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# The Coca-Cola Co. (KO)

Acquisition of Costa Limited by The Coca-Cola Company Call

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# MANAGEMENT DISCUSSION SECTION

**Operator**: At this time, I'd like to welcome everyone to The Coca-Cola Company's Investor Conference Call. Today's call is being recorded. If you have any objections, please disconnect at this time.

All participants will be on listen-only mode until the formal question-and-answer portion of the call. I would like to remind everyone that the purpose of this conference is to talk with investors, and therefore, questions from the media will not be addressed. Media participants should contact Coca-Cola's Media Relations department if they have any questions.

I would now like to introduce Mr. Tim Leveridge, Vice President and Investor Relations Officer. Mr. Leveridge, you may now begin.

## Timothy K. Leveridge
*Vice President & Investor Relations Officer, The Coca-Cola Co.*

Good morning and thank you for joining us today. I'm here with James Quincey, our Chief Executive Officer; and Kathy Waller, our Chief Financial Officer.

Before we begin, I'd like to inform you that you can find webcast materials, including the copy of the presentation that we will be going through this morning in the investor section of our company website at www.cocacolacompany.com that supports our opening remarks today.

This conference call may contain forward-looking statements, including statements concerning long-term financial objectives and should be considered in conjunction with cautionary statements contained in our press release this morning.

Following the opening remarks, we'll turn the call over for your questions. Please limit yourself to one question at a time. If you have more than one, please ask your most pressing question first, and then reenter the queue from there.

Now, let me turn the call over to James.

## James Quincey

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

Thanks, Tim. Good morning everyone. I'm going to make a few opening remarks that follow along the presentation materials that Tim just referred to they're being posted. So if you want to follow along, I'll call out the page numbers as we go along, otherwise the comments will be self-standing anyway.

So, obviously we've announced this morning the proposed acquisition of Costa Limited, I want to talk about four things this morning. Firstly, a little bit on what was the strategic context, how do we see the overall environment; secondly, what's our strategy, how do we see value creation potential for Coca-Cola; third, what are the basic details of the transaction, and then fourth what are the next steps.

So, what's the headlines? This we believe has a very compelling strategic rationale. Coffee is significant on-trend, fast growing and profitable category, as I'm sure most of you, if not all of you, are well aware of. Costa has a strong consumer proposition. It's got a scalable coffee platform to engage with consumers across multiple formats and channels. In the end this is a coffee strategy, not a retail strategy. And so, there is opportunity for great value creation through the combination of Costa's capabilities and Coca-Cola's marketing expertise and global reach.

So, let me say a little more about the context, and this is page 5 in the deck. We've traditionally talked about the non-alcoholic ready-to-drink beverages industry, $0.8 trillion of which we have a strong market share overall. And we lead or are a strong number two in all of the categories and sub-categories, including ready-to-drink coffee and tea. But as we look forward, and as I've talked about in the context of beverages for life and the underlying central core logic the beverages for life, which is wherever you look at the leading edge of economies and culture and development and what millennials or young adults are doing, you always come to the same point, which is they're interested in beverages, the commercial beverages market continues to grow, they're looking – and they are happy to spend money on the right beverages, they just want more diversity, they want a broad range of beverages.

And so as we look forward we, of course then are expanding our vision beyond non-alcoholic ready-to-drink, and the obvious logical next step is hot and cold beverages. And so when you bring that piece of the equation in, the addressable market goes up from $0.8 trillion to $1.5 trillion, the hot beverages piece is growing at about 6% in revenue. So, it's large and it's fast growing.

On page 6 just looking at the coffee market for a second, the global coffee and tea market. The reality is we've been competing – actually leading but competing in one of the smaller bits of the total coffee market. In summary terms, it kind of breaks down into four pieces. There is the out-of-home coffee business, which is partly coffee shops, which is about 20%; 80% is other out of home immediate consumption channels, which represents the majority of the out of home. Then there is the non-ready-to-drink piece, which is largely at-home, and then finally the ready-to-drink where we have about a 15% share. So, in simple terms coffee breaks down to four formats, four big clusters of channels and we see an opportunity for a global brand to reach over all four pieces of the coffee basket that then build and are synergistic between each other.

