

23-Oct-2024

The Coca-Cola Co. (KO)

Q3 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: At this time, I'd like to welcome everyone to The Coca-Cola Company's Third Quarter 2024 Earnings Results 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 Ms. Robin Halpern, Vice President And Head Of Investor Relations. Ms. Halpern, you may now begin.

Robin Halpern

Vice President & Head-Investor Relations, The Coca-Cola Co.

Good morning, and thank you for joining us. I'm here with James Quincey, our Chairman and Chief Executive Officer, and John Murphy, our President and Chief Financial Officer.

We've posted schedules under Financial Information in the Investors section of our company website. These reconcile certain non-GAAP financial measures that may be referred to this morning to results as reported under generally accepted accounting principles. You can also find schedules in the same section of our website that provide an analysis of our growth and operating margins.

This call may contain forward-looking statements, including statements concerning long-term earnings objectives, which should be considered in conjunction with cautionary statements contained in our earnings release and in the company's periodic SEC report.

Following prepared remarks, we will take your questions. Please limit yourself to one question. Reenter the queue to ask any follow-ups.

Now, I will turn the call over to James.

James Quincey

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

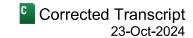
Thanks, Robin, and good morning, everyone. After a good first half of 2024, we navigated through a dynamic external landscape during the third quarter. Our business again proved to be resilient. Volume declined 1% in the quarter, driven by a slow start in July. However, our business trends improved each month, and notably, Trademark Coca-Cola volume outperformed during the quarter.

Our year-to-date 2024 performance gives us confidence we will deliver at the high end of our previous top-line guidance and earnings growth of 5% to 6%, including approximately 9% of currency headwinds.

With that as context, I'll start with an update on the global consumer landscape and a review of the third quarter business performance. Then I'll explain how we're delivering on our objectives by staying agile and improving



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execution of our strategy across each facet of our growth flywheel. John will end by discussing financial details for the quarter, our updated guidance for full year 2024, and some early considerations for 2025.

During the quarter, global consumer sentiment and spending in aggregate held up well and our broader industry continued to expand. In this context, we delivered robust organic revenue growth with value share gains in both at-home and away-from-home channels. We also expanded comparable margins. This led to 5% comparable earnings per share growth despite nearly double-digit currency headwinds and the impact of bottler re-franchising.

We continue to demonstrate [ph] staying power(00:03:19) as the beverage industry remains attractive with many strong new and existing players. Our system is well-positioned to develop the commercial beverage industry in many markets and capture long-term balanced growth.

Across the world, we are leveraging our scale and local expertise to navigate varying local market dynamics. In North America, we generated robust top-line growth and won value share. Trademark Coca-Cola and sparkling flavors both grew volume. During the quarter and year-to-date, Trademark Coca-Cola and fairlife were the leaders in the beverage industry in at-home retail sales growth.

Consumers are responding well to sharper value messaging in away-from-home channels, and we're continuing to drive affordable and premium packages across our total beverage portfolio to realize positive mix.

In Latin America, volume was flat during the quarter as we cycled strong growth in the prior year. We had solid revenue growth led by Coca-Cola Zero Sugar and Powerade. We also benefited from integrating marketing activations across the region. For example, in Brazil, Rock in Rio reached over 70 million people and led to Trademark Coca-Cola being the most mentioned brand on TikTok.

Stepped-up execution by increasing cooler placement and investing in digital capabilities is also driving results. In EMEA, we saw improved performance in Europe and strong growth across many parts of Africa. The performance in Eurasia and Middle East and North Africa unfavorably impacted overall results.

In Europe, we grew volume during the quarter and benefited from the Olympic and Paralympic Games. Both Fuze Tea and Powerade continued their strong momentum, and we're continuing to focus on affordable price points, value packages, tailored promotions, and premium offerings to drive demand.

In Eurasia and Middle East, a confluence of headwinds led to decline in volume. While it's fair to assume pressure will persist in the near term, we are taking action. Our system is driving affordability and availability, and we're leaning into the local intrinsics of our business.

In Africa, volume declined largely due to pressure in some North African markets. Outside of these markets, we grew volume and gained value share. Our system is investing for the long-term by accelerating refillable offerings, cooler placements, and increasing manufacturing capacity.

Lastly, in Asia-Pacific, despite weakness in China and a couple of markets in Southeast Asia, we grew organic revenue and comparable operating income. In ASEAN and South Pacific, we gained value share led by the Philippines and Australia.

