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The Coca-Cola Co. (KO)

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MANAGEMENT DISCUSSION SECTION

Unverified Participant

All right, if we can make our way to our seats, we're ready for the final presentation of the week. So, our next presenter is The Coca-Cola Company. I would you like you to join me in thanking them for their generous support this week supplying beverages to the conference all week.

Without saying, it's an incredibly busy time at Coke as the company pushes forward with its plan to reaccelerate both sales and profit growth. I would like to thank Coke's President and COO, James Quincey; and Chief Financial Officer, Kathy Waller, for spending time with us today.

James, I'll turn it over to you.

James Quincey
President & Chief Operating Officer

Thank you and good morning to everyone. Final day, final presentation of CAGNY 2016; of course, let me do the traditional – and I'm sure you've already seen way too many of these forward-looking statements, but I'll give you the obligatory few seconds and minutes just to have a look at that and absorb it all.

Okay. Moving on, obviously, as you said, we've been very busy over the last 12 to 18 months. And what we'd like to talk to you today is four things. Firstly, I'll just set the stage a little on where we've come from since 2014, the priorities we've been chasing, and recap a little the results for 2015. Secondly, based on the learnings and conclusions we've drawn from that period, talk about what we're accelerating in our actions, things that we feel are working, and that we just need to accelerate. Third, again, based on some of the learnings, but also observing what's going on in the marketplace, we'd like to talk a little bit about how we're evolving our approach to promoting growth and maintaining our ability to stay ahead. And fourthly, Kathy will come up and draw all the pieces together in a financial sense and walk you through some of the numbers.

So, jumping in, setting the stage, let me just take a few slides before I get on to the acceleration of the refranchising, which I know everyone wants to hear me say something about, let me set the stage. Where did we start from in 2014? What are the priorities we chased? How did 2015 resolve? What did we achieve? And how does that set us up for going forward into 2016 and beyond?

Hopefully, you'll be very familiar with this page. It would be disappointing if you weren't, but hopefully, you're very familiar with this page. There's no getting away from the fact that when we sat in 2014 and looked at what we

needed to do in the coming years, we did so from a position of strength, from the position where we have a fantastic brand portfolio. We have over 20 \$1 billion brands. We have a whole host in the next segment of the [ph] \$500 million to \$750 million (3:07) as part of our 500 brands globally.

And, of course, we are not just number one in sparkling beverages, we're number one in still beverages, and therefore, number one overall in non-alcoholic ready-to-drink beverages. And we back that up, not just because of our scale with lots of marketing, but we'd like to think high-quality and on-strategy marketing. And I'll talk a little bit about latest evolutions of our marketing later on.

And third, we base our success, we base our outlook on the execution of the system. We work with over 250 bottling partners globally. We go to 24 million customer outlets. And we've placed, collectively as a system, 16 million pieces of cold drink equipment; so fantastic brand portfolio, strong marketing, and superior global execution.

Now, even with that base, not everything was working for us as we would have liked in 2013 and 2014. And so, at the back-end of 2014, Muhtar announced that we, the company, we're going to chase five priorities as the way back to growth.

We clearly looked at segmenting our markets and making a more determined shift from perhaps being a little too volume-centric to a more of a balance and, therefore, driving revenue, being more determined about segmenting our investments by markets in terms of, not just the media, but also in terms of our M&A. And that was fueled by productivity, acceleration and the simplification of the organization. And, of course, one of the most emblematic pieces on what we've done over the last few months and year, refocusing our core business and the resulting refranchising.

And what that has meant in terms of results is we've gone from growing our organic revenues roughly in line with global GDP to exceeding global GDP in 2015. We grew, announced, 4%. And we also said we think these five priorities and our continued implementation of them will allow us to accelerate into 2016 and stay ahead of global growth.

I don't think I will be the first person this week to point out that the macroeconomic environment is somewhat uncertain and, in all likelihood, likely to be bumpy. So, we will manage through that. And I'm sure there'll be downs as well as ups, but we are looking to continue our ability to grow ahead of global growth.

And how did we do that in 2015? How did we get that result that accelerated revenue in 2015? We implemented the five priorities. And just by way of example of what we were doing, on revenue, we were clearly going for, not just embedding revenue as a more cultural part of the company, pushing it down into the bonus scheme, the short-term incentive, pushing it down into the long-term incentives, but a clear embedding in the planning process. And perhaps, most notably, you can see that in the price/mix result coming out of North America and how those are stepping up and sustaining over time.

As I said, we've been upping media investment. We have announced that over 2014 to 2016, we'd bring up media investment by \$800 million to \$1 billion. We did another \$250 million in 2015. So, we're on track to really find the money from productivity and reinvest in media. Of course, some of that is also going to shareholder returns.

So, like I said, we achieved our productivity program. We found over \$600 million in 2015, in part, by the number four strategy, simplifying the organization and removing some of the functional layers at what we would call group, but the continental level. And then perhaps, most emblematically, as I said, we've been bringing forward and actually starting the play on completing the franchising in North America.