So turning to Costa, if that's the overall context of the coffee strategy, we need a brand that can compete across multiple formats and be a platform does Costa fit the bill. Well, if we look at Costa and here this is a snapshot of what Costa is today on page 7. It's a multinational coffee shop business largely based in the UK. You can see the sales mix there, it's about a quarter UK coffee shops, international and then Express is the vending machines that they have mainly in the UK, but in some other countries.

You can see the presence of their stores, like as I said mainly the UK, but also China and other parts of Europe. The UK is smaller in terms of the total number of stores because obviously the ones outside the UK have a higher percentage of franchisees than the ones in the UK. And this is a business that has got a good track record of growing the top line. The top line has been growing just over 12% in the recent year. So this is a vibrant and growing business.

As we think about where we're going to take you, we need something that can deliver as I said against the platform. So our vision is in a way demonstrated on page 8 is four concentric circles. We need a brand and a coffee capability that can win in the coffeehouse market that can build the brand. Here it's not about being the largest number of stores, here it's about the right number of stores to create the brand profitably in the place we want to be. And then synergistically, work across those four coffee segments. Having machines or beans and machines that can help us win with the immediate consumption channels; we will be a much better total beverage partner for those customers. We could also expand our ability to compete in ready-to-drink with the hot and cold and we can enter the at-home market. So this brand can go across all four basic market segments leveraging our global reach.

And the reason the coffee fits that bill is it's got the right ecosystem and the right credentials to get it done. I'm going to start in the bottom right of page 9 here. It's got the UK leadership, and I think what's interesting about the UK leadership apart from being a number one, which is – it's always easier to take a winning company and expand it globally than a fixer-upper. It's number one in the UK, but it's actually been the most preferred coffee shop brand basically for the last seven or eight years. So it's been able to win, it's been able to demonstrate good brand strength.

They've done a great job on quality. They've done a great job of customer loyalty through the Coffee Club membership. They've got the brand credentials. The Italian roots, the European, this is the coffee and it's got the credibility. So this is a brand that is a proven winning capability. They've got a retail footprint that allows us to build the consumer experience and they've got the retail management knowledge that of course we will retain. That's not where we come from that will allow that leg of the four-legged stool to work. And then they have clearly the coffee capability.

So it's a winning business in a part of the world that can be combined with the Coca-Cola Company's global reach to win across the four parts of the coffee business. Now, clearly we're not going to try and do all four parts in all corners of the world at the same time. We'll be prioritizing, but it gives us the platform to get it right.

So, how are we going to do that? If we just delve down a little bit into that strategy, we'll use the retail stores to build the brand and drive the experience. A lot has been written about the idea of the third place and we think that the stores help and it can be integrated with the Coffee Club membership and the digital capabilities. Interestingly, as a side note, this will be effectively the first Coke business where there is a direct consumer to sales potential relationship, because I think that will be interesting learning for the rest of our business.

The second piece and particularly important in certain parts of the world is actually the opportunities to be an even better total beverage solution to our existing customers and to our existing channels whether that be through the vending machines or the beans or the roast and ground or other forms of coffee capability, we have a huge business in servicing foodservice or in convenience retail to petrol stations or other forms of convenience, and we can be a better beverage provider to them. And then the last opportunity is clearly to launch ready-to-drink hot and cold and at-home beverages too.

And as we think about that and just kind of one more click down on each of those ideas, using the retail presence I think what's exciting about this is the opportunity for the real-time nature of the ritual building, the reinforcing of the brand reputation, the crafting and the sustainability, a lab for understanding what's happening with consumers and testing innovation, and that stores have an attractive return profile. They have a good return on capital. And so they're even allowing for reinvestment, a good source of capital to drive the investments in stores and other parts of the world maybe Asia and in the other formats of the coffee.

As we think about how we can use Costa as a platform to reimagine our beverage solution for customers and channels, I mean here it's about four big areas. Firstly, the capabilities we bring is world-class roasting facilities, they got a brand new roaster with significant additional capacity. So we have a lot of roasting capacity to be able to use. They have a good coffee vending business, which is great in things like convenience stores, cinemas, at work and in transit, so that's clearly something that is a proven vehicle. The coffee, the beans as a total beverage solution whether it's the hotels, cafes, quick service restaurants, fine dining, we can be a much better partner. And then lastly on the food service chains, beans and machines, I think here they have developed the pieces of the puzzle that will allow us to put them together with the rest of our portfolio, whether its bottles, or whether it's fountain, or whether it's our own vending and be a much better total beverage provider to our customers in many channels.

