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The Coca-Cola Co. (KO)

Morgan Stanley Global Consumer & Retail Conference

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CORPORATE PARTICIPANTS

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

OTHER PARTICIPANTS

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

MANAGEMENT DISCUSSION SECTION

Dara Mohsenian

Analyst, Morgan Stanley & Co. LLC

Hi, everyone. I'm Dara Mohsenian, Morgan Stanley's beverage and household products analyst. I'm very pleased to welcome Coca-Cola back to Morgan Stanley's Global Consumer & Retail Conference.

Before we get started, I do have to note there are important disclosures on Morgan Stanley's website at www.morganstanley.com. And if you have any questions, feel free to reach out to your Morgan Stanley sales representative.

So, joining us today from Coke, we have Chairman and CEO, James Quincey. James, great to have you back here. Thank you so much for joining us.

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QUESTION AND ANSWER SECTION

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

So, I thought maybe we could start with the consumer looking around the world. Obviously, there's been a lot of volatility from a macro standpoint. We saw some of that in your Q3 results. You talked about a weaker than expected start on the last call to the quarter, but a better September. Can you just give us a bit of an update on what you're seeing from a consumer standpoint as you look around some of the key regions of the world and also just your perspective on the Coke system, ability to pivot and manage around that consumer environment? Probably a bit of weather driving the divergence within Q3, but some of that was also the actions that you took. So, sort of curious what you can do within this environment?

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

A

Yeah. I mean, we don't have an update on Q4, obviously, but I think Q3 was some examples and then we can talk about the macros and how they project out. Clearly, September was better than July and August, we've done some good pivoting. Whatever the headwinds and tailwinds coming from the macros, we're very focused on the things we can control across the full spectrum, from the marketing through the innovation, the execution and the pricing. And we were able to pull a number of those levers in the third quarter to get a better result, despite the fact that the consumer macros in general continue to be tepid, potentially still trending down a little bit, particularly for the bottom half of the income pyramid, whether that's the developed markets or a number of the emerging markets. And so, I think the things we were able to do, speak to the ability to adapt of Coke and the Coke system and the bottlers to get some stuff done, to get a better outcome in September than we had in July and August despite what was going on.

I think it's – you mentioned the weather and just kind of using that as an analogy or a metaphor, I think the macro forecast you see out there for 2026, the level of light drizzle continues to go up, not down, and the macros are trending off a little in 2026. So, I think this balance of headwinds and tailwinds, which is always there, it's just looking a little more weighted to headwinds as we're going through the year and as we look out macro-wise into next year. Of course, we've got to take that in balance with all the things we're going to do, all the investments we're going to make. We're continuing to lean into growth and focus on the flywheels of growth, and we'll come back to you in February with what do we think the net of all that is. But I think, in general, the consumer is kind of under pressure and incrementally a little worse, but not apocalyptically.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

Okay. And could you give us a little bit of more insight on some of those levers you pulled in September, what's most important from a system in terms of response in this environment?

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

A

Yeah. I think the one thing that we have talked about and is a very important lever, especially in the current circumstances, is the segmentation, particularly with regards to affordability. If the consumer is under pressure, it's not everyone, everywhere at all times. The top half of the income pyramid is actually in good robust shape. And so, it's really the ability to say, okay, where are the people who are under pressure, what characterizes them

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from a consumer insight, behavioral point of view that will help target the marketing, what's the message, what platforms it need to go out on, and where are they making their shopping occasions? Because, of course, when they're under pressure, they tend to move where they shop.

So, instead of spending money over here, trying to activate in this type of store, I actually need to be over here activating a different sort of occasion because they're now moving to smaller baskets in different channels. So, the ability to move the investment money around to follow those consumers, both from a kind of mindset point of view, but also a spending pattern, where and how they're spending is something we're able to bring life on a relatively short-term basis [ph] witnessed (00:04:51) Q3. It doesn't solve all the problems, but it certainly does make it better.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

Okay. And we've been through a bit of abnormal period here over the last few years of pricing well above long-term averages. You've talked about returning to more of a balanced approach going forward, volume picking back up, maybe pricing not being as strong. Maybe just break down volume, pricing, mix, the way you think about it, looking out to 2026 and beyond versus recent delivery, and how you think about those three buckets interplaying with each other?

