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The Coca-Cola Co. (KO)

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MANAGEMENT DISCUSSION SECTION

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All right, let's get started. Good morning. It's a pleasure to welcome back The Coca-Cola Company back to the CAGNY stage. And thank you to Coca-Cola for keeping us well refreshed and hydrated throughout the week. Coca-Cola enters this year's conference from a position of strength, combining one of the most powerful brand portfolios in a global consumer staples environment with a uniquely scaled system that delivers consistent organic sales growth, strong returns, and resilience across economic cycles.

Today's presentation is especially timely as Coca-Cola begins its next chapter of leadership. Today, we are pleased to be joined by Coca-Cola's Chief Operating Officer and CEO-elect, Henrique Braun; and CFO, John Murphy, to share their perspective on strategy, priorities, and the path forward. Let's welcome them.

I'll turn it over now to The Coca-Cola Company.

Henrique Gnani Braun

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

Thank you. Thank you, [ph] Steve (00:00:55). Thank you for the words, and I'll position myself here in the middle. Good morning, everyone. I'm very excited to be here today for what's going to be my first CAGNY.

But before I get into that, I really want to send a big shout-out to James Quincey, who you had here for the last 10 years. And he had a tremendous tenure leading our enterprise to unprecedented results. And we really look forward to continue that partnership with our new roles.

With that, some things never change. So, I'll start with the forward-looking statements, you have a moment to read, and then we can jump into what's going to be our three chapters of the conversation today.

John and I thought that would be a good moment for us to reflect about the last decade to see not only what we have accomplished together, but more importantly, what's going to continue to be important for us in the next chapter. So, we call that the enduring strengths. I call it three beliefs that we have as leaders of the system that's going to continue to be fundamental to us. And then we jump into three principles that are going to help us to accelerate our pace towards this next chapter on a world that continues to change.

Let's dive into this. If we reflect back, there's a lot actually to be proud about. Not only we had the right foundations from a consumer engagement point of view, bringing a lot of brands to life in a way that only us were able to do in the last few years.

We also had a system alignment that is on an unprecedented trust levels with our partners. But we also had a great run with the top-line and bottom-line sustainably growing across these years, hitting a big milestone, which was the \$3 EPS, that was very important to us.

To leave that aside and start talking about what we believe are the enduring strengths and the beliefs of the system, the first one that comes to mind, it's something that's embedded as a hallmark of all the leaders of this company that you meet when you talk to them on a daily basis. It's the belief that this is the best industry to be in.

Any way you slice it, and you have seen this chart on the right-hand side in many forms. The opportunity continues to be vast, either from an industry point of view, from a consumer point of view, or a customer value creation opportunity. Any way you slice it, great opportunities ahead. That's very important because that's the belief being in the industry investing for the long-term.

The second one that's also an enduring strength of our system is our ability to build billion-dollar brands that are sustainably growing over the years and connecting with the consumers on a renewed basis year-on-year.

We're very happy to announce that last year we had 30, and now we have 32. Two more coming to the family: Santa Clara, which is a value-added dairy brand from Mexico, and innocent, a fruit juice company that also came from the UK and it's now part of the family. Both of them were acquired and developed into these billion dollar families.

It's important to point out here as well that you see a myriad of brands cutting across the different categories, continue to have the core sparkling as our big brands, but also 75% of them are non-sparkling billion dollar brands, and that shows that we are definitely walking the talk in terms of getting our total portfolio beverages coming to the right space.

The third enduring strength and belief that we have is that we have an unparalleled system working with our bottlers in a way that we create what I like to say the multiplying effect of us, The Coca-Cola Company, doing what we do best, which is building brands and bringing the innovation pipeline to the equation. And the bottlers delivering on the RGM and on the execution front, making the flywheel work in a way that generates this multiplying effect across the world. That has not been done by coincidence.

Actually, there was a lot of engineering behind it when we established the restructuring and refranchising of our bottling partners since 2015. And we went with a very clear framework in our mind, which was, what are the best partners that have not only the will, but the skill to win on these different territories that we are refranchising? That framework was very important for us to unlock a growth that has been unprecedented as well.