And then lastly on the at-home, on the new consumption occasions, we think that as we look around the world obviously we will be able to bring a lot of our existing marketing insights and capabilities that help launch into the ready-to-drink categories, expanding cold ready-to-drink, potentially even expanding into hot ready-to-drink, like our Japanese business, expanding their at-home solutions, which they've got a few of, but there's much more opportunity there and then even expanding the brand into adjacent categories. So it's a brand and a platform and a set of capabilities that is right to be expanded globally.

Let me switch to some of the transaction details. Obviously, the plan is – the proposal is to acquire all the shares in Costa Limited; £3.9 billion is the price at the exchange rate we used that's $5.1 billion. We expect it to be slightly accretive in the first full year to earnings and then getting better. Obviously, we've got the cash on hand to do so; from a direct point of comparison, the price would be approximately equal to 0.3 decimals of net debt leverage increase, if that were way that we actually get it.

Next steps, Whitbread have to obtain shareholder approval. We expect that to happen by the end of October. Clearly, there are some antitrust competition approvals required, principally the EU, including the UK and China and we are expecting collectively that the transaction will close towards the end of the first half of 2019.

So in summary, we think the Costa unlocks the entrance for us into the fast-growing $0.5 trillion beverage category, that's coffee. It's a great brand with great tasting coffee. Costa is the platform that crosses multiple formats and channels and there's an opportunity for tremendous value creation by combining that platform with their brand capabilities our marketing expertise and global reach and this will – and it's being good news for the Whitbread shareholders and it's great news too for the Coca-Cola shareholders.

So with that, let me open it up for questions.

# QUESTION AND ANSWER SECTION

**Operator**: [Operator Instructions] And our first question comes from Dara Mohsenian with Morgan Stanley. Your line is now open.

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

Hey, good morning.

Kathy N. Waller
*Executive Vice President, Chief Financial Officer & President, Enabling Services, The Coca-Cola Co.*
A

Good morning.

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

Good morning.

Timothy K. Leveridge
*Vice President & Investor Relations Officer, The Coca-Cola Co.*
A

Hi Dara.

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

So, James I was hoping for a bit more detail, as you think about the value from this deal going forward, where is the biggest expansion opportunity over time both from a format and geographic perspective? So is the value more on retail expansion or the Express format or the RTD opportunity or even beans? And then geographically what are the focused markets as you look out over the next few years here and look to expand beyond the UK? And what gives you confidence that the brand can travel well outside the UK? Thanks.

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

Sure. Well in reverse order I think the brand can travel outside the UK, because it's proven. And while it's proven it can win in the UK, we've had experience where brands that have done well in the UK like Innocent have been demonstrably able to win in the rest of Europe. Still a work-in-progress taking Innocent elsewhere, but we think that winning brands that can win and UK is a very open marketplace in the sense that there are local competitors and global competitors, so winning there was not for certain sure that is exportable, certainly is a good indication.

Costa has done well in the other 30 countries that it's been in. And so I think that's another good sign that it can travel. Clearly, we're going to have to work. We know from our global business, the world is not flat. There'll be nuances, there'll be twists and turns and that is as much about positioning the brand as which of the formats to emphasize by geography which was the first part of your question.

It would seem to us at the moment and clearly, we're going to have much more time to perfect and put our plans together prior to closing that as we look around the world, the exact mix of what to do across those four platforms could vary. So from one end of the spectrum, you start perhaps in the U.S. where there already are a lot of coffee stores, but we have a great food service and immediate consumption channel partnership with many customers. And I think formats like the vending, formats like the beans and machines, formats like the pods can help us be a much better total beverage provider to many of our existing customers and we can do a better job for them and clearly that would be an easier route if the U.S. ends up being on the – depending on where the U.S. ends up in priority order. But in terms of formats that would clearly be preferred rather than stores which doesn't seem to be the way the one would approach the U.S.

But then you go internationally, you go over to Asia, clearly, we would try and execute across the full format bundle because we need to build the brand. And the coffee shop culture is less developed in Asia. So that's part of it that needs to be built by having some of the stores. It's a brand building and a ritual building part of the brand in the category. So there will need to be some stores, but we'll need the other formats as well. So I think we'd likely to see across in the markets that are less developed the full bundle being executed, and in the more developed markets, perhaps only participate and more towards being a total beverage provider to our customers.