That resulted, most simply, in us doing what we said we would do, which is always, I guess, good. We laid out a plan. We said what it would do in terms of numbers, and those are the numbers we delivered. We're up 4% in revenue, 6% in profit and returned over \$8 billion to shareholders in dividends and share repurchase and doing so while winning in the global marketplace for value share in non-alcoholic ready-to-drink [ph] beverages. (7:40) So, I think a tick for 2015, a good start to accelerating our performance.

So, with that, let me turn now to the future, to 2016 and beyond. As I said, we took from our conclusions of what was working in 2015, what we felt was the right strategy and, therefore, really, it was just – became a question of, well, if it's the right strategy and it's working, are we able, ready and capable, to accelerate those actions? So, this little chapter will be just two things that we've concluded we can accelerate into 2016 and beyond, and that'll help promote growth.

The first one of those clearly is transforming the company through refranchising. By accelerating the refranchising, we will transform The Coca-Cola Company back to its core value creation model, which, in essence, is about building stronger brands, driving customer value, and leading our franchise system. And that will make us, The Coke Company, leaner, higher margin, higher return, more focused, and perhaps, most importantly, it gives us greater confidence that we can achieve our long-term growth targets.

Now, as I said, in the process of us focusing and becoming this brand-led, customer value, franchise-leading company, we have to accelerate the refranchising. And that's exactly what we're doing. We clearly had announced in earlier of 2015, a number of consolidations around the world, most significantly the two in the middle of this page, Coca-Cola European Partners, bringing together CCE, the Spanish bottler, CCIP, and our own German bottler into a new enterprise, Coca-Cola European Partners. We're expecting that to close in quarter two of this year. And we see that as a very exciting platform to reenergize and find growth in the Western European markets.

The other one we'd already announced as a consolidation was Coca-Cola Beverages Africa, again, an exciting new platform for growth in Africa, which is the continent with the youngest 1 billion consumers. So, we see that as a fantastic way to go and grow into the future, and, again, hoping for that to close in the second quarter.

The two things we announced on the earnings call, firstly, was the non-binding letter of intent in China. Our idea is to move from three bottlers, where we are one of the three, and to refranchise our bottling operations to our two existing partners, COFCO and Swire. We've spent a decade investing in China. We feel that we've got to the scale and, more importantly, COFCO and Swire have got to the scale and momentum and capability that we can now refranchise our operations to them, and that'll take through 2016. So, we're saying that's likely to happen in 2017.

And finally, I guess the most emblematic refranchising and in the heartland of the company, the bringing forward and the concluding of the refranchising in North America. We announced that we would, by the end of 2017, or at least our expectation is, we will be able to refranchise all the sales and distribution and all the cold-fill manufacturing in the North America business.

So, you can see that we'll have had in motion 40% of the global volume over a couple of year period, but we are very convinced that by doing and taking these actions, we will be strengthening the bottling system for decades to come. So, it will not just be a case of the company returning to its core value creation model, but we believe that we will have established a stronger, better, more capable more infused bottling system to partner with.

As I said, it does transform the company very materially, and I think perhaps worth dwelling a second on what that looks like for us in terms of transformation. We're going to go from being 18% approximately of the global

volume. By the end of the implementation of those four transactions that I just talked about, we'll be 3% the global volume.

Similarly, of the 123,000 employees that currently work for The Coca-Cola Company, two-thirds of those will be transferred in the bottling agreements, of those four bottling agreements, there will be about 40,000 employees. And of those 40,000, about half of them will actually represent the remaining BIG territory. So, you can see that the core business of the company will start to emerge from this large bottling operation.

As we do this, I think it is worth just underlining that that 3% of BIG remains an important strategic enabler for us, not just because of the countries that it operates in, but it represents a capability and, to some extent, a success of the BIG Group over the last few years in fixing the bottling system, fixing and growing those markets it took under its care, and actually enabling and allowing the refranchising.

But we do see our ability to be able to run bottling operations to fix the operation as a core part of what we need to be able to do. So, even though it's 3%, we see that as a very important part of the company.

So, let me just double-click a little bit on North America, perhaps the refranchising part of most interest or most complexity perhaps, and I think let me do that by trying to give the end-to-end story, the end-to-end journey in a summary form of what's happened in North America. 10 years ago, the system had less alignment. We had malleable underperforming bottlers. And we were even in litigation with some of them about the way we were trying to serve some of our customers, because of the changes in the marketplace and the changes in the route to market. But fundamentally, it was not working for us. It, perhaps, had also become overly volume-centric as the strategy.

Today it's radically different. Today, through the process of the buying in of some of the bottling operations and the way that we're going about the refranchising, we believe we're setting up the system for future success. We've taken in the bottling operations, and we've created much more logical contiguous territories. Before, it was a patchwork quilt that was designed by history and timing of when mergers and acquisitions had occurred, rather than a sales and distribution and execution logic. So, by having more contiguous territories, more logical territories of sales and distribution, we are enabling much more effective and efficient local execution by the current, the current growing, and new bottling partners, so, enabling local execution through contiguous territories.

Secondly, we've enabled ourselves, our system, to operate at a national scale. And we've done that by putting in place a number of governance parameters that weren't there before, to do with customers and the ability to interact and work effectively and quickly with the national customers.