The Philippines grew affordable transactions with refillable packages and grew premium transactions with single-serve offerings. Australia prioritized affordability initiatives across our sparkling portfolio and successfully activated the Olympic Games with Powerade.

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In Japan and South Korea, we had solid volume growth and won value share due to good traction on brand relaunches, which leveraged enhanced taste and refreshed packaging and stepped-up performance in e-commerce channels. In China, a challenging operating environment and strategic reprioritization of our portfolio led to a decline in volume.

We're continuing to focus on driving affordability across our core portfolio. Our longer-term growth ambition is unchanged, and we're investing to come out ahead when conditions improve.

In India, volume declined in states impacted by higher-than-normal monsoons. In geographic areas that were unaffected, volume grew mid-single digits. We remain upbeat about progress in integrated execution and our ability to capture long-term growth opportunities.

To sum everything up, while our markets continue to move in many different directions and our agility is being put to the test, our all-weather strategy is working. We're continuing to deliver on our strategy through a combination of world-class marketing and innovation and excellence in revenue growth management and execution.

Starting with marketing and innovation, our refreshed marketing model is integrating digital, live, and retail experiences to connect with consumers in unique and personalized ways. The Olympic and Paralympic Games is a great example.

We featured our total beverage portfolio, launched fan zones and festivals, and leveraged social channels to increase connections with athletes. Many of our brands offered customized packaging, and our system activated tailored point-of-sale displays with customers around the world.

The Olympic and Paralympic Games were activated with customers across over 65 markets, featured nearly 250 influencers, and demonstrated positive engagement scores across our portfolio.

Topo Chico is another example. In the US, Topo Chico is the number one premium sparkling water brand. We've driven strong consumer demand with a grassroots experiential campaign in 13 cities, featuring impactful displays connecting Topo Chico to food, music, and art.

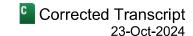
In Mexico, we're applying a similar playbook. We recently launched Topo Chico's first-ever nationwide experiential activation with the [ph] Think Like an Artist (00:08:44) campaign. This featured connections with local artists across 69 events in five cities and was amplified through social channels.

During the quarter, Topo Chico trademark grew volume nearly 20% globally. Year-to-date volume has increased tenfold compared to pre-acquisition levels in 2016. Our marketing and innovation agenda emphasizes a culture of acting boldly, learning, and not being afraid to fail and scaling successes.

Sometimes our innovations don't hit the mark as evidenced by Coca-Cola Spiced, which we've discontinued. But our focus on bigger and bolder innovations is paying off. Fuze Tea is a multi-year success and is scaling well across over 80 markets, and Minute Maid Zero Sugar is showing promise. Sprite Chill also delivered over \$50 million in retail sales after only 21 weeks in the market and has been extended after a successful limited run.

We also innovate for different reasons. It can be to generate short-term buzz, such as the third quarter launch of the limited-edition product Coca-Cola Zero Sugar Oreo, which is available in over 35 markets, and Fanta

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Beetlejuice, which is our first ever global Halloween activation and is offered in nearly 50 markets. Or we might invest for the long term, such as our announcement of plans to debut BACARDÍ Mixed with Coca-Cola in 2025.

So far, in 2024, overall, we've benefited from strong velocities on our innovation and we're continuing to improve our innovation success rates versus prior year.

Moving across our flywheel, our system is step-changing execution by fully integrating our marketing and commercial plans and investing to grow our customers' businesses. Leveraging data and digitally-enabled solutions, including AI, is a huge opportunity. And we're integrating digital advertising with point-of-sale messaging and offering brand-price-pack architecture geared to customers' individual needs. When executed efficiently, this approach can deliver promising uplifts in retail sales for our customers.

While we're focused on taking our capabilities to the next level, we're also working towards mastering the foundations that move the needle. In 2024, our system increased availability by investing in cold drink equipment and boosted our share of visible cold inventory across markets.

In the past 12 months, we created \$11 billion in incremental retail sales for customers, which is more than double the next five closest beverage companies combined. From 2018 to 2023, we were the leader in customer value creation for the beverage industry every year.

To summarize, we feel good about the momentum of our business. And as we look ahead, our external environment will continue to have many moving pieces. We'll continue to prioritize flexibility to navigate market dynamics locally to deliver on our global objectives. Thanks to the power of our portfolio, our system's unique capabilities, and the unwavering dedication of our system employees, we're confident we'll be able to deliver on our 2024 guidance and longer-term priorities.

With that, I'll turn the call over to John.