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**Operator**: Thank you. And our next question comes from Bryan Spillane of Bank of America Merrill Lynch. Your line is now open.

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Bryan D. Spillane
*Analyst, Bank of America Merrill Lynch*
Q

Hey, good morning everyone.

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Kathy N. Waller
*Executive Vice President, Chief Financial Officer & President, Enabling Services, The Coca-Cola Co.*
A

Good morning.

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

Good morning, Bryan.

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Bryan D. Spillane
*Analyst, Bank of America Merrill Lynch*
Q

I guess my question is just related to James, what gives you the confidence that the Coca-Cola Company can operate a retail format, right? I mean it's a different capital allocation question sometimes in terms of adding a store versus maybe some other asset allocation decision you'd be making a Coke, operating these businesses, the stores have to be clean, there's got to be product quality, it's a very different business. So I guess I'd just like to understand sort of what gives you the confidence that you can operate this business in a way that's competitive with other operators who are really just focused on especially operating the retail concept?

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

Check. Look I think the first solid play is to recognize exactly what you said, that retail is different and quite simply our strategy here is to retain and let leave in place and let the existing management who have done a great job in running the retail format, let them run the retail format, they're the ones who know what they're doing. If and as we expand, they need more of the same capability then they'll do a great job of recruiting more people to help them out. But we've got to leave the people who know what they're doing to do what they know how to do. And so I think that's really important in this overall strategy that we recognize that.

And I think that's part of our experience over the years of bringing in acquisitions that aren't kind of exactly like the base business, whether it's something like this or some of the chilled businesses we brought in. We've taken the approach that, you could call it many things, but we called it, connected-but-not-integrated. In other words, we're not trying to subsume the business into the general business. We're trying to focus on keeping it going and where it chooses to connect to the base business to [ph] draw on (00:22:06) things. That's where we'll create the maximum value. So there's a strong understanding that what's different needs to be preserved and done properly.

As it relates to capital allocation, this is a business that is not capital balance sheet intensive, even the stores that they "own" are generally leased. Actually they're all leased relatively shortly. So this is not an entrance into a capital intensive industry, there's proportionately higher CapEx perhaps than there is versus the soft drink business, but it's inherent in the model. And they have clearly generation of cash flow. We're getting more cash flow than is needed in terms of capital at least the business as it currently stands. And it generates very attractive returns. So I think, as we look at our capital allocation and we're going to allocate it to the best opportunities to generate returns and this comes with a very good track record of strong return on capital.

**Operator**: Thank you. And our next question comes from Bonnie L. Herzog with Wells Fargo. Your line is now open.

Bonnie L. Herzog
*Analyst, Wells Fargo Securities LLC*
Q

Thanks. Good morning, everyone.

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

Good morning.

Kathy N. Waller
*Executive Vice President, Chief Financial Officer & President, Enabling Services, The Coca-Cola Co.*
A

Good morning.

Bonnie L. Herzog
*Analyst, Wells Fargo Securities LLC*
Q

Hi. I have a bit of a following question, but maybe ask differently. I guess, I really want to understand why retail now? This is something that your company hasn't explored in the past. So I really want to understand, what's changed and why now is the right time for your company. And then curious to hear your thoughts on Costa's position relative to Starbucks and what their competitive advantages may be? Thanks.

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

A

Well, I think the first headline on the first part of the question is this is a coffee strategy not a retail strategy. Yes, of course part of the coffee strategy includes retail outlets, but those outlets apart from being a great business, because they have a great return on capital, build the brand and are a part of building the whole category of coffee and espresso-based coffee. Now some parts of the world that hold modus of drinking coffee is already developed, so we don't need to invest in the stores necessarily other than for brand building, other parts of the world the habit is still need to be developed. So, I don't think this is about, we won in retail and now we want to be in retail. This is about coffee strategy that sits on four pillars of which retail is part of and we're going to make sure we bring in the right capability to manage the retail.

In the same sort of the way, you could say, we weren't in chilled before and now we are in chilled beverage distribution. At some point as you want to serve the consumer with a broad diversity of beverages, you need to bring in new capabilities, and as we sit here with the journey of beverages for life we've been focused first and foremost on reinvigorating the sparkling category. The numbers for the Coke Company don't work unless the sparkling category grows and we invested a lot time and effort over the last number of years on reinvesting, on reformulating, on innovation, on smaller pack sizes, on reducing the sugar and we're starting to see the results of that with not just revenue growth in the sparkling category, but with volume growth in the sparkling category.