Secondly, to make sure that as we refranchise the cold-fill system, that it continues to operate with a clear industrial logic on a national, not just a local scale. We have governance around the product supply system, and that's supported by an IT platform that has commonality for the bottlers. So, the interoperability is maintained for the system.

And that's been enabled by new contracts that allow the system to continue to evolve and update itself and then alignment of economic interest, most simply and most obviously around revenue. And I think you can see that the bottling, the CCR operation, part of the Bottling Investment Group, its ability to bring these problems to closure and reinvest in the business has allowed ourselves and our bottling partners collectively in North America to reestablish the momentum, reestablish momentum of the revenue line, with some volume and quite clearly with price as well.

So, North America, an end-to-end story about reinventing the bottling system for the 21st century in North America. It'll see a streamlined company operation in North America, and we think the system is set up for success going forward in North America.

The second thing that we're seeing as an opportunity for acceleration is in the space of productivity. Now, productivity, I think, the acceleration shouldn't be just seen as the idea of accelerating and turning it from a program to a culture, perhaps not a culture we force, as deeply embedded in the company. But I don't think you should see the acceleration as just from program to culture. I think it's about being able to, yes, chase the savings, but doing so in a way leveraging the simplification of our organization, of our processes, of the way we approach things, plus new technology platforms so that the end results becomes not just cost savings, which we can reinvest and distribute to shareholders, but also that we get things done faster, with better results and better processes, such that we also elevate the employee experience.

And I think the acceleration we're looking for is the nexus of efficiency and effectiveness, the nexus of savings and speed and the employee experience, such that we build something that does use resources wisely for reinvestment or returns, but also builds an organization for the long-term, because ultimately, it's the talent in the organization that will take us forward into the future. And so we're really looking this about how we can make sure the company remains competitive for the 21st century.

And by way of example of what we're getting into in terms of the productivity, if you take IT, as an example, in 2014, when we started, end of 2014, we, the company, were running just under 1,500 applications. Over the space of 2015 and going into 2016, we will have sunsetted, which is, I guess, the IT word for eliminated, 40% of those applications. We will also shift half of the remaining applications into the cloud, with its consequent savings in resources, money, time, and making the thing actually simpler and better for the employee base. And it's these examples and that philosophy of trying to find the nexus of efficiency and effectiveness that allowed us effectively to take up the productivity targets within the earnings call a little bit going out into the future.

So, based on what we learned in 2015, we clearly came to the conclusion that we could accelerate refranchising. We felt we'd fixed the problems we needed to fix. We felt that we'd established, through the Bottling Group, the momentum needed for the business, and we were finding existing and, frankly, new partners who were able, willing and ready to take on these bottling operations.

And I think the fact that there are more people and existing people who want those franchises is testament to the fix and the momentum that's gone in. And the second acceleration, as I just said, the idea of productivity for the long-term, the wise use of resources, but also the elevation of the employee experience as a way of sustaining it into the future.

The third chapter that I said I'd like to talk about was evolutions that I think we need to make. We learned a lot of things in 2015. We've been observing what's going on in the marketplace. And I think there's perhaps a few areas where we need to not just accelerate, but we need to evolve how we're approaching things. And let me tell you a little bit about those areas where I think evolutions are merited in order to promote growth going into the future.

So, what do we see? Let me just take a couple of slides to stand back and just set up the frame for the evolution. We believe that we compete in an attractive industry. This industry is likely to grow at 5% in value over the next five years. Maybe it won't be quite 5% in 2016 and 2017, given all the macro issues. But we think, ultimately, the industry growth is underpinned by fundamentals that are enduring and long lasting: the population growth; the urbanization; and the rising income available to the middle classes.

As that industry grows, we believe we have the opportunity not just to participate in the growth, as I said, 5% in the long-term, maybe a little less in the short-term, but we also believe we have the opportunity to gain share. We currently have about a third of industry value share. So, we think there's clearly room to grow in terms of share as well, so an attractive industry. We're positioned as the leader, but with plenty of room to grow.

As I said at the beginning, we stand with what we think is a strong platform and ultimately, a strategy for success. The consumer demand is there. We have the marketing. We have the execution in sales through our bottling partners. And we're more dedicated and disciplined in our portfolio choices in where we look for the revenue and where we invest marketing dollars and merger and acquisitions dollars, such that we continue to believe in our long-term growth model for revenue, for profit, and for economic profit, and then ultimately, return for shareholders.

And I think perhaps the starting point for talking about the evolution is actually working out [ph] because all that (23:28) work. And when we look at what's happening to our execution in 2015, we know as we look at all of our countries, summed together here schematically and conceptually, but if you were to take the analysis that our strategy and insights teams do on quantifying what good and improving marketing is and quantifying what good and improving execution is, it's very clear when you look across the countries that there's a very strong correlation not just that more and better marketing works and more and better execution works, but when the two work together, the result is even better. So, we're clearly trying to find how do we maintain ourselves in that sweet spot of good marketing and good execution and, therefore, what is it that needs to evolve in order to maintain us in that position.