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

A

Yeah. So, the long-term growth model we put out was the 4% to 6% on the top line, and we said we're looking for a balance from price and volume, and preferably we want to be at the mid to high end of that range. So, if you take that as 5% to 6%, what are you looking for? You're looking on 2% to 3% on volume, 2% to 3% on price in the long run. Clearly, over the last number of years, there's been way more inflation, way more price, and that has somewhat had an effect on offsetting volumes. And so, the volume has been kind of 1% to 2%, let's call it 2%, and price has been much, much more. As that inflation has moderated, the input inflation has moderated, we have come down as well. We certainly are not thinking the consumer's just going to accept inflation just because we have costs to go up. We have to make sure we earn that pricing power in the marketplace.

So, I think we've taken an appropriate amount based on what we've been able to earn through our actions, not just pass through input costs without thinking about the consumer. But that's going to start to moderate. Are we down to the 2% landing zone for the developed economies and a little more for emerging markets? No, not yet. So, we're on that pathway. We'll see exactly what that looks like in 2026. So, there's some balance there between have we arrived on pricing and will volume start picking up, but we're certainly looking for volume growth. Because, in the end, this is a consumer franchise, and for it to be a stock that not just compounds but has a big terminal value component, if terminal ever arrives for a stock, then it has to be growing well into the future. So, we're very focused on volume growth, not just frequency of existing consumers, but recruitment of each new generation of consumers going forward.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

Okay. And unlike a lot of companies in the space, you've grown volume pretty consistently, but it's been at moderate levels over the last few years. So, just as you think about the level of visibility that volumes do pick up as pricing moderates, what gives you confidence there, particularly in the CPG landscape where we haven't seen a lot of that? We generally have seen volumes remain at pretty moderate levels.

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

A

Yeah. I mean, we've seen pretty reasonable or moderate levels of volume growth just over the last high inflation years. I think, in the end, the structural underlying features behind the beverage industry remain in place. So, if you look back over a multi-decade history in beverages, the industry evolution and growth tracks very closely with GDP or personal income growth, the emergence of urbanization and the middle class. Basically, people got money, they live a faster life, they want to have convenience, they want to have beverages, they want to have access to choice. It's a very long-term trend with very clear correlations, and that motor continues to run.

And it's a very stable industry. If you take a histogram of over 30 or 40 years of what did the industry grow on any three-year average, it's heavily clustered in revenue terms around the 4%. If it's not 4%, it could be 5% or it could be 3%, but it's very clustered on the 4%. So, you've got an industry that not only has underlying structural reasons to grow with plenty of headroom in the 80% of the world, that's the emerging markets of the population, but it's actually very stable growth. So, I think it's all there. I'm not sure how normal 2026 will be, but in the long run, I'm very confident we'll get a balance of price and volume and continue to lead the industry and to be a share gainer in the industry such that we can stay ahead of those histograms.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Revenue growth management and price pack architecture have always been really a core capability of the Coke system. Arguably, they're more important even today in driving affordability given the external consumer environment. So, just as you think about leveraging RGM, you touched a little bit on how pricing might stay above the long-term trend to some extent, [ph] although dissipate (00:09:43) in 2026. Just how do you think about that conceptually from a consumer standpoint? You talked about earning the pricing. Have you earned the ability to price pretty robustly, or is your mindset to be just more judicious given inflation in recent years, given the overall consumer environment? Just how do you put it all together when you think conceptually about pricing? I know it'll be different region by region, but how do you think through that?