We've also been sharpening the pencil in some of the other categories, killing off the zombies, betting more on the ones that are more likely to be winning in the long-term. And now we feel we have a little bit of momentum that now is the time to broaden out the portfolio into coffee. Of course, part of this is, there was an opportunity to acquire the company that was best suited to help us win from where we start from. We don't want to start from the first coffee shop. We're not going to build that organically from zero. We don't want to buy a fixer-upper. It suits us best to buy a category leader. So it's a company that's proven to win in the UK marketplace versus all comers and therefore buying something that's a winner regionally and taking it globally suits us much better and they really have great tasting coffee, and I think that's what's helped them win. Great tasting coffee, great stores, great brand experience and they've been able to win and they've complemented it as time is going on with these other formats, whether it's the vending, the beans, they're right on the cusp of doing more at-home, ready-to-drink coffee is right in front that can easily be done from where we are. So I think that's what it's all about. It's a coffee strategy, not a retail strategy.

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**Operator**: Thank you. And our next question comes from Steve Powers with Deutsche Bank. Your line is now open.

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Stephen Powers
*Analyst, Deutsche Bank Securities, Inc.*

Q

Thanks, everybody. Good morning.

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Kathy N. Waller
*Executive Vice President, Chief Financial Officer & President, Enabling Services, The Coca-Cola Co.*

A

Good morning.

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

A

Good morning, Steve.

Stephen Powers
*Analyst, Deutsche Bank Securities, Inc.*
Q

Hey, so my question really focuses on how the business as an operating unit will be integrated into the system, and I guess really from two perspectives, the first one is how it will be managed as part of the Coca-Cola Company? Will it be kept separate similar to the VEB group, will it more integrated or is it somewhere in between where retailers kept separate, but the brand itself is integrated? And then secondly, how it will interact with the bottlers, like CCEP for example or others as it expands both in terms of just day-to-day execution, who do you envision running the convenience store and the vending operation over time for example? And also in terms of the economic split and do you think it requires any kind of rethink or an addendum to existing bottler agreements? Thanks.

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

Great. I'll let you off on the fact that that's more than one question Steve. And they're all seemed to be basically very related.

Stephen Powers
*Analyst, Deutsche Bank Securities, Inc.*
Q

Thematically relevant.

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

Thematically relevant, and a large overlap in the Venn diagram of what the question was asked. Look, I think how are we going to run it, actually let me back up. We've got a lot of work left to do. I mean, we have been focused in the last few months on what's the strategy and how do we get the deal done. So, this all happens pretty quickly. There's more than stuff that we need to work out exactly how we – exactly, where, which countries and in which formats and in which order, we have an idea, but clearly that needs to be done with a sharper pencil. Same with how do we integrate and how do we connect with our partners, the bottlers, the other partners we have. But in the end, the overarching idea is connected but not integrating. We need to do justice to the coffee strategy. In the past, recall we have at times bought things and tried to make them fit into the existing system, and then we have not done justice to what needs to be done to win in the category or the marketplace that we're talking about. The starting point for this is what needs to be done to win with the coffee strategy.

Now under that, there are clearly slightly different success factors and levers, whether it'd be retail or vending or beans and machines or at-home going to grocery et cetera, et cetera. And therefore, there can be different roles with different people in those different channels, in those different formats, by country it will depend on the capabilities.

Let's remember the market structures of channels are quite different by geography. So it's not going to be a one-size-fits-all [indiscernible] (00:30:05) because actually what needs to be done, where the best value is, actually it's slightly different when you start to look around the world. So coming back in a way to this, is it going to be integrated, is it going to be [indiscernible] (00:30:17) or is it going to be somewhere in between? It's likely to be somewhere in between. But we got to focus on making sure that everything stays organized to win in the coffee space. I mean in the end we've got broad, we've got good capabilities in Costa and in the Coke system, and I'm sure we can marshal them; we focus to do justice to win in the right way in the coffee strategy.

**Operator**: Thank you. And our next question comes from Ali Dibadj with Bernstein. Your line is now open.

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

Hey, guys. So I have a couple of questions.

Kathy N. Waller
*Executive Vice President, Chief Financial Officer & President, Enabling Services, The Coca-Cola Co.*
A

Hi.

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

Hi.