So, three things; let me talk about three things that I think are changing or happening in the marketplace that require an evolution from us. The first one ultimately is the source of growth. It's quite clear that there are changing sources of geographic value growth. It may be that the industry bounces around more or less the same historic growth rates, again maybe a little less in 2016 and 2017, but where that growth is coming from, I'm sure you've heard in the last couple of days, is changing. And if you just look at the chart on the left-hand side, is the world divided into three clusters of developed, developing and emerging in terms of value growth. And you can quite clearly see the value growth coming from the emerging markets, which is the line that goes down the fastest, has decelerated markedly into 2014 and also into 2015 and, to some extent, the developing markets – and a lot of that, from our point of view, is driven by Brazil.

But conversely and in parallel, the growth available from the developed markets, whilst the increments and percentage is small, given the material size in money, these things are kind of broadly balancing out, maybe a little down into the negative.

But I think when you start to think about what is it that this changing shift in sources of geographic growth implies for us in terms of what we need to do in the marketplace, I think there's a couple of clear necessities. One, this ongoing evolution into urbanization is also coming with a polarization of wealth, not just geographically between these countries, but even within the countries. So, I think, as we look out and whilst we would probably say there are some parts of our business system has done very well, historically, in terms of segmentation and segmentation of revenue, we see the need to continue to push that even harder to further segment both across markets and within markets. And to lean heavier on both premiumization and affordability will be one part of what's going to be a necessity and a truth going forward in the next few years, given what's happening economically.

And so, what we're going to be pushing harder on and by mode, again, of an example of what we've been doing, if we look at here the examples are North America, or the U.S., and India. In North America, we've talked about how we're chasing revenue, and we're doing a lot of that through the way we implement our packaging architectures.

And we've talked on previous earnings call about what we call the transaction packages. So, you can see, on the left-hand side of this chart, a series of packages from the Mini Can that was in the Super Bowl ad, through to some glass bottles and some other sizes of cans, that first six or seven packages of what we call the transaction packages. They account for just 12% of the volume today and they're growing at 15%. And they have a better price/mix impact than the right-hand side, which is today the core of the business, the 2-liter bottle and the multi-packs of cans. I mean, that's almost 70% of the business, and that's actually declining.

So, what you're clearly seeing is the leveraging of premium and affordable packaging to drive the business in transaction terms, letting go a little bit of the volume on the larger value-orientated packages, and seeing, therefore, transactions growing ahead of cases, price growing strongly compared to previous track records, while still seeing one of the important core parts of the business in North America, the 20-ounce, still growing high single-digit in terms of value.

So, we see that it has been possible to take this idea of premiumization and affordability through a range of packages priced appropriately and drive transactions and revenue and, therefore, price through this strategy in North America.

And conversely, the kind of the almost the opposite end of the spectrum economically, India, clearly, the idea of affordability takes on a new dimension in India. We have launched an innovation called the Splash Bar, which is effectively a way of serving individual small, very small, cup sizes of Coca-Cola out on the street, leveraging the kind of street vendors, and actually insert a large bottle into the machine and selling each cup at an incredibly low price point of INR 5.

Now, the logistics and the ability to expand the Splash Bar has a certain limitation, so we've been backing that up with the expansion of returnable glass bottles, and that's looking good and that's going well. But now, we see continued restrictions, not restrictions, the inability of us to reach every corner with the returnable glass bottle. It's obviously got to come back. It requires a lot of infrastructure. And it requires a lot of manufacturing plants because, of course, the economics of it means you need more plants to have more returnable bottles because they don't travel as far as one-way packaging.

So, right now, in the coming days, we'll be launching a new package in India. It's a completely new technology of PET, a completely redesigned bottle. And the principal problem with small PET bottles in countries like India, which are very hot, is the smaller the bottle, the faster you lose the carbonation and, therefore, the shorter the shelf life. And that has always been the key limitation to us having very small PET bottles in very hot countries at affordable price points.

This new technology allows us to break through that barrier. It's going to enable us to have a longer shelf life through the design of the bottle and a proprietary coating, it'll be not just longer shelf life but lighter weight. And the margin will be 15% to 25% margin improvement over the current small PET bottle. And that's going out literally in the coming days. And I think that's a very exciting development for affordability with a very small size in India, and something that can get much more distribution than we've been able to achieve so far.

The second evolution that we need to continue to build on is, quite simply, about consumer preferences and the trends that those are generating. Consumers are concerned about sugar. They're concerned about artificiality. There's reality, there's perception, but it all matters to the consumer. Consumers also want greater control. They want choice. They want products that are natural. They want other benefits. I'm sure you've heard plenty about this. And we, too, must adapt and accommodate ourselves to where the future is going.

So, we are adjusting our approach. We're clearly going to move from an idea that we need to offer choice, that we're going to need to help shape choice going forward and change the way our portfolio looks. And I'll talk a little more about how and what that means.

So, we're going to have to move from offering choice to shaping choice. We're going to have to be more assertive in terms of innovation. We're going to have to innovate not just in creating new products that perhaps have lower sweetness levels, as well some products that continue to have indulgence or full sugar, or whatever. But we're going to also reformulate and continue to push ahead on reformulating some of our existing products and growing the low and no-calorie products within our portfolio.