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

A

So, one of the things we do as one of the parameters of brand equity for each of the brands and obviously in each country, we track consumers' views on worth what it costs. So, we're not trying to guess where the consumers believe that we're giving them a fair deal. We're tracking it. So, we're looking at worth what it costs so we can work out are we getting there. As a bias, I think we don't try and push them. We tend to be more conservative. In other words, we're not trying to push our luck for an extended period of time and then have to do a course correction. We'd rather earn it steadily even if that meant we're fractionally behind where we should be.

Because, I think that's a more conservative approach, that's better for the long-term development of recruitment of the category as we look forward. We're not trying to get over the – we're not trying to be Wile E. Coyote off the cliff on pricing. We're actually better off, I think, as a company and as an industry, if we're slightly more conservative, we try and earn the pricing even if we're slightly behind, even if we under-egg it in one year, we can catch up again as we go forward. So, I think that's a much better approach for the long-term development of the beverage industry. And as we go into 2026, I think we'll see what that looks like.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

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Right. Okay. And RGM specifically, can you give us a sense of how much opportunity is left there? I know you'll say it never ends. But, you've done a lot of work already, but also in this consumer environment, it becomes more important. So, how are you thinking about the pace and evolution of RGM as we look out over the next few years?

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

A

As you rightly anticipated, the answer is it's an endless set of opportunities because it's both a piece of generating the value for the consumer because it's a way of giving them the option of the package at the price point in the channel that most suits them. So, it both helps create the demand and then helps deliver it from a pricing perspective. I mean, in the end of the day, RGM, if you imagine a demand curve, price, volume, if you've only got one SKU, you can only have one square under the curve. The more SKUs you have under the curve, the more rectangles you draw, the more of the demand curve you create.

So, the RGM is about the ability to basically capture the maximum area under the demand curve in the most efficient way with the consumer and be able to adapt to changing circumstances. We talked about Q3. Effectively, the demand curve moves as the consumers have less money or more money, they're motivated to go out or eat at home, they move that spend around. And so RGM is a mechanic to allow you to move where you're focused so that you can maximize how adapted you are to where the money actually is.

And so, therefore it's an endless form of adaptation and in a way helps you create the value for the consumers that you can then capture, which is an advantage of being having scale. So, you need scale in order to be able to have all the complexity of that, that then creates the value you can capture.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

Right. Great. That's helpful. We talked about earning pricing. Part of that earned pricing is the consistent market share gains you've had over time. You've had a great track record, but your competitors don't sit still. So, how do you think about pressing that advantage going forward, continuing to outperform as you look going forward from here?

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

A

Yeah. In a way, I don't see it as any different than any other year in the sense that it's a great industry. It's big, it's growing, and it's profitable. The incumbents want to do better and other people want to get in. So, we're always going to have a pretty intense level of competition. Yes, we've done well in the recent years, but everyone that didn't do well in the last few years is not withdrawing from the industry. They're not giving up. They're like, okay, there's a lot of money here, I need to find my way to a white space or do something different that can get around whatever [ph] Coke was (00:14:29). Like, everyone's out there trying to work out the next solution to do better than they did in previous years.

So, we've got to do the same. Even though we won over the last number of years or one of the winners over the last years, we cannot rest on our laurels. The old expression that Woodruff had, the future belongs to the discontented, is absolutely true in the beverage industry. So, we have to sit down and what are we going to keep, what are we going to evolve, what are we going to transform, how are we going to come back and make sure next year is another winning year? If you think you're the winner, that's probably the beginning of the end. You have to start, it's like, okay, they want our lunch, how are we going to stay ahead?

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Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

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Great. Perhaps we can turn to fairlife. I think it's somewhat underappreciated part of your business. So, A, just maybe level set us how big is the business today, describe your competitive advantage, take us through a bit of the basics? And B, what really drives your competitive edge going forward? Obviously, we're seeing protein drinks and the overall space as a high-growth category, but that's also bringing in a lot of new entrants. So, just as you look at your ability to continue to succeed in this space over time, how do you think about your competitive position?