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

One is just to really – I guess, I'm having trouble strategically tying, on the one hand, there's so much expansion opportunity for this brand, there's so much whitespace, there's so much potential, and on the other hand we're buying a leader and that's why we're buying something, subtext, why we couldn't or didn't do it organically. So I'm trying to understand, how you guys brought those together. Why do you think the brand resonates outside of Costa's current footprint? If you're going to do vending, as I think you mentioned, for example, in the U.S. why was there a failure in Canada, and why there is something you think you can do better? And all that ties then down to evaluation which seems quite high to me, 16 times looks like on EBITDA relative to some of the other compares that you'd look out in the marketplace, I guess Starbucks is at 13 times, or others. So I guess I'm having trouble pulling all of those threads together, if you could help that, it would be great.

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

Sure. Let me start on the valuations end Ali. I mean, clearly we're having to pay a control premium to acquire the asset. So as you look at EBITDA ratios or any other ratios for other people in the similar space, clearly we're paying more than that for the controlled premium. Whitbread are not going to sell it with the asset controlled premium as no one else would either. And so, of course, they're getting a good deal out of this, and I think they're happy with the valuation they're getting.

Our objective is to take that even though we're paying the controlled premium and drive much more synergy that only we could drive. We have the global scale. We have the capabilities and the places we can expand cost further and faster that Whitbread couldn't do. So in the end it's a win-win for us on Whitbread, because they get a great deal on selling the asset, yet it's an asset that even at that price, the controlled premium we can do much more with around the world.

And as we think about what it is that we can do around the world, we've got to recognize we're getting a platform not just a brand. I think the brand is great. I mean, it's got great tasting coffee, it's been voted UK's favorite for about eight years in a row, it's a brand, but it's a platform. And I think as we look around the world and you compare it to like well why couldn't you do it organically, it's because – whether it's – I mean you look at our non – the attempts we made in coffee, that weren't ready-to-drink coffee, and we've had pilots and some attempts around the world. Frankly, we didn't have the package of the capabilities and the platform to get it right, and that's why we're buying this thing. It requires a broader set of capability to be brought to bear than many of the other categories. And so finding something that is regionally successful, but with global potential and have inherently all the capabilities needed to win as a platform globally, but hasn't yet got there, is the value creation opportunity for the Coke system, we can help them go global.

And therefore they have the solution to the things that we couldn't build over time or didn't have the patience and the focus and the dedication, and didn't want to invest the resources to lose money trying to build those one piece at a time and I think it gets us there in a very simple way.

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**Operator**: Thank you. And our next question comes from Nik Modi with RBC. Your line is now open.

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Nik Modi
*Analyst, RBC Capital Markets LLC*

Q

Yeah, thanks good morning everyone.

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

A

Good morning.

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Nik Modi
*Analyst, RBC Capital Markets LLC*

Q

Good morning. The question I have is really around management retention, obviously part of buying this asset is getting that core capabilities and expertise of the people running it. So James maybe you can talk to how you plan to make assure retention of the key personnel?

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

A

Sure. I mean I think firstly Whitbread has done a good job over the years of putting together a strong management team for this business and that management team of Costa being continued to grow and reinvigorate the business over the years. So clearly, it's a team that we'd like to see continue to run and drive this business into the future. So we've had conversations with key managers and will of course be putting in place retention mechanisms to make it attractive for them to stay in the near term and run the business and be motivated and excited. And I think over and above, any amount of retention award that one can give monetarily in the short-term, which of course has some impact and tends to work, in the end most people also want to stay when they can see a great growth story in front of them. I mean people don't just work for the money; they work because they want to be in a growth story and they want to be in a winning company. And the idea that they're in a winning company that can go global I think is very exciting to them. And we need to put all the pieces together to make that work.

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**Operator**: Thank you. And our next question comes from Judy Hong with Goldman Sachs. Your line is now open.

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Judy Hong
*Analyst, Goldman Sachs & Co. LLC*

Q

Thank you. Good morning, everyone.

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

Good morning, Judy.

Kathy N. Waller
*Executive Vice President, Chief Financial Officer & President, Enabling Services, The Coca-Cola Co.*
A

Hi.