Transparency is embedded in those consumer trends, and we believe there's nothing to fear from transparency. We have no intention of operating our business in the shadows, so we'll be joining industry moves, moves with government to ensure and enhance transparency of information for consumers. Obviously, that will go with responsible marketing. We have long-standing policies, which we continue to believe in and we're going to continue to support and work with industry and government on whatever else needs to be put in place.

And finally, lead engagement; we, perhaps, in the past, were too afraid to engage with the scientific community. We were not at the forefront of engagement. And we think that the only way forward is to be deeply in the conversation with our critics, with governments, with those that support us and try and find solutions to what the consumers want and to what society needs.

And let me give you a couple of examples of what that means in terms of implementation. The first thing is the latest campaign from Coca-Cola. Actually, it's much more than a campaign. Marcos, our Chief Marketing Officer, he likes to say that a campaign is like a set of fireworks. It looks fantastic, but then it all kind of goes away. And the strategy is like a satellite. It's always up there guiding you. And this is a combination of both a strategy and a campaign. This is about transforming the way we see Coca-Cola and, therefore, the way we execute Coca-Cola.

We're taking Coca-Cola, the red disk in most simple terms, and saying that every piece of Coca-Cola needs to share the same core. It needs to share the same product benefits. That's refreshment. It needs to share the same brand values, maybe optimism. It needs to share the same iconography, not just the Spencerian script of Coca-Cola and the contour bottle, but also the redness and the red disc. And the reason that's important is that, at the moment, we're intentionally saying to consumers who love Coke Classic, who love red Coke, that if you are concerned about the sugar or the caffeine or whatever, it's not that we have a variant of Coca-Cola that can keep you in the franchise, you have to change brands. You have to go from the red one to the black one or the silver one. And the reality is we lose some consumers along the way.

So, what this is about is taking the idea of the brand of Coca-Cola up a level and saying everyone can enjoy Coca-Cola and everyone can stay in the franchise. And in order to stay in the franchise of Coca-Cola, we're going to offer variants of the brand, with or without the ingredients that you may be worried about. You want to stay with Coke Classic? Great. If you want Coke with no sugar, great. You can stay with our essentially Coca-Cola, the red brand that you love.

Now, that's the strategy. The first degree of the implementation is through the latest campaign, and I'll show you a little bit of that. And in doing this campaign, we've also made a number of other changes, not just the tagline of Taste the Feeling [ph] app. (35:55) The tagline is the representation of what we're trying to do in the campaign, it's true. We're trying to bring together both the intrinsics of the products and the extrinsics of the brand. I think perhaps we had strayed too far in recent past in doing either extrinsic and talked about the brand values or were just intrinsic and just talked about the product itself.

So, the idea of this campaign is a manifestation of the strategy, yet bringing together the idea of intrinsics as a central part of the message and bringing the brand in a central role in the commercial.

So, with that, I'm going to show a couple of commercials. We're going to roll them back-to-back. One was called Anthem, and the next one was called Brotherly Love. And hopefully, you'll see a little bit of what I'm talking about in these two commercials. If you could run the commercials?

[Video Presentation] (36:53-38:55)

Great, so, hopefully, you enjoyed those two. There's a whole series of commercials in that vein, trying to capture that campaign that is going to be rolled out globally.

So, we're making an approach – and I just wanted to tie together a few elements because I think there's a number of different things that we're doing that have been put under different headings that actually all integrate together as part of what we're doing around some of these consumer trends. We're moving from offering choice to trying to shape choice. We know that when we executed some of the pilots behind the Taste the Feeling campaign, bringing all the variants of Coca-Cola under the same iconography and heading of Coca-Cola that we were able to drive much more sales of the lights and zeros.

We see that as we bring together the One Brand campaign, it will help us shape choice, shape choice by moving some of the products' variants over to lights and zeros. It will shape choice by pushing through some of the smaller packaging that also helps on the revenue front, so all of this works together in an integral way to respond to the dynamics around consumer needs and evolving consumer preferences.

The third evolution that I wanted to just touch on was around the stills portfolio. As I said at the beginning, we're number one in sparkling. We're also number one in stills, and that's based on the fact that we are essentially number one or number two in value share in all the other stills categories. Now, the reality is that not all number one and number two positions were born equal. Our number one position in sparkling is about 50% value share globally. Our number one position in stills is 15%.

But even in juice and juice drinks, which is a category where we've determinedly followed a strategy over the last few years, our number one position is only 20%. So, we see material and substantive headroom for growth, not just driven by the organic growth in these categories, but also from our share positions, so we see real opportunity for growth.

And we feel that when we look back and say, how is it that we've been able to advance in some these categories, and taking, by way of example, juice and juice drinks where we've gone over the last few years very substantially forward in terms of our share. In fact, since 2010, we've captured a third of category value growth in juice and juice drinks. We're punching way ahead of our starting point.