John Murphy

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

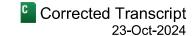
Thank you, James, and good morning, everyone. Today, I'll comment on our third quarter performance, discuss the outlook for the remainder of 2024, and provide some early commentary on 2025.

During the third quarter, we grew organic revenues 9%, unit cases declined 1%, having had a poor July, but improving sequentially thereafter during the quarter. Concentrate sales were 1 point behind unit cases for the quarter, driven primarily by the timing of concentrate shipments.

Our price/mix growth of 10% was driven by two items. Approximately 7 points of pricing split somewhat evenly between normal pricing actions across our markets and intense inflationary pricing in a handful of markets experiencing currency devaluations. And approximately 3 points of mix across our markets, which was primarily driven by stronger growth in several developed markets versus developing and emerging markets.

Excluding the impact from intense inflationary pricing, organic revenue growth during the quarter continued to be at the high end of our long-term growth algorithm. Comparable gross margin was up approximately 70 basis points and comparable operating margin was up approximately 100 basis points. Both were driven by underlying expansion and a benefit from bottler re-franchising, partially offset by the impact of currency headwinds.

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Putting it all together, third quarter comparable EPS of \$0.77 was up 5% year-over-year, despite higher than expected 9% currency headwinds and 2% headwinds from bottler re-franchising.

During the quarter, we made a \$6 billion deposit with the IRS related to our ongoing tax dispute. We've also filed our appeal with the Eleventh Circuit Court. We're pleased to move forward with the process. We will vigorously defend our position. We believe we will prevail and we will continue to keep you updated.

Free cash flow, excluding the IRS tax litigation deposit, was approximately \$7.6 billion, which is down approximately \$290 million versus the prior year due to higher other tax payments, higher capital expenditures, and cycling some working capital benefits from the prior year. Our balance sheet is strong and our net debt leverage of 1.7 times EBITDA is below our targeted range of 2 times to 2.5 times.

If you include our latest estimate of \$6.1 billion related to our fairlife contingent consideration payment, which we expect to make in the first half of 2025, our expected net debt leverage would be at the low end of our target range.

As James mentioned, our powerful portfolio amplified by our system's unique capabilities gives us confidence in our ability to deliver on our updated 2024 guidance. We now expect organic revenue growth of approximately 10% and comparable currency-neutral earnings per share growth of 14% to 15%.

Based on current rates and our hedge positions, we now anticipate an approximate 5-point currency headwind to comparable net revenues and an approximate 9-point currency headwind to comparable earnings per share for full year 2024. We continue to expect comparable earnings per share growth of 5% to 6% versus \$2.69 in 2023. While it is too early to provide specific guidance on 2025, we do want to share some considerations based on what we know today.

We're encouraged by our underlying performance and believe we're well positioned to deliver on our long-term growth opportunity. We expect pricing from intense inflationary markets to moderate in 2025 and recycling the impact of currency devaluations from these markets in 2024. With respect to our commodity environment, we expect prices on industrial materials to remain relatively stable while agricultural commodities will continue to face volatility and higher prices.

We will continue to invest behind our brands as we have been doing, while at the same time, we will leverage a range of productivity levers to drive efficiency and effectiveness across our P&L. We expect elevated net interest expense resulting from the deposit made related to the ongoing IRS tax dispute and the upcoming fairlife contingent consideration payment.

Regarding currency, if we assume current rates and our hedge positions, there would be an approximate low single-digit currency headwind to comparable net revenues and an approximate mid-single-digit currency headwind to comparable earnings per share for full year 2025. Many factors could impact both our currency outlook and broader business outlook between now and when we expect to provide guidance in February.

With our all-weather strategy, we've delivered comparable earnings growth for many years now. We have numerous levers to continue to do so.

So, in summary, successfully executing our strategy in an ever-evolving operating environment. We're confident in our ability to deliver on our objectives in 2024 and over the long term. We're clear on the direction we are heading as a system, and we continue to invest with our bottling partners to drive sustainable long-term growth.

With that, operator, we are ready to take questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question will come from Steve Powers from Deutsche Bank. Please go ahead. Your line is open.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Thanks very much. Good morning. So, James, it sounds like momentum sequentially improved through the third quarter from a unit case perspective, which is welcome news. I guess, given that, as you look forward, how confident are you that you can return trends to positive growth in the fourth quarter? And how much of any expected improvement trajectory is within your control through some of the initiatives you detailed in the prepared remarks versus the system being essentially more dependent on just a less adverse macro backdrop? Thank you.