Judy Hong
*Analyst, Goldman Sachs & Co. LLC*
Q

James, as you think about a journey towards being a total beverage company, I guess I'm just curious how you think about the strategic importance of really being a leader in the hot beverage category versus getting bigger in the NARTD category? And I guess in the context of an M&A really playing a key role as you think about the hot beverage category, do you think that we'll continue to see more of a large scale acquisition given that you have a relatively small presence there and it's I guess more market share to be gained in that category? So first, just in terms of strategic priorities being a leader in the hot beverage category and the M&A role in that effort. Thanks.

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

Okay. Thanks Judy. You did remind me my opportunity to have my M&A answer, which is I couldn't possibly comment. But let me back up and say a little bit about the importance of being a leader. In the end – and we talked a little bit about this is at the Investor Day and other opportunities. In the long run being the leader is the greatest source of scale and profitability and return on capital. And therefore, as we plot our journeys, whether it's the coffee strategy or any of other, our other category strategies getting towards leadership is always something we need to bear in mind. Now we don't need to be – I mean and not – that's built country and channel and at a time, it's better to be the leader in half the world than number three in all of the world from a scale and profitability point of view, you can probably drive yourself to a better global leadership if you win in countries and then keep expanding rather than be [indiscernible] (00:38:36) everywhere.

So I think the important thing here to focus on is, how do we build strong brands with strong capabilities that win either in the marketplace or in the channels and the formats that we're focused on, so they have defendable competitive advantage that leads to good scale and good margins. And that's as the world moves forward, just looking at category share overall, I think we're going to have – it will get more complicated because it will be about do we have the right beverage offering to command leadership channel-by-channel, and does that add up to leadership in a country because the two things work together, because leadership by channel ends up synergizing to be leadership as a brand in the country and then of course into more countries. So, leadership matters, but it will be built over time.

**Operator**: Thank you. And our next question comes from Carlos Laboy with HSBC. Your line is now open.

Carlos Laboy
*Analyst, HSBC Securities USA, Inc.*
Q

Yes, good morning everyone.

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

Good morning.

Kathy N. Waller
*Executive Vice President, Chief Financial Officer & President, Enabling Services, The Coca-Cola Co.*

A

Good morning.

Carlos Laboy
*Analyst, HSBC Securities USA, Inc.*

Q

James you do a great job in your midday occasions and this transaction obviously addresses some of the morning occasions that you were missing. What else are you missing for these morning occasions? And how do you think that this transaction helps you close those gaps? And also if you could expand on how the bottlers fit into that answer?

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

A

Sure. I think the morning occasions, I actually think this is the – from a morning occasion point of view this was the missing piece was coffee. And it's not that we have everything everywhere, but somewhere we have the thing we need. So we have grape juice businesses, ambient and especially, we have great chilled businesses in parts of the world. We have some investments in some really exciting dairy businesses in parts of the world, we're making this coffee investments. S I think, we have the pieces out there. What we need going forward is the deliberate implementation and allocation and stewardship of capital to expand those strong positions in a few countries into more countries getting towards leadership. So I think the category pieces are there. I think it's about expansion of the leadership positions into more countries. And I think that's what the Coke and the Coke system has been good at.

And as regards to the bottlers, a bit as I said, in the [indiscernible] (00:41:22), there is clearly going to be value creation opportunities with the bottling system. It might look in the end different, by different parts of the world, given the market structures are different, the channels we want to go after, therefore the relevance of different platforms is – or certainly the weighting of different platforms and their relevance will be different in different parts of the world. But that's something we're going to solve with our bottling partners as we build the plans to winning coffee.

**Operator**: Thank you. Our next question comes from Brett Cooper with Consumer Edge. Your line is now open.

Brett Cooper
*Analyst, Consumer Edge Research LLC*

Q

Good morning.

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

A

Good morning.

Kathy N. Waller
*Executive Vice President, Chief Financial Officer & President, Enabling Services, The Coca-Cola Co.*

A

Good morning.

Brett Cooper
*Analyst, Consumer Edge Research LLC*

Q

Why is coffee given its fragmentation on a global basis different than what you've done in juice and why can't you take one brand globally, when you've used multiple brands in the juice category? Thanks.

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

A

Yeah. I think in the juice category, we pursued an approach in an industry that – and I'm particularly referring here to the ambient juice business that largely existed. It was an existing category and industry that could be improved and upgraded and renovated. So I think when you look at what we bought around the world and I'm thinking particularly my experience in Latin America, we tended to buy a set of regional brands, some were number one, but many of them were number two or number three in the category. We put them together, we renovated them, we basically ran them as though it were one brand, even though the name in each country was slightly different. The look and feel and the advertising is all actually the same. And we shared all the recipe knowledge. And so it was like a consolidation play existing businesses.