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

A

Yeah. I mean, we haven't disclosed how big it is, but obviously, you can see in Nielsen that we're the largest value-added dairy player in the US. Actually, under a different brand name, Santa Clara. We are also the largest value-added dairy business in Mexico as well. So, I don't think anyone would have bet on that being true 5 or 10 years ago.

Why is it working? And one factor that'll come back is patience, but why is fairlife [indiscernible] (00:16:15)? Because, firstly, they are fantastic products. Why are they fantastic products? It is a combination of the R&D on producing the product and the manufacturing and agricultural ecosystem that sits behind it, creating a superior tasting and actually a superior performing product. I mean, you can taste those products versus any other product, and they are just better products.

So, there's a lot of IP, trade secret, agricultural practice, R&D behind the makeup of those products. And it's a relatively high capital per case as well. And so, there is a bit of structural competitive advantage in the products itself. They've done some good marketing, they've done some good commercial policies, but fundamentally, they're great products that have a good brand attached to them. So, I think there's still enormous potential for fairlife and Core Power and the fairlife Nutrition Plan going forward.

And once we get the increased capacity online as we stop effectively being on allocation, which is how we're going to end this year and start building in, unleashing the capacity coming into next year, then we will be able to expand and do more innovation in this area, because there's a long way to go for protein, clearly lots of people coming in. We know there are other subcategories and categories we can get into with the fairlife technology. We just don't have the capacity to do it yet. But that's going to start coming on. And we have further investment plans laid out on how to keep extending the manufacturing footprint so we can meet the long-term demand for protein and for these drinks.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

Okay. And as you think about the business over the next couple of years, this incremental capacity that's coming online, which is pretty significant, how big of an unlock is that for the business? Just help us understand, is it channel expansion from here, is there a lot more innovation, more flavors? What does it allow you to do commercially...?

[indiscernible] (00:18:19)

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

A

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I think, well, step number one is not be on allocation. So, this plant is about 30% more capacity. We need to put on some more capacity as well over the next few years. So, there's clearly more capacity that is to come in. But one, we can come off allocation, which is not a great place to be with retailers, no retailer loves that. And then, once we've done that, we can then start looking at flavors, pack sizes, and start getting into other categories where we know we have a superior product.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

Okay. And how significant are mix opportunities maybe as you think about expanding the product offering? Is there a big opportunity in single-serve, gyms, things like that?

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

A

Everything. I mean, I think there's a lot – there's a very significant unconstrained – if you think about the unconstrained headroom, there's a lot of opportunities to keep going and expanding this. So, I think this can be a motor of growth for a good number of years.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

Okay. And obviously, you've been successful in the US. You've been successful in Latin America. We're greedy. We're wondering about Europe. I know very different regulatory environment. It's a very different landscape. Are you more focused in North America for now given the growth opportunities in the business? How do you think about international expansion longer term in dairy? And what does it really require? Is it – you have two different brands, concepts in the US and Latin America, do you think these are translatable or might it require a different approach?

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

A

In the short term, let's make sure we don't take the eye off the ball on the US. That's like job number one, two and three. We're doing well in Mexico. That can continue to build up. Each new area or country we go into is a complex equation. It's not like – it's way more complicated, obviously, as you intimated, than launching a soft drink. [ph] So, like (00:20:20), you've got to organize the whole agricultural system. The regulatory systems around the world country by country on milk are very different, quite complex, and you need to get into them and understand them.

And so, yes, we are looking at where could we take this. I mean, it's a great product. Like, you go around the world and there are protein milk drinks out there in all different countries, none of them are close to as good as fairlife and Core Power. So, there is an opportunity for a superior product, and we just need to at the right time work out, is there a sensible way to get there that's doable for us?

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

Okay. This has been – fairlife was a tremendous investment.

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

A

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Yeah. You're going to say [ph] the next one, it wasn't (00:21:08).

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

Yeah.

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

A

Okay.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

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Looking forward, you mentioned at CAGNY, you can be opportunistic with M&A. You've got a number of discrete free cash flow headwinds behind you, an influx of cash from a couple of bottling transactions, et cetera. Is there more of a window now to fill in gaps geographically or by product category, particularly in a tougher consumer environment where maybe you have more willing sellers and just the lens you think through strategically in terms of strategic criteria as well as financial criteria when you look at M&A would be helpful?