James Quincey

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

Yeah, thanks, Steve. Clearly, we were not as happy as we could have been in the third quarter with volume, and we focused on adapting quickly and saw improvements through the quarter. So July was the bump, and things improved in August through September.

I largely believe that it's within our control to return to growth. Actually, the macro environment, I'm sure we'll touch on later, is showing a degree of resilience. There are lots of puts and takes, but a degree of resilience. So I think it's firmly about getting our flywheel of the marketing, innovation, the price-pack and the execution of the system, and that we can get back to growth, which is very much implicit in our algorithm and our expectations going forward through the fourth quarter into 2025.

Operator: Our next question comes from Dara Mohsenian from Morgan Stanley. Please go ahead. Your line is open.

Dara Mohsenian

Analyst, Morgan Stanley & Co. LLC

Hi, good morning. So just wanted to focus on the mix component within price/mix. You mentioned it was 3% in the quarter. Great result. How sustainable is that as you look going forward out to 2025, and maybe can you talk about some of the key efforts on that front?

James Quincey

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

Yeah, let me break the mix component – I mean, mix has got a lot of different components in it. Country, category, channel, affordability or premiumization. In the third quarter, there are a couple of pieces of mix that I wanted to call out. One, which I see as enduring and ongoing, and one which I see as more temporary.

The enduring and ongoing piece is, of course, we're focused on not just driving the growth of affordability options, whether they be smaller packages, smaller multipacks at better entry price points, or refillables, depending on

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where you are in the world, as a key part of responding to those consumers that are under disposable income pressure, which tends to be a headwind, but also focusing on premium segments, whether that be premium waters or fairlife or some of the Coke SKUs to get the mix to be up. And so the more enduring piece is that ongoing management of affordability and premiumizations to drive mix.

The bit that was more temporary, which is relatively atypical in the last number of years, remember that the average price in emerging markets is lower than the average price in the developed economies. Typically speaking, the emerging markets grow faster, so mechanically they are a headwind in price/mix because they obviously have a lower price.

In this quarter, atypically, the emerging markets have grown slower or have declined relative to the major economies, US, Europe, Japan, Australia. And so that actually has a kind of automatic stabilizer effect, which is that it makes price/mix go up.

And, of course, we're expecting, as we go through the fourth quarter into next year, to go to a more normal construct where we'll see decent results in the developed economies and faster growth in the emerging markets. And that will then have a normal shape – more normal shape to its volume and more normal shape to its price/mix. So I think we feel good about where this is likely to go.

Operator: Our next question comes from Lauren Lieberman from Barclays. Please go ahead. Your line is open.

Lauren R. Lieberman

Analyst, Barclays Capital, Inc.

Great, thanks. I would love to hear a bit more about those adapted quickly items, James, that you kind of spoke to. So believing in our control, there's a lot there, right? So I just would love if we could get some more maybe tangible examples of what you're doing to adapt quickly, that is having – you're able to execute quickly and have a quick payback? And since you teased the macro, let's get your view on them – the macro environment as well? Thanks.

James Quincey

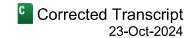
Chairman & Chief Executive Officer, The Coca-Cola Co.

Sure. I mean, I don't think my view on the macro environment is going to take us too far. It's basically two big thoughts. One, at a global level, the consumer and the economies, I mean, the IMF report came out yesterday, is relatively resilient and relatively stable on a global basis.

Clearly, there are a set of puts and takes between geographies, between income levels. But the macros in aggregate are a sum of a shifting set of puts and takes, but resilient in aggregate. Exactly how that will turn out, I'm not sure next year. Probably different puts and takes, but again, resilience on an overall basis.

In terms of the tangible examples, I mean, it's a question where affordability, like, are we pressing – are we pressing hard on making the availability of certain affordable options even more expansive? Have we brought – bringing forward, for example, investments in cold drink equipment so that we can upscale the availability of cold product? Remembering, for example, that the Southern Hemisphere is just about to go into its summer. Can we get further faster in terms of doing that, which will then tend to drive more volume growth?

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Are we applying the right adjustment to the mix of the marketing messaging, and how do we tweak that? Now that we have a more agile marketing model with the ongoing transformation, we're able to adapt the messaging. So to really get in there and get those things.

And then in some parts of the world, it's about adapting the messaging to the situation. I mean, some countries, for example, where the economics are very poor, it's not so much about the marketing. It's more about the availability and the entry price points. So we've always got to work with our local bottlers to drive what's the right system answer and really fine-tune our relevance with the consumers and the retailers in that country in this moment.

Operator: Our next question comes from Bryan Spillane from Bank of America. Please go ahead. Your line is open.