In the case of coffee, it does exist in some parts of the world. But in many parts of the world, the idea of espresso-based drinks, the idea of coffee shop type drinks, the idea of being able to get that immediate consumption channels is much less developed than the juice industry. Well, so I think there's some development that needs to be done. So in a way think of it more like what happened if you want to take juice as the example, of the chilled juice business, where we've actually not bought a whole set of regional brands. For example, obviously in the U.S., we created the Simply brand and then with Innocent and we got a lot of synergy between these two businesses and we used – so both of them we used the same global partner in terms of buying many of the juices. We took the Innocent brand from the UK and we drove it across Europe, I mean when we invested in Innocent, it was 20% of the size of the leading chilled juice brand – chilled juice and smoothie brand in Europe and now we are the market leader in Europe in chilled juice and smoothie.

So I think one can differentiate the business context and opportunity between, are you consolidating existing business using categories and fixing them up or are you taking and winning brand and driving it into a wide space.

**Operator**: Thank you. And our last question comes from Kevin Grundy with Jefferies. Your line is now open.

Kevin Grundy
*Analyst, Jefferies LLC*

Q

Thanks. Good morning, guys, and congratulations on the deal.

Kathy N. Waller
*Executive Vice President, Chief Financial Officer & President, Enabling Services, The Coca-Cola Co.*

A

Good morning.

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

A

Thank you.

Kevin Grundy
*Analyst, Jefferies LLC*

Q

First, Kathy, point of clarification, growth expectations going forward for the Costa business, I don't think we touched on that and it appears to be all about revenue synergies and I don't think there's any cost synergies included here in the return outlook, if you could just clarify on that. And then James strategically, we touched on the expansion part of this but just to ask it a bit differently, can you – just to clarify, the key criteria that you like to see before moving forward with the expansion into new geographies, most notably North America or South America. And you mentioned James this is a coffee strategy not a retail strategy, but is it possible that retail would be part of that strategy in the U.S.? Thank you for that.

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

A

[indiscernible] (00:45:47)

Kathy N. Waller
*Executive Vice President, Chief Financial Officer & President, Enabling Services, The Coca-Cola Co.*

A

Sure. Yes. The synergies are primarily the revenue synergies, but it's early days. I mean obviously, we've got a lot of work to do, but this is not about cost synergy play at all.

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

A

Yes. So is retail part of the strategy? Yes. But I think the first thing we need to do is look out – I mean we obviously we have a draft idea of where we want to go with which platform – with which formats within the platform. Are we likely to see stores expansions in parts of Europe and the Middle East and Africa and particularly Asia? Yeah because it's part of the brand building and the ritual building of the whole coffee category as seen as the espresso based drinks. So absolutely the more East you go, the more part of the total coffee strategy stores will become.

Do I think it's a priority or even likely in the U.S. that we will open any material numbers of stores, you might have your flagship store? No, I don't, because there is a lot of developed coffee shops here both in terms of physical outlets and in terms of ritual and habit. Therefore I think the opportunity in the U.S. is more about increasing our ability to be a total beverage provider to the immediate consumption channels in all their different forms and we will use the whole rest of the platform to be able to do that. Because the concept of the category already exists in the U.S. So I think again it's about understanding the starting point of the market. Of course, it'll be about prioritization and use of the capital. We want to deploy the capital that we're going to deploy out to the most attractive opportunities; whitespaces with great brands tend to be easier to do than trying to be, enter an overdeveloped competitive area. And so I think that's how we see it at the moment.

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

So, with that, let me just sum up and saying, thanks for coming on the call this morning. I know we gave you one last thing to do before you head off on Labor Day Weekend. But let me just reiterate, I think this is a great opportunity to the Coke company to enter the fast growing coffee category. Costa is a strong brand, a winning brand with great tasting coffee. It's a platform that crosses multiple formats and channels and it's a good opportunity for Coke to create value combining Costa's brand capabilities, platform capabilities, Coke's marketing expertise and the global reach of our system.

So, with that, thank you very much. Everyone have a great day and a great Labor Day Weekend. Thank you.

**Operator**: Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program and you may all disconnect. Everyone have a wonderful day.