And we've done that by basically leveraging a very integral game plan. We've been building brands. I mean, ultimately, we think that we're only going to be able to achieve the margins we need and the returns we need if we can build strong brands. We've been building strong brands. Even though many of them have different names across the world, the underlying platforms and the underlying identities have a lot of commonality. And we have four brands over \$1 billion.

We've been doing that and also building the right supply chain. I think it would be fair to say if you went back 15 years or 20 years when we first started to get into juice, some countries tried to make it like the concentrate sparkling business. And frankly, that doesn't work.

We've been setting out and building on those learnings and making a fit-for-purpose supply chain, fit-for-purpose capabilities, whether that's flexible business models with our bottling partners. In the U.S., we run the Simply business. In other parts of the world, we have joint ventures or completely franchising the business, depending on the needs of the business and what is fit-for-purpose for that category, rather than what has fit most simply into our system. We're trying to do the right thing for the business.

Not that we're allowing everything to become fragmented; in the case of juice, we maintain our global scale through a partnership, for example, [ph] in orange and beyond in fruit with Cutrale, (43:19) one of the biggest growers, obviously, in Brazil, and that has helped us become number one.

And going forward, we will obviously support it through innovation. We have a Global Juice Center. We have supplier partnerships. We're focused on being innovative in the juice and juice drinks. And we're also going to continue with bolt-on M&A, the most recent of which was in Nigeria.

And as we look beyond perhaps juice, one of the questions that often comes up is are you going to be able to create businesses as profitable and as attractive as the Sparkling business by doing this. And so, let me talk about water, which is the one that gets the biggest question mark over it. I mean, water, on average, is less profitable than Sparkling, no doubt about it. And that's largely driven by some of the kind of bulk or mainstream waters. And we ourselves have done that to gain some scale and some critical mass with the case packs of DASANI, for example, in the U.S.

But we're clear that the deliberate way forward needs to be the expansion of the bits of the business where solid margins can be created and driven. And coincidentally, or not coincidentally, that's the bit of the business that's growing most quickly at the moment. It's growing most quickly in the immediate consumption in the premium end of the water business, and that's where we are trying to participate.

Take for example smartwater, that's growing very strongly in the markets it's present in. Actually, it's just itself, on its own, become a \$1 billion brand. So, we see a lot of attractive growth at good margins in the premium IC water space and we will continue to do that. And likewise into the other categories, finding those things that most make us money.

So, those were the three evolutions that I think were worth calling out. We're going to continue to make other evolutions. We'll do so. We're going to be less focused on trying to find the perfect answer and be late than doing pilots and experiments and evolving, whether that's iterations of Coke Life, whether that was the prior iterations and the pilots that led to the One Brand strategy, but we're going to be more agile, always with a destination in mind, but trying more pilots in the short-term.

So, with that, I think we're clear on our role as a company and our path forward. It's about building the brands, driving customer value, leading the franchise system. This system is well-positioned for the future. We believe the long-term outlook is positive, and we believe we have the right strategies and the right flexibility to manage the near-term volatility.

So with that, let me hand over to Kathy to talk about some of the numbers.

Kathy N. Waller
Chief Financial Officer & Executive Vice President

So, thank you, James, and good morning, everyone. It's a pleasure to be here with you today. There's a lot to cover, but I will try to be brief, as I realize this is the last presentation of a very long week. But I have three things I need to touch on: the financials, adjusted for accelerated franchisings; 2016 outlook; and then some perspective on the post-2016 outlook to give you context on how we are thinking about it.

As James mentioned, we are continuing on the journey we outlined 18 months ago, and now we are ready to move on to the next phase. Executing each step of this journey gives us, and hopefully you, confidence in our ability to achieve our long-term growth targets. This next phase returns us to a company that is centered on its key strengths: building strong brands; creating value for our customers; and driving system capabilities.

Focusing on our strengths and executing against the strategy James laid out around evolving the long-term opportunities, will allow us to deliver our growth algorithm. A benefit of the strategy is that we will have lower fixed expenses and less exposure to commodities, thereby reducing the volatility of our cost structure. We'll also have a more capital-efficient growth model, with lower capital and reinvestment needs. An additional longer-term benefit is that we will shift more of our revenue mix to the faster growth regions.

As we transform our company through the announced transactions in North America, Europe, Africa and China, the financial statements and the financial ratios of The Coca-Cola Company will look very different in the future than they do today. Because none of us can actually predict the future, and because many people have differing growth expectations of the future, no one knows precisely what we will look like in 2017 or 2018. But I feel it's important that we give you as much insight as possible into the impact of these transactions to enable you to assess and analyze the company going forward.

So, therefore, I will show you an illustrative example. And I'm going to show you what our company would have looked like in 2015 had all of the announced transactions been completed at the beginning of 2015. Even in analyzing it in this way, there are clear limitations because some of these entities don't even exist and didn't even exist in 2015. And as such, this is a directional analysis to illustrate the broad application.

Starting with the top line, given we are selling businesses, we would've only had approximately two-thirds of 2015 reported revenue. As you can see, our gross margins and our operating margins would have been significantly higher as we return to a predominantly concentrate-driven organization.

While operating income would have been lower, the impact on free cash flow is much less significant because these bottling operations continue to invest in capabilities, and they had significant investments for growth through capital expenditure. With the divestiture of the bottlers and the resulting reduction in capital expenditures, we would have had an increase in our free cash flow margin.

Again, if we had sold those businesses as of the end of 2014, our operating income would have declined, but some of that decline would have been offset because of the equity income we would've recorded from our investments in Coca-Cola European Partners and Coca-Cola Beverages Africa. As you would expect, our invested capital base would've decreased, reflecting the accounting entries associated with all four of these transactions. We would have received cash from the sale of the tangible assets, and our cash return on invested capital would've increased, reflecting our lower capital base.

Given the Africa and Europe transactions haven't closed and the China transaction is still at the very early stages, we can't provide the change in invested capital related to those transactions. As we discussed on our earnings call, franchising does have an impact on our spend base. When franchising is complete, our spend base will decrease by approximately \$15 billion, which is a 40% to 50% reduction across both cost of goods and SG&A.

Since we are refranchising bottling operations, the reductions in advertising expenses would be minimal, as the vast majority of the SG&A reduction would be from selling and distribution expenses and other bottling operating expenses. As I mentioned earlier, our exposure to commodities will also greatly diminish, as we no longer operate those bottling businesses in North America, Europe, China or Africa.

If all of these transactions had been completed as of December 31, 2014, the percent of our adjusted cost of goods comprised of commodity spend would have decreased from over 40% to below 15%. And to put that in perspective, the total dollar spend on commodities would have gone down by \$6 billion. Our reduced commodity exposure will likewise reduce the volatility in our cost structure, which further gives us confidence in delivering our long-term profit targets on a consistent basis.

We remain confident and committed to our \$3 billion productivity program, even as we reduce our addressable cost base. As we stated on our year-end earnings call, we will no longer be able to capture roughly \$0.5 billion of the identified supply chain savings prior to divestitures. To be clear, these savings are not lost.

Working through the newly-formed National Product Supply System in North America, we will work with our expanding bottling partners to aggressively go after these costs, whether they sit in our P&L or in theirs. Further, we have built a disciplined process and capabilities, which have allowed us to exceed our goals to-date and have had helped us to identify incremental opportunities within cost of goods sold, operating expenses and marketing to replace the supply chain savings being refranchised.

As a result, we are maintaining our \$3 billion target, despite the refranchising, with a slight adjustment to the amount in each of our expense categories. Adding the \$500 million in productivity opportunity transitioning to our bottling partners, this represents an overall increase in our system savings of to \$3.5 billion.

The productivity targets represent a significant reduction in our adjusted spend base. And given the adjusted cost of goods base is \$9 billion, and approximately 35% of our productivity will come from cost of goods, we project a 12% reduction in that spend base. A 12% targeted reduction is significant when put against a cost base that is reflective of adjusted gross margins of almost 70%.

For SG&A, the \$10 billion base consists of three groups of expenses. The first group is the remaining bottling sales and distribution expenses related to growing emerging market bottlers. There is very little incremental opportunity related to those expenses.

The second group is operating expenses where we continue to find opportunities over multiple years through the implementation of zero-based work across the organization. And the final group of expenses is our marketing spend, where we identified another \$100 million in opportunity for a total of about \$700 million, as we focused on scaled efficient global campaigns, and implement procurement savings protocols.

Our new One Brand strategy is a great example of this, where we reduced the number of agencies and we leveraged production cost to provide global creative content. Collectively, the identified opportunities in marketing and operating expenses represent almost 20% of our SG&A spend.

With the adjusted spend base, the metrics for our productivity program have improved. After adjusting our cost for the announced bottling transactions, our operating income per employee metric triples, and our SG&A less advertising expenses metric drops to 21% of our net revenues.

Now, let me move to outlook. I provided 2016 outlook on our earnings call last week, but there are a few points I'd like to highlight. In 2016, we expect to grow organic revenue 4% to 5%, in line with our long-term target as our

marketing investments continue to pay off. Given the general weak macroeconomic environment and the associated pressure on top-line growth, we are focused on capturing more than \$600 million of productivity in order to deliver our profit target. We will do this even as we continue to increase the investments in media behind our brands and we step up our R&D investments in 2016.

We anticipate interest cost to increase in 2016 due to higher interest rates, as well as due to our decision to shift some of our debt from commercial paper to longer-term maturities that carry slightly higher interest rates.

After considering these factors, we expect comparable currency neutral income before tax, structurally adjusted, to grow 6% to 8% in 2016, in line with our long-term targets as strong operating profit growth is partially offset by the net interest expense.

As we have said, there will be significant structural impacts to our business as we accelerate our refranchising efforts in North America, we complete the mergers of Coca-Cola European partners and Coca-Cola Beverages Africa, and as we cycle half a year impact from the Monster Beverage transaction, which closed in mid-2015.

Taken together, we expect a three to four point structural headwind to income before tax, as incremental equity income will partially offset the impact at operating income. And we, therefore, expect comparable currency neutral EPS growth of 4% to 6% inclusive of the three to four point structural headwinds to income before tax.

I recognize that many of you are trying to determine the potential dilution from North America refranchising in 2017 as well. And while I appreciate what you're trying to do and why, the impact to 2017 is difficult to forecast, as so much of it depends on the timing and nature of final transactions, particularly in North America. As we transition territories, there are two factors to consider. First is the timing of the territory transfers themselves. A shift in timing between quarters, depending on the size of the territory, could have a meaningful impact on the dilution in 2017.

And then the second is that our plans are still being finalized. Therefore, we can't give an exact estimate of what those impacts look like. What we do know is that all territories are expected to be transitioned by the end of 2017. And that the timing of the territory shift in 2017 will determine the amount of structural impact that remains to be recognized in 2018. We are committed to eliminating the temporary residual cost that we referenced in the past as quickly as possible. We anticipate the majority of these costs will be removed in 2017.

Now with that said, there could be a portion of residual costs remaining in 2018, as we wind down the final support of these operations; however, any remaining residual cost will be eliminated by the end of 2018.

For all those reasons, I cannot provide detailed guidance for 2017 at this time. We have and will continue to generate a significant amount of cash flow. We also have a strong track record of returning cash to shareowners in the form of dividends and share repurchases. In fact, over the past five years, we've returned over \$39 billion in value to our shareowners.

Just yesterday, we announced the 54th consecutive increase of our annual dividend, with our annual dividend growing high single digits on a compound basis over the past three years, even as currencies have been a significant headwind.

When this transformation is complete, we will look very different than we do today. The Coca-Cola Company will return to its focus of a higher margin, higher return and less capital-intensive operation with clear strategies in place, increasing our confidence in our ability to achieve our long-term growth targets.

So it has been good to be with you this morning. So, before we start the Q&A, James will come back up and have a few final remarks to share with you.

James Quincey

President & Chief Operating Officer

So, thanks, Kathy. So, we announced 18 months ago, a very clear plan. We executed the plan. We delivered on it. It gave us the confidence to accelerate the implementation of a number of elements, and it gave us the insights to lead us to evolve our strategies in a couple of areas to continue to pursue growth. So, we're transforming the company. The numbers are going to look very different. But we think we and the system will emerge stronger and more successful over the coming years, despite the ongoing volatility.

So, with that, I think we're going to open the floor to questions.

QUESTION AND ANSWER SECTION

Q

Thanks. James, given Coke is now morphing back, I guess, into its former itself, or a marketing organization, I was hoping you can give some context on just two marketing questions. First is, when you think about Open Happiness versus Taste the Feeling and you think about the concept testing for both marketing campaigns, is there any clarity you can give us on kind of how the current campaign tested relative to Open Happiness, just to give us a sense of marketing effectiveness going forward? That's the first question.

And then the second question is what changes have happened within the marketing department as Marcos has come on onboard? And I ask that in a sense that you obviously created a megabrand in Coke going back a long time. Most of your leading brands in your other segments are not as big. And so, how can you elevate some of these other brands to go from \$1 billion to \$5 billion and create new \$1 billion brands? Maybe you can just help frame how things have changed in marketing.

James Quincey

President & Chief Operating Officer

A

Sure. Well, you won't be surprised to learn that, of course, the new campaign tested better than the old campaign. Otherwise, we wouldn't have launched it. That would have been truly an error. I think to the question of why did it test better, I think, it ultimately tests better because, as I said in the thing, we had allowed Open Happiness to drift into a separation of the intrinsic brand values from the intrinsic of the product. You can look at some of those ads, and sometimes you don't see people drinking. The brand and the product is not central to the story.

So, the Taste the Feeling campaign reintegrates what it is about the brand and the product that people love and its role in the story. And I think that makes it more engaging. Just like the Brotherly Love story, the Coke is part of the story and completes the story. So, that's the essence and that's why I think it's testing better across the globe. We have a whole staple of ads. Some test better in some countries than others. But our objective is to make a set of ads globally more efficiently that deliver for each country material that is both on-strategy and testing in quality terms better than what we had before. And I think that's where we've got to.

And then in terms of the evolution, I mean, clearly, Coke, the brand, stands head and shoulders above many and most other brands globally within Coke and actually in consumer products. But we are focused on creating that next stable to go from \$1 billion to \$5 billion. Now, sometimes that's going to happen in of itself in a brand by ensuring a global reach and a global rollout.

In other categories, frankly, we're going to do it with a set of brands, and it might be easier to view those set of brands where we're using the same visual identity. So, in juice, for example, if you go to Latin America, you will see that actually the name of the juice is different in Argentina, to Chile, to Peru, to Mexico, to Brazil. But the visual identity, the labeling, the conceptual brand positioning is all the same, because we built that through bolt-on acquisition. So, I think one has to look at it not just in terms of the actual name, but conceptually, what are we trying to doing and how we're pursuing success and margin in those spaces. Yeah.

Unverified Participant

Okay. With that, we're going to get ready to move on to the breakout. Before we do that, first, we're going to formally end CAGNY 2016 and also thank Coca-Cola again for spending time with us.

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