Bryan D. Spillane

Analyst, BofA Securities, Inc.

Thanks, operator. Good morning, James. Good morning, John. I guess I have a question about North America. And our observation through this quarter or over the summer was just, I guess, a little bit of softness overall in just discretionary spending. So that kind of expressed in small format stores, convenience and gas, I think also maybe a bit in foodservice. So can you just maybe talk to that? Are you seeing the same thing? And is there maybe just a little bit of a recession, if you will, on impulse purchases right now? And if so, just what do you think changes that?

James Quincey

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

I think it's – honestly, I think it's more of a mix. Like, [ph] there's (00:26:24) clearly parts of the consumer landscape where there's pressure on disposable income.

If you look – I mean, it depends whether you want to take measures of consumer confidence or measures of consumer sentiment. I know that sounds like the same thing, but depending which source you look at, one's going – one's going up, one's going down. So there's a mixed bag. I would say that is some softness in aggregates, but it's very marginal in the total industry, industry like that. The beverage industry is still pretty robust. There's growth in total dollars.

Having said that, we talked about in previous quarters, there's a set of consumers exhibiting value-seeking behavior, whether they're looking for combo deals when they're in away from home, particularly quick-service restaurants, whether they're looking for going and getting lower price point purchases of beverages, whether that's a smaller pack size or a smaller number of packs in a multi-pack that's out there. But there's just as — there's also strong purchasing power in other segments of the marketplace, which is somewhat offsetting. I mean, witnessed the strong momentum, for example, in fairlife. But net-net, I think the US marketplace has remained pretty resilient given what is — given the kind of trajectory, macroeconomically speaking, that we've come through.

Operator: Our next question comes from Chris Carey from Wells Fargo. Please go ahead. Your line is open.

Chris Carey

Analyst, Wells Fargo Securities LLC

Hey, good morning, everyone. So, yeah, this has been somewhat addressed, but I think I'd maybe be a little bit more specific. The stock's off a bit pre-market on what appears to be around 2025 earnings growth, given your outlook for FX and net interest expense going into next year. And I think the lesson from this year and really in

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recent years has been your ability to overcome these substantial effect headwinds and other headwinds and still deliver on reported EPS growth.

James, John, you both expressed some confidence in prepared remarks on innovation, delivering against longer-term targets. So I guess can you just touch on maybe some of the lessons of 2024 areas, which really allowed you to overcome what was the substantial FX and still is headwind this year and still deliver your reported earnings objective, whether pricing, RGM, innovation, whatever that may be? And what feels durable going into next year? I know you've touched on it, but just trying to get down to what's really driving the stock today.

And then maybe importantly, then I'm done, but just the areas where you have a bit more of a heightened focus or a sense of things, maybe slowing in Mexico, India, some of these lingering turbulent issues in the Middle East, anything that comes to mind? So basically just you've got momentum into confronting these headwinds next year, but the environment is also evolving. And I just – maybe you'd like to put a little bit of a [ph] finer bow (00:29:35) on that. Thanks.

James Quincey

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

Sure, Chris. I think you're going to win this year's prize for the longest question. Let me start...

Chris Carey

Analyst, Wells Fargo Securities LLC

I expected that.

James Quincey

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

...look, let me start and then I'll – as John will probably want to weigh in too. We have for a number of years and very deliberately chose the expression, the all-weather strategy, because as we have all lived, we've been through a lot of very atypical years in the last five, seven years. And we wanted to make the point by calling an all-weather strategy.

Look, we cannot predict, like what's going to happen next year. We know some elements and John will talk about them, but there are many other things that are going to happen. But we're going to pull the levers to get there and drive the business forward, trying to deliver on top-line at the end, the top of the algorithm and underlying EPS growth.

A couple of things that I think are worth noting about 2024 and its implications into 2025. There's a difference, particularly if we talk – I mean, firstly, FX, as you said, the mid-single digit call for next year is less than it is this year. Although obviously interest is high.

There's a difference in FX if it's coming from the, let's call them the G10 economies, which are, let's call, let's take Europe because it's the simplest example. If there's a big devaluation of the euro, there's not likely to be a lot of pass-through inflation in the short term in the European marketplace. And that's going to be much harder for us to deal with, though not impossible.

If there's a big devaluation in an emerging market, you tend to get more immediate pass-through of the inflation. And so you can see that in 2024. In 2024, almost all the devaluation – all the FX headwind is a consequence of devaluations in the emerging markets. And actually the G10 basket is broadly flat, I believe.