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

A

Okay. [ph] So, first thought (00:21:53), innovation, of which bolt on M&A is effectively a piece, is going to go back up in importance in the coming years. It was important in the pre-COVID years as a driver of the industry and portfolio expansion for us, both our own – and which we talked about at CAGNY, we put up a slide on how many [ph] did we create ourselves, how many (00:22:13) we buy small and build. That underlying thematic I think will start to emerge again now that we're past COVID and the whole kind of [indiscernible] (00:22:24). We'll see more innovation in the industry and more potential for bolt-on M&A. It's not an overnight thing because really the bolt on M&A tends to be stuff that was invented five to eight years ago. So, it's got enough longevity that you can go, okay, that actually might work in the long run and I can expand that internationally. But that means it was probably invented in 2020, which was not a very good year for launching innovations or just before that.

So, there's a bit of a thinner pipeline. But in general terms, innovation and bolt-on M&A, supported M&A will start to come back as a bigger feature I think for us and for the industry in the coming years. And that also fits with our capital allocation. Clearly, we're through a whole series of discrete payments of all sorts of nature, and we're likely now to start having post-CapEx, post-dividends a surplus of cash. You haven't asked yet, but the long running process of the IRS tax case, the appeal should play out by the end of this year – by this year I mean 2026 or early 2027. So, there'll be an important milestone in terms of how much capital is there available, more or less than we have today. So, I think we're not going to do anything in all likelihood strange between now and then because we just need to get to that point. But if something comes up on the bolt-on side, then we'll be opportunistic. And when we look at it, it's like, is it the right strategy, is it the right price, do we have the right leader, do we have the right execution plan?

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

Right. Okay. Great. That's helpful. It's very rare, you've been here many times and we've only had I think one year in the last 14 years where FX was actually favorable. It looks like it may be the case in 2026, although I probably just jinxed you. So, look, how do you conceptually think about that FX benefit next year? Do you sort of manage the business more currency-neutral and FX will fall where it may? But also, how does that tie into your pricing

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actions? So, more of a longer-term question given it's a fairly unique phenomenon versus what we've seen in recent decades.

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

A

Yeah. I mean, firstly, we largely compete locally in local currency in each country. Why? Because the main consumer is earning money in local currency, the retailers are working in local currency, and the competitors largely are more local than they are dollarized. And so, really the competitive dynamic is in the local currency. Of course, there are inputs that are US dollar-based or euro-based or whatever, but the predominant feature is competition in local currency. But we're going to continue to compete in local currency.

And what we've said over the last decade or so is we will then look as a corporation to use the portfolio to try and manage it so that we make sure that, as you pointed out, if the dollar is a headwind each year, we can still find a path to grow in dollars, the revenue and of course the US dollar EPS line. But we're going to continue to compete in local currency and to win share in local. And that will be true if it becomes a tailwind, the US dollar becomes a tailwind. We're going to still compete in local currencies.

And then, obviously that will – to the extent that it is not correlated to lower inflation. So, the dollar is not always an entirely independent variable. It could be that if the dollar strengthens, it exports lower inflation to other parts of the world. So, we get FX tailwind, but we get a kind of an inflation headwind, if you like. We need to see how that's likely to net out in 2026. But to the extent there's FX, that will then be in the overall equation, one of the things we look at, do we use some of that to invest, do we drop some of it to the shareholders? But in the end, we're going to try and manage all the variables, and we have not yet cooked the cake for 2026.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

Right. Okay. We've seen smaller brands crop up more in this space and across CPG, enabled by e-commerce originally and technology. As you think about competing against those smaller brands, how big a concern is that? How do you sort of stay ahead of the pack and innovate? And also, maybe you can turn to AI and technology and how that is allowing you to develop your brands more potentially versus some of these smaller brands where maybe it opens things up more for them with agentic AI or prompting or things like that?

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

A

I mean – so, from our side, clearly the advent of AI and the application of it to both understand what the consumer is doing, the trends they are responding to, plus how can we leverage ingredients and beverages to produce a better solution is creating opportunities on both sides. And so, that application is at play already. And then we have – actually, there are some things coming in 2026 that respond to the first one, which is the AI picking up what the consumer is doing and then us putting a product back into the marketplace. We'll talk about that at CAGNY, [ph] but that's 2026 (00:28:02). So, there's both of those things happening at the same time.

In a way the simplest way to think about that is, okay, all of that should be applied so that we can increase our success rate of innovation, which in the beverage industry is a very low percentage of creating something big after 7 or 10 years. But with all that technology and our industry experience and scale, we have a higher success rate, and we can use the AI to help increase that success rate. So, that's what we need to do.

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As it relates to the marketplace, partly there's lots of new stuff coming to the marketplace because as previously described, it's a big market, it's growing and it's profitable, so it's attractive for people to try and come in. And the barriers to entry are actually relatively low. Whether it's e-commerce or the availability of third-party contracting, you can get into the industry relatively easily. So, you see a large number of people try.

The barriers to scale are actually quite large. And so, the success rate is extremely low for innovations. And I think that's going to continue to be true. And if you look back at our last year's CAGNY chart, if you add up the sum of all the [indiscernible] (00:29:11) small players, they have not gained share over the last 8, 10 years. So, there's a lot of churn because it's a hard industry to win in over a long period of time.

But people come up with great ideas. Sometimes we follow similar ideas. Sometimes we do bolt-on M&A. But for us, it's all about driving up our success rate on innovation.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Do you think has AI already increased your success rate on innovation, is it to come, how do you think about that curve, and maybe an update on marketing effectiveness, too, from AI?

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

A

I think we're seeing improvements on the innovation side with AI. It's super hard to know whether it's going to work because it takes so long to know whether you've really, really created something at scale. It's going to take a while to know whether that's really working. But AI is starting to make a difference in the kind of the big areas of the main kind of business. It's starting to make a difference on the marketing. Again, we've made the Christmas ad using AI. It's quicker. It's cheaper. And not just it's quicker and cheaper, but it's much more customizable. So, I think what we're going to see, as the world moves from, let's say, the last five years where we're kind of all a bit more synchronously in the same roller-coaster of COVID and inflation and ups and downs, the world is more divergent geopolitically, economically, et cetera, I think going forward. And that's within countries and across countries.

And so, the [ph] AI now can (00:30:39) allow greater segmentation, targeting and adaptation of our core marketing areas. So, think FIFA, World Cup, soccer for the Americans next year coming, there's much more ability with AI to do more specifically targeted advertising and marketing even within a global brand like Coke and a global program like FIFA. So, marketing can become more faster, cheaper to make, and more targeted and more segmented. On the [ph] selling system – and that's (00:31:11) generative AI is clearly coming there.

The selling system is also getting a lot of benefit from the AI. So, in the old days you had to wait for the – what we would call the pre-seller. So, the salesperson to turn up before the mom-and-pop store could make an order. We visit roughly 30 million [ph] doors (00:31:32) every week around the world. Slowly it moves forward. You have a website or an app, so the customer can order when the salesperson is not there. Then the AI starts sending suggested orders. Then the AI starts working out not just what that retailer is doing, but what all the people like them are doing and suggesting the order and going, well, successful retailers like you ordered X, Y, Z. And then you can start connecting it to the consumer system. So, this consumer system can work out, okay, we're launching this product in this area, which stores don't have, and so the two systems can start talking to each other. So, there's plenty more to go to drive those. We know there's upside on the marketing side. We know the sales system enabled by the AI produces higher revenue. Connecting the two will also take us to a different place. So, there's much more to come.

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And then, internally, the AI, the analytics and the engines and the agentic stuff is going to get us stuff faster and cheaper. But as I tell people, if you just put it on top of a bad process, you're just going to get to a bad place faster and cheaper. You're not going to get to a better place. So, part of what needs to happen internally is you need to fix some of the internal processes so that when you speed them up, they're actually – you actually get a better result, not more worse results.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

Right. Right. You're a fan of history. The history of large-cap CPG companies is they tend to perform in five-year cycles or so of success and then typically come back to the pack. Just culturally, after a period of success, how do you ensure the organization doesn't get complacent, extend that track record of success? And we've seen a lot of restructuring announcements in the group recently. You've been through your own on a post-COVID basis a successful restructuring. You've made some comments on that more recently also. So, just, what needs to sort of continue evolve as you think about Coke going forward and in order to keep that constructive discontent you mentioned earlier in place?

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

A

Yeah. Look, I think it's an internal challenge of leadership. I mean, it's human nature to somehow want to settle and stay with the status quo. We've talked much about the old Woodruff expression of the future belongs to the discontented, and as you've mentioned history, then I'll bring it up, but we had our global system meeting in Rome in July, and I put up a slide given that we're in Rome, given that we've had, as you say, a relatively long track record of delivering on the algorithm, winning market share, growing the consumer base. Okay, what happens when you're super successful and you were a Roman General and you've got your triumphal parade through Rome? They stack, they stick a person on the back of your chariot as you're getting all the accolades, who whispers in your ear, memento mori, which means, remember you die, which is another way of saying, don't let it all go to your head.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

Right.

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

A

And this is what I said in July. Actually, [ph] as you bet history (00:34:49), I also put up the 1996 cover of Fortune Magazine, October I believe, which is the picture of the Coke bottle with Roger Enrico in it, Roger Enrico bottled up by Coke. And I asked the question, what was the Coke's stock price five years after that cover? It was negative. What was the Coke stock price 10 years after that cover? Negative. Like, do we need any more signs that winning does not guarantee the future? We've got to stay discontented. What are we keeping? What are we changing? What are we transforming? And that's what we're focused on. And that's why on the last call, we'll make some changes [indiscernible] (00:35:38), we've got to stay focused on what is it we need to do to win next year and the year after and the year after that, independent of how well we've done in the past.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

Okay. And you're coming up on almost a decade here, nine years into your CEO tenure. Maybe let's take a look back. What are you most proud of during your time as CEO in terms of what you've instilled in the organization?

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Any areas you haven't made as much progress you want to or are really looking to drive going forward? And at some point, it won't be another 10 years, most likely. So, how would you address any investor concern around succession when this remarkable run under your leadership does come to an end at some point?

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

A

Okay. In a way, if there's one piece of the culture, it's like, yes, we've got to love our brands, we've got to be proud of winning, but we must remain discontented about the future. Like, the better you do, the greater the risk you take your eye off the ball or you start celebrating your own success. That I think is the most important thing to keep drilling in, because you want to do – you want to win again next year. And if you look at the people who win gold medals, we're not in an Olympic year, like, the hardest day is the day after they win, because it's like, I've won now, what do I do? No, you have to get back and train and win the next one, which is actually much harder.

And so, if there's one thing about the culture, it's celebrate the success, but stay discontented about the future. This is a great industry. Everyone wants to have lunch. Like, we've got to keep on the game. And if we can keep that culture going, then we can have another 100 – next year is 140 years, we'll have another 140 years of growth. Because the value of the Coke Company is not that it races ahead in any one year, it's that it compounds over a long period of time. And that's the interest in the Coke Company, and that's what I think it will all be about.

And we've been working on succession since the day I started with the board. That's how it should be. And when the moment comes, we'll have a great system. It's not a single-person event. It's a team event. And we'll drive it forward. It's a big Coke system. And if that culture has landed and we stay discontented, then we will drive success not just for many years, but for many decades to come.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Right. Well. Great. That was very helpful. We really appreciate having you here. Thanks for coming.

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

Thank you.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

And we'll move on to the next session.

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

Perfect.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Thank you. Thank you.

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