developed markets, being great at RGM is higher on your list than just building the industry would be in Africa or India or China. But it's still important.

**John Murphy**
*Chief Financial Officer & Executive Vice President, The Coca-Cola Co.*
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Costa.

**James Quincey**
*Chairman & Chief Executive Officer, The Coca-Cola Co.*
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Costa. Okay. Costa, I mean, the strategy is the same. We integrated it. We've got a clear strategy. It's about a coffee platform. It's about the stores. It's the anchor of the brand idea. It's about being able to be a store-in-a-store or in someone else's location, whether that's: Proud to Serve, so providing beans and machines and training; or a smart café, the Express which is out the door in front of us; whether it's ready-to-drink; or whether it's in retail in grocery. We got a clear platform approach, which is what we're starting to rollout.

We've got – I think we reached 10,000 machines. We've got an acceleration in the machines, for example, in the back-end last year. We've got a strong plan to again increase the placement of machines coming into this year. The first machines are already in the US. We've got a deepening of the footprint in other countries, in Europe and in Asia. We've got the ready-to-drink, which came out with strong initial results. Some of the launches in China will be delayed a little, but the platform story is getting executed. And so, we still remain strong on that one.

Q

Ali?

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

Q

Thanks. So wanted to talk a little bit about your – as you said on slide 15, aligned and engaged partners, the bottlers. Want to ask about the bottler relationships right now. They've been good for a while. We've been kind of hearing that. But there started to be rumblings that we heard in Latin America that seems to have dissipated a little bit. It might still be there, but dissipated. We're hearing much more now in North America and elsewhere. The main complaints are around payment terms, SKU complexity, sharing of investments. So what would your most demanding or disgruntled bottlers say about the relationship right now?

And the second question and this is for you, John, specifically, is how much of the working capital improvement, that you talked about on your slide 31 and that you've been talking to us about, is really around that gap in payment terms, right, what you expect from your bottlers to pay you versus what you're going to pay your suppliers, which, as best as we can tell, is anywhere from already 50 to 60 days in terms of that gap. So, all about the bottlers, but then a specific one to John, please.

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

A

Sure. I mean, the strength of the Coke System in terms of alignment, I think, is at – I don't know – all-time high is an exaggeration, right? It's 130-plus years. That would be difficult to tell. But it's certainly at a multi-year, multi-decade high of alignment and driving. Do we have things to fix? Yeah, every day. I mean, there is stuff to fix on the branding. There's stuff to fix on the innovation. There's stuff to fix on the RGM and there's stuff to fix on the execution. And we talk about it. And I think the day that we turn up to a system meeting and don't have anything to talk about will be scary, because it's very unlikely that we are perfect, so it's more likely that we are not paying attention.

So the fact that we have conversations about what needs to be fixed is absolutely true. I think, for sure, there's a piece of the puzzle which is, we've gone from there isn't enough innovation in the system, to there's too much. Can I fit it all through the system? The system's designed for scale. So the zombie elimination process is super important, but people have their – let's be honest. We're humans. People have their favorites. They see the thing that they pushed for and it's not doing well. And they have hope that next year, it will do better, but, in fact, it should be killed.

So, absolutely, I think the day there's not some creative abrasion in the system, should be a worry for us, because the essence of the franchise system, the essence of the idea is that by having two parties, that the benefit of the inefficiency of there being two, two sets of corporate overhead, whatever you want to call it, is offset, more than offset, by the creative abrasion that we bring, two different perspectives, and we can create something better together. And that's where I think we are at a sweet spot at the moment.

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

A

Yeah. So on the second question, as you know, working capital is the combination of payables, receivables and inventory. So if I break it down into the three, I think our receivables situation, which is the main – actually the main relationship of our bottlers, has not changed that much in the last year. There's been limited movement. It's not to say there's not opportunity. I think it's very easy to get comfortable with the status quo. And it's always been done like this. Therefore, we should carry on doing that forever.

And to James's point, I think when it gets into – depending on what level of detail you're at in the system, I think it's important that we continue to look for what is optimal, what is best-in-class. And we will continue to do that.

But on the receivables front, we're actually in pretty good shape. There's isolated pockets of, I think, of tension of work to be done. Most of the change has taken place in our payables area. And that's a function of a legacy environment that I don't think was as organized and focused on working in this area as many other companies are. And even if you look at where we are today, we're still, in certain areas, not where others would expect to be and have been for some time.

And then, the last area is inventories. And we're a global footprint. And the kind of supply chain that we manage, you're going to have some outliers there, with respect to some of the ingredients that we hold and the number of months that we need to have to protect continuity of supply to our bottlers. So that one is probably the most challenging one to get to optimal.

## Unverified Participant

Okay. With that, join me again in thanking Coke for supplying us beverages this week. And we'll move on to the breakout.