If we go back to 2015 and you look at up to now, we achieved more than 50% of the value – the market value of The Coca-Cola Company throughout these years with these partnerships and the public traded company. So, a lot of uniqueness about the business, but big enduring strengths that we will continue to nurture as we go forward. That translates into an unmatched reach, which allows us to have scale across the globe, and it's a very important point – and I want you to have this in your minds, not only for us closing this chapter, but talking about digital moving forward.

Scale is paramount in this business for us to continue to drive growth sustainably into the future. So, this unmatched reach with the most pervasive distribution system and the granularity that we can have with our bottlers operating in different markets allows us to go and think deeper and make the math works for us, which is another point that's very important about the way we work together with our bottlers is, the mindset that on a business that everyone does little pieces together, allows us to look at the global impact like no one.

If you look at the numbers, if we do a little bit better every day, either executing our planograms or just doing better on how we engage with our consumers, the multiplying effect of that is significant. And that is something that we're going to continue to have. That mindset of always trying to get the best version of ourselves or our execution platforms daily in the market.

So those three key enduring strengths and this mindset of constantly thinking about how to get better is going to be paramount for us to take it to the next chapter of growth. But what else should be embedded into the way we're going to continue to engage consumers, customers, and the ecosystem moving forward?

We will continue to be faithful to our growth pillars and to our flywheels. That's not going to change; that's intact. What we'll bring are three new principles that will help us to accelerate our connections with consumers, with customers, and making the enterprise faster in getting more value to the whole equation.

And I call them: number one, becoming even more consumer-centric than we are today, being closer to the consumer; reimagining the constructively discontented approach moving forward, to work together with our partners on ways to have the balanced growth algorithm working for us; and third, placing digital in every connection that we have in the system.

It's very important here to keep in mind that what we're doing with digital is not reimagining everything that we do, but actually amplifying what we do best with an opportunity to go with more agility and more scale moving forward. So, I'll dive into these three points.

The first one, you're going to hear a lot about these four I's: Insights, Innovation, Intimacy, and Integration moving forward. How we're going to actually bring together the strategies to connect with the consumers? We have now the ability to get way more deeper insights from local bases and extrapolate these into scalable platforms moving forward. That was done with our modern marketing, our transformation on how to get data and transform that into actions.

Innovation, we believe that we have done significant work on these, but we can do better. Local intimacy, it's very important as well on the balance of scale and also localness that it's becoming even more important as we move forward now in terms of driving new opportunities that can come to the billion dollar families, ideas that start at the local level and then later can be scaled. And end-to-end integration that's also very important, which is how we integrate the marketing plans with the customers and have a 360 platform that goes from engagement all the way to transactions.

I thought about bringing to you an example that's close to all of us here, which is the execution of the World Cup – FIFA World Cup campaign this year. It's going to be the biggest ever campaign of the FIFA World Cup in the world. We are big sponsors, and the way we are going to engage this time around will show how these platforms are focusing with consumers at a global level and scaling the opportunities without losing the opportunity to have more hyper-personalized engagement with the consumers at the local level in a way that we haven't done before. And bringing digital also as a great way to integrate these platforms moving forward.

So, let me show a video of how this is going to come together for you here in North America and all over the world as well. Thanks

[Video Presentation] (00:13:06-00:15:03)

Great. There's a lot of excitement there, and being from South America, you know that it's close to my heart [ph] here (00:15:09). Let's not get into who is going to win the World Cup. But we brought here an example. How many of you are from New York here? I guess a lot, right? Yes. Anybody from Houston? Okay, great. It's just to – an example to show you how this is actually going to land differently than other campaigns that we had in the past.

How we used to do this before, it would be a global campaign that would be more or less like a plug-and-play in different countries and then have different expressions depending on whether that country was participating in a big event like this or not.

This time around, what we can do with the ability to personalize the contact with consumers in a way that has been very effective and efficient from an ROI perspective with the work that we have done through our modern marketing transformation, we can actually today talk to the consumers enough in New York and in Houston in a way that connects with their desires and their ways to actually connect with the sport.

In New York, it's going to be more about the European influence, ways of connecting to the game, and in Houston, more with the Latin American influence. That insight helps us to be way more effective working with our bottlers on how we're going to connect with the digital platform and consumers from those locations differently than we did before, and more effective.

The intimacy part working on the point of sale, you have the opportunity now to have the planogram to execute that with the packages that are also more relevant for those consumers during that occasion. So, leveraging the current state of the execution of the bottlers but with more efficiency.

And then at the end, integrating the whole campaign, getting first-party data from the consumers, and engaging them on an ongoing conversation with the brand long-term.

So, we're excited where we're going with this way of thinking and with the four I's becoming a big part of how we're going to engage with the consumers and customers through digital moving forward. So, more to come. Hopefully, you're going to enjoy seeing what is going to come next to you.

Another area that's really important for us to continue to dial-up, it's on innovation. We're very proud about what we have done in the last few years. We pruned our brands, as you know, from more than 400 brands all the way down to less than 170 brands today. And we were able during this period also to be way more effective in the way that we have the success rates of innovation of variants of each brand coming to life as well.

So, a lot of the discipline in there working for us, where we believe we can do a dial-up and an opportunity to step in every brand. It's about gaining these insights that we're getting from different local markets, especially the top markets around the world, and accelerating the pace of innovation accordingly.

So, it's going to be a balance about everything that we learned, keeping the discipline, but also being more agile how we react to the consumer needs locally but with global opportunities to scale that moving forward. So, as you know, we have done a lot in the last few years. Great examples here on the screen, but we believe that there is more to come on that front as well.

Another way that we believe that we can really impact our way of delivering more – from more brands and more, for more countries moving forward is leveraging our ability to build the billion dollar brands at scale, starting locally and then moving towards a global multi-billion dollar brand faster. So that's the part of the slide on the left-hand side.

On the right-hand side, you see also our way to look at the market development archetypes that we have currently working with our different bottlers all over the world. And the ability that we have now to move those markets from the emerging and developing stages, building the foundations, into a more developed market. It's also very, very important for us as we move more towards the long term, getting more of the billion-dollar brands and more of the top markets working together.

How we're going to do that? We are creating an intersection of these two opportunities calling must-win missions that are clearly going to spread out for each market. So, each market will understand clearly not only how and what they need to do to win with a specific brand and on that market, what's the must-win mission in terms of the development stage of that market and how to invest together with the bottlers to accelerate the pace from left to right moving forward. Those must-win missions will be also connected to the proper incentives so that we can drive that moving forward. So that's very important, especially because that touches on the concept of being discontent and trying to think on how we will unlock more growth moving forward.

The other part that we're very excited about is how digital is going to become a superpower. I deliberately wanted to say a superpower because if you follow me on the thinking here that we do have an unrivaled portfolio of billion-dollar brands. We have an unmatched system that is very unique and very aligned. The next iteration of that could be how we leverage digital to amplify and expand the ceiling of that competitive advantage. But it's so important that you don't miss the point that I said at the beginning: in order to unlock that you need to have scale and you need to have alignment on how to leverage data.

I'll now say it, that we are in the beginning of that journey. We need to be humble that that's the direction that we want to take it. And if we go back to the mindset as I said at the beginning that the best time to change is when you don't need to. That's what we need and we will do together with our partners and trying to find the best way to make it possible. But we do have the ability to drive that like no one based on the strengths and beliefs that was mentioned before.

And finally, who has been working with all of us this year and know me as well, there is no more important assets than our people in this business. This is a business that generates 2.2 billion servings a day. People drink them. The leaders are people that not only nurture that idea, but that leads with the mindset of having the right and the best people working together. And we're going to continue to do that and empower our people with the right tools and the right determination, incentives to take us to the next level.

So, in short – one more slide, yeah, I just want to tell you that we are very proud about the journey so far. We are very constructively discontent about what we could have done better or, more importantly, what we can do better together with our ecosystem of partners. And anchored on our three beliefs and our three principles, we are really getting ready for the next chapter of growth, continuing that rally that has been very successful in the last few years.

With that, I'll pass it on – baton to John. Thank you. John?

John Murphy

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

Thank you. Thanks, Henrique. Good morning, everybody. Nice to be back. Let me kick it off with a slide that would for sure have been snagged by somebody who's actually watching instead of participating this year, given the many years of blood, sweat, and tears it's taken to get off that \$2 base and finally hit the \$3 mark at the end of 2025. A fitting milestone for James and one that has inspired all of us, and we are more than motivated to continuing to drive it going forward.

And as we highlighted during our earnings call last week, we think we're well-positioned for the year ahead. Organic revenue growth is within our long-term algorithm. We expect to deliver high-single-digit EPS US dollar growth, albeit some supported by currency tailwinds which we're not used to. And also continued investment in our brands and in our markets around the world. And continued growth in our underlying cash flow. We believe this is achievable as we continue to execute against an operating model that has demonstrated both its resilience and its ability to create value for many years now.

And when I say it's continued to create value, I think it's worth reflecting on just how much value we have created to give credence to the idea that what Henrique has teed up and what I'm going to continue to reinforce is we have a model that's working well, albeit in constant need of improvement and of provocation to keep delivering what we know the potential is.

I use the word obsession, although [ph] I'm not – often (00:27:12) always accused of having that as part of my character. I use the word obsession because it really has been the hallmark of the focus over the last number of years on top line growth, on margin expansion, on cash flow generation, and on evolving towards being a higher return business. All four areas, when I first stood on this stage, were not necessarily believed by many who were listening to us.

Organic growth during that period has been well ahead of our long-term algorithm. Our comparable operating margin has expanded 5 points in that period, notwithstanding the challenges of a number of headwinds during the COVID and the FX years of weakness. We have, since 2017, generated over \$80 billion in free cash flow, excluding two anomalous items that have gotten a lot of attention: the IRS tax deposit and the fairlife contingent payments. And our return on invested capital today is now almost twice that of our CPG peers.

We're not as much in admiration of that last slide as we are focused on the next one. And that is saying very, very clear-eyed on what it takes to continue to create value for ourselves in The Coca-Cola Company and for those who participate in our broader ecosystem, including our esteemed bottling partners.

This is not a new slide; these are not new ideas, but they are ones we know can deliver value, quality, leadership on the top line. Allocating our resources, our dollars, our time, our people to where it matters most. Driving underlying cash flow generation, evolving month-by-month, year-by-year to having a, it's what I call a fit-for-purpose balance sheet, and as part of all of that, continuing to deliver superior capital returns.

So I think it's worth drilling into each one of these just to give you more of a flavor as to what's both our underlying thinking and our focus to sustain our value proposition for the coming years. This is a busy chart here; I'll summarize it in a couple of key headlines. One, the long-term algorithm assumes a more balanced construct between volume and price mix. Number two, we're very clear on the variables that we need to pay attention to that can impact that external variables, population, inflation, disposable income, access, physical access, digital access. And over the last few years, I think we've been able to fine-tune that top-line engine around a few key focus areas.

Number one, stay the course on becoming a total beverage company in all of our key markets, driving more share and more value at the micro level. Number two, improving innovation, as Henrique highlighted, not only delivering and executing what's in today's pipeline, but investing for a more future back set of opportunities that our industry is offering at all times. Number three, refreshing what we call the must-win missions for our top markets. Number four, digital, again, to reinforce what Henrique said, becoming our best friend as opposed to being a disruptor. And last but certainly not least, winning the scale versus intimacy battle. And that's a daily consideration for our broader ecosystem as we continue to drive the top line.

Our second imperative is to generate more margin expansion, and the headline here is that we feel confident in our ability to do so while at the same time investing appropriately against our brands, our markets, and our people. And so, beyond the top line I've just talked about, there are numerous levers to work with. We're driving gross margin discipline through leveraging what we think are unique advantages for the Coca-Cola system: our cross-enterprise procurement group that has been now operating for over 25 years and continuing to create differential value each and every one of those years, and working end-to-end through our ecosystem on, what we would describe as having a future-ready supply chain, taking into account not only the efficiencies that are available but staying flexible to meet the many unknowns that seem to pop at us each and every year.

Secondly, the marketing line of our income statement and that of our bottling partners has been one we've had specific focus on both to have it working with more impact and less waste. A system the size of ours over time it's natural that you build up pockets of inefficiency, blind spots, and I think the work that Manolo and his team have been doing to reinvent the way we do marketing, but doing it with a keen eye to the dollar value that we need and the dollar value that it creates has been super impactful.

Number three, our business model. We have been on a journey to an asset-light model, but there's more to it than just what sits on the balance sheet or what doesn't. It's about creating and orchestrating an ecosystem of collaborative players who together can make the sum of the parts greater than one. And last but not least, continuing to, as I say back in the office, just be a little bit wiser each day, each week in how we utilize the resources we're offered, we're provided, we're held accountable for. We know this works. The numbers on the slide, I'll leave them for you to take a look at, at your leisure.

That's my contribution to the creative side of things today. Resource allocation is not a new idea. In fact, it's a theme we've discussed in all of the meetings I've been part of over the previous number of years. However, we think there's an opportunity to gain even more leverage from it, something I think about as potentially our new secret sauce. In the center of this slide here is [ph] words (00:36:23) Fuelight360. For the last couple of years, we've been developing a new capability to work with our bottling partners on being able to optimize our spend end-to-end.

It allows us to hone in on what's going to deliver the most value for our buck, and it allows us to collectively think about how to improve our allocation of capital over time to support the business. Historically, we have done a better and better job by, I would describe, sub-optimizing our media spend, our trade spend, our point-of-sale materials, our coolers. But when you have the ability and we are building this through our – through some of the AI work we're doing to be able to pool it all and to work collaboratively end-to-end, the opportunity that it presents is even greater. So, we're very excited about this and look forward to continuing to demonstrate its benefits over time.

Cash flow generation has been obsession number three. And when you strip away a couple of what I describe as anomalous items that have certainly and for good reason gotten headlines, you can see over time the underlying

generation strength of the business and in year 2026 and beyond. We know the levers of a quality top line, appropriate CapEx to support the growth opportunities. This year we continue to support some of our bottling franchises that we own in Africa and India. But I see that number will go down over the next couple of years as we continue on that journey.

Improved working capital, we're not yet best-in-class, but we have made tremendous progress, particularly on our payables and receivables over the last few years to be almost there. And the elimination over time or the reduction over time of non-recurring cash costs. These are tried and true; they work and we will continue to have a very, very strong focus against them.

I talked about a fit-for-purpose balance sheet earlier on. We've made tangible progress in recent years with the refranchising work that we've had underway, understanding what does it take to drive a greater return on invested capital and being focused on our capital structure and the flexibility that we need and we look for to manage what comes at us over time. So we continue to mold this balance sheet to best support our growth ambitions in the future, and as we do this, to keep optionality for whatever future ultimately arrives at us. One of the big learnings over the last few years is not to put all your eggs in the basket on any one future. It's creating the agility to be ready for whichever one does happen, and we think our balance sheet is much better serving us in that regard today.

We will continue to complete the play on refranchising, notably in India and Africa. We will continue to optimize our equity investments over time. We know we need to invest more in new capabilities, particularly with the role that technology increasingly plays in our lives. And at times, we've got to play defense, and we will be ready to do so when those moments come. We have a capital allocation model that is tried and true and has been in place, and in 2026 creating the ability to invest in the business. Continuing to support the dividend and be well-positioned to manage whatever outcome we have with the tax case is priority number one. And then, mid-to-longer term, using this year as a base to optimize our capital structure for the future and generate maximum returns to our shareowners using the various mechanisms we have at our disposal.

So, we feel good about where we are going into 2026 and we'll continue to update you as some of these areas progress throughout the year. And so we are – we stand here and say we feel ready for the longer term. We have a long-term growth algorithm that we know is achievable. We feel good about the drivers that will allow that to happen. And we have confidence in the overall strength of our ecosystem to be behind us as we pursue this journey forward. So, thank you for your time this morning. If you want a short version of my remarks, it's around \$3, four obsessions, five imperatives, and we're very focused on all three. Thank you.

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We have two minutes left. I think we'll take questions in the next room. Let's just move on. Happy to take your questions in the breakout. Thanks.

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