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And so that you do have a – if it's coming from the emerging markets, there's a little more of a link back to above normal pricing on the top-line, which again, you see in the year to date in 2024. So there's a piece of next year where we – and John will get into it, where you've got to some extent see the G10 as different to the emerging markets. And some of the emerging markets stuff is linked to the top-line.

And then obviously within that, we have to manage each of the marketplaces because if there's high inflation, there's likely to be a big push on affordability and a big shift in the marketing and innovation mix. So there's a set of kind of framework approaches, depending on what sort of a problem is occurring in the marketplace.

But again, let me finish my thought and then hand it over [ph] to John (00:32:34). In the end, we're pursuing all-weather strategies. Some years, the headwinds will be greater than others, but we're going to pursue a strategy to get over the line in terms of trying to drive some growth. And there's a lot that can still happen before next year, and we'll come with a complete picture in February. John, do you want to add?

John Murphy

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

Maybe, Chris, if I could touch upon some of the lessons that we've learned, not just this year, but really over the last few years. First thing I'd say is it's really important through the thick and thin of all of this is to stay very focused on investing the right way behind our brands. And that is something we will continue to do.

I think secondly, in the last couple of years, having an even sharper understanding as to where your profit drivers are underneath the global portfolio at the country category level, and then making sure that we're over allocating resources to support those larger profit pools, both in the base of the business and as we think about growth going forward, is really important. And doing that in partnership with our bottlers around the world. And we've seen that being a big source of the momentum over the last couple of years.

I think the third area that I would highlight, and I know it's a topic across many companies going into 2025, is that you can never take your foot off the productivity accelerator. And in that context, I think the learning is that you've got to build that into your overall way of doing business as opposed to have it as an end-of-year project that you need to kind of deliver something in the next 6 weeks to 12 weeks to save the quarter.

So we've got a lot of levers, we've talked about it in the past, that are available to us, whether it's through the marketing investment line, our operating investment line, operating expense investment lines, or through our supply chain. And we will continue to go after the opportunities that come at us. And so when you take all of those together, I think that's what we see creating that flywheel of growth on the top-line, and then the ability to sustain and expand margins down through the P&L from there.

Operator: Our next question comes from Bonnie Herzog from Goldman Sachs. Please go ahead. Your line is open.

Bonnie Herzog

Analyst, Goldman Sachs & Co. LLC

All right, thank you. Good morning. I actually wanted to circle back to North America. Your organic sales growth was very strong at 12%, which caught most of us by surprise and growth was primarily driven by the double-digit price/mix. So hoping for a little bit more color behind that in terms of rate versus mix in the market, and then ultimately how sustainable that is?



And then I guess second, I'd be curious to hear if you believe you've maybe reached a point where you've pushed too far in terms of pricing. And if so, how will you modify your pricing strategy or RGM capabilities going forward? And James, you did touch on this, certainly a greater focus on affordability. So maybe an example or two would be helpful to hear? Thanks so much.

James Quincey

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

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Sure, Bonnie. Firstly, in North America Q3, the price/mix half of – in round numbers, half of it's price and half of it's mix. So price closer to rate. The mix is being driven by some of the de-price – some of the kind of lesser focus on case-packed water, but a heavy investment behind brands like fairlife, Topo Chico, some of the nutrition stuff, Coca-Cola, and those tend to be mix positive.

So there's clearly a consequence, actually, John just talked about it, really being choiceful about where we invest behind which brands in which countries and which channels. And that's coming through in North America, which is why you've got about half of that coming from mix and half of it coming from price or rate.

Clearly, there's a balance there with some of the affordability actions we're doing, but that's the basic setup. And if we just home in on price for a second, so you're getting roughly half of that in price, and that then starts to look a lot like the trajectory of CPI that has been coming down. And what we see going forward is there'll continue to be inflation in the input costs, whether that be labor, particularly some of the agricultural commodities, some of the packaging costs as well are still going to be increasing in cost, although at a lower rate.

So again, we see us heading towards a more normalized level of pricing going into next year and kind of landing in a more normal zone as kind of some of that tracks down at kind of similar rates to CPI. Of course, we continue to be very choiceful about where we invest for affordability options and where we invest for premiumization options. I'm not sure. I think mix will always be 4 points or 5 points, but certainly we would look for continued growth in the North American business.

Bonnie Herzog

Analyst, Goldman Sachs & Co. LLC

All right. Thank you.

Operator: Our next question comes from Filippo Falorni from Citi. Please go ahead. Your line is open.

Filippo Falorni

Analyst, Citigroup Global Markets, Inc.



Hey, good morning, everyone. I want to ask on the margin outlook going forward. This year, you realized very strong gross margin, operating margin expansion. A lot of it is all driven by the refranchising activity with the underlying kind of being upset by currency.

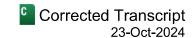
As we think about going forward, you guys both talked about leverage on the productivity line, maybe some inflation in the agricultural commodity. Can you talk us through like the balance of the levers for margin expansion into next year, and anything we should be thinking about, assuming no other franchising activity? Thank you.

John Murphy

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

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Sure. Thanks for the question. First of all, it's a huge area of focus and has been. We're currently tracking to have our highest gross margin levels since pre-COVID and expect that underlying expansion to continue, notwithstanding the offsets that you just mentioned.

For 2025, as we laid out in the script, some of the considerations for 2025 is a more normalized pricing environment. James has touched upon that. We would continue to look to offset the FX headwinds with some underlying expansion and through our RGM and cost efficiency efforts. I've highlighted some of the challenges we have on the agricultural commodities front, and we see that being part of the just the equation we need to manage.

We are, as I said earlier, looking at a number of levers on both the revenue and the cost lines, our ongoing elevation on the RGM front, the optimization of — on the promotional front within the innovation space, things like simplification of product specs, for example, can free up a lot of dollars. The way we have been working with our very diverse supplier base across the world, not only for certainty of supply, which is a huge priority in a number of markets, but over time to leverage the scale of the system, et cetera.

So there's just a lot of opportunity. And it's not any one big thing that's going to make or break the numbers. But I think it's our continued ability to bring all of these levers to play that's going to make the difference. And I think that's represented in the considerations that we framed for 2025.

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Analyst, Citigroup Global Markets, Inc.

Great. Thank you.

Operator: Our next question comes from Andrea Teixeira from JPMorgan. Please go ahead. Your line is open.

Andrea Teixeira

Analyst, JPMorgan Securities LLC

Thank you, and good morning, everyone. James, John, you mentioned that volumes improved as you exit the quarter. But the implied organic sales growth for Q4, even after you raised, is closer to, I believe, 6% from 9% in Q3, if my message is correct. And you have the extra two days. I'm hoping to see if you can help us bridge the most recent trends and how to think about Q4?

And separately, just for clarification, there are some recent news on potential ban in the sale of CSDs and snacks in schools in Mexico. I know that historically, the impact of the sugar tax was not relevant at all. But just wanted to hear how you're [ph] positioning case if this ban materializes (00:42:26)? Thank you.

James Quincey

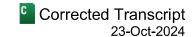
Chairman & Chief Executive Officer, The Coca-Cola Co.

Let me go in reverse order. I haven't read all the news in Mexico, I'm not sure it's happening yet. But we largely sell a no-sugar set of portfolios recommendation towards schools. And that's part of our global approach. I'm not sure how that matters or not sure how that's going to impact the business. I'd imagine that's going to be very small, if at all.

In terms of Q4, let's – I mean I would unpack it and say, look, part of what is important here is what is going to be the flow through from some of these high inflation marketplaces. If you take the impact of high inflation, it's clearly



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been slowing down or lesser impact as we've gone through the year. And so you're going to see potentially less impact in the fourth quarter from that.

In terms of where we're going, in terms of [ph] CSEs (00:43:37), yes, clearly, there's going to be a pickup in terms of price — in terms of inventory, sorry. And I don't think you've quite got to the right number yet. I think it's probably implicitly a little higher. But we can certainly follow up on that one.

I think it's going to be a strong outlook because at the end of the day, in my simple way of thinking about things, if you take out all the moving pieces in the craziness of what goes on, at the end of the day, if I take out the high inflation markets out of the price/mix in Q3, you get 6%. The volume was minus 1%. That's 5%. That's right in the range of the top end of our growth algorithm, the same as it has been each quarter so far this year and in previous years. And if you just want to look at it in simple terms, excluding high inflation, I'm expecting us to stay bang at the top end of our long-term growth algorithm.

Andrea Teixeira Analyst, JPMorgan Securities LLC	Q
Thank you.	
Operator: Our next question comes from Kaumil Gajrawala from Jefferies. Please go ahead	d. Your line is open.
Kaumil Gajrawala Analyst, Jefferies LLC	Q
I'm going to go for the award for the shortest question. Since the news is so new with McDor food contamination, I think they're your largest customer. Is there anything we should know a impact your business?	•
James Quincey Chairman & Chief Executive Officer, The Coca-Cola Co.	А
Kaumil, yeah, I think you've got the pretty short question there. Look, I think obviously, hearts who've been affected by the contamination. Certainly, we're a big partner of McDonald's. The ours. We will be helping them in any way we can as they work through whatever's happening information is very thin on the ground as it relates to those of us further away from the situation	ey're a big partner of g here. Clearly, the
Certainly, when one looks at what's in the media so far in terms of the states that have been at this stage, it's not going to be a large significant impact to the business.	affected, I would say
Operator: Our next question comes from	
Kaumil Gajrawala Analyst, Jefferies LLC	Q
All right. Thank you.	
Operator: Robert Ottenstein from Evercore. Please go ahead. Your line is open.	

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Robert Ottenstein

Analyst, Evercore ISI

Great. Thank you very much. Your CSD business in the US is performing quite a bit better than it has than a number of years ago. And I'd like to get your sense of the drivers on that. Is it the Zero Sugar products? Is it better engagement with younger drinkers? Is it market share gains?

And then more specifically, this year, some of the data that we're looking at seems to suggest that CSDs are retaking market share from energy drinks. So, lots of pieces there, but I'd love to get your assessment of what's going on. Thank you.

James Quincey

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

Yeah. Thanks, Robert. Well, Firstly, I'm tempted to go what's driving the growth of the soft drinks as all of the above in terms of what we've been doing to make our brands more relevant. I think the North America team have done a good job across the portfolio, to be fair.

I mean if you look at the third quarter, Coke Trademark grew, volumetrically speaking. The other sparkling beverages grew, volumetrically speaking. I mean within the Coke Trademark, Coke Original was broadly flat, and Coke Zero was double-digit growth, and even Diet Coke grew.

So I think there's been a strong leveraging of the ongoing marketing transformation paired with an improving set of execution by the bottling system, work on the RGM, and the pack mix, and [ph] execution in the marketplace (00:47:50), that are bringing greater strength to the sparkling beverage business in North America.

It's certainly been the accumulation of many quarters of work, and it's starting to show through both when you look at the third quarter and also if you were to look at – if that's an improving trend through the year.

Operator: Our next question comes from Charlie Higgs from Redburn. Please go ahead. Your line is open.

Charlie Higgs

Analyst, Redburn (Europe) Ltd.

Yeah. Hi, James, John, Robin. Hope you're all well. I'd like to dig into the unit case volumes down 1% in Q3 a bit more, please. And if you could maybe just quantify or contextualize some of the consumer hesitancy that's happening in Q3? Was it about the same as Q2, better or worse?

And then also, some of the impacts from the portfolio trimming you're doing? I'm just trying to get the sense of, like, the clean volume performance in Q3.

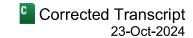
And then just building on that, maybe you could touch a bit more on Trademark Coke, Coke Zero accelerating to 11%. Are you confident, James, that that's incremental and not coming from Coke Classic? Thanks.

James Quincey

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

We can break down the volume in lots of different ways. The first and most important piece of the puzzle, I sort of mentioned it earlier, is the relatively atypical makeup of the volume in Q3. In other words, there was actually good performance from volumes – in volume terms across the developed economies.

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So North America, although it's flat, it had growth in the sparkling beverages and it had growth in the kind of the premium stills, if you like, across multiple categories, and we had de-prioritized some of the case-packed water. So actually, North America had a good performance.

Europe grew, Japan grew, Australia. So – and they grew – not only did they grow, the pressure had actually come from the emerging markets. And that pressure in the emerging markets was concentrated in a set of markets, some with [ph] temporal (50:06) factors and some with some ongoing issues.

The [ph] temporal (50:11) factors are more – for example, Mexico was cycling in this quarter a very strong Q3 last year. Brazil continued to be good, but Mexico was cycling a strong Q3, last year which made Latin America looked like it came off. But actually, we still think the momentum is good there.

India had a particularly heavy monsoon in a number of states, and that affected the volume in India. Actually, by the way, heavy monsoons tend to be a good predictor of agricultural yield, which would be then better next year. That's clearly going to be a temporary factor, and we'd be looking for India to return to growth.

Parts of the world that are under more ongoing pressure, particularly China and the Eurasian markets or Eurasia and the Middle East. Clearly, here, we still see a couple of things going on. One, in China, yes, the economy is kind of not taking off, but some of what's going on are choices we've made. We chose to deprioritize some of what is, in equivalent terms, case-packed water. And we focused on growth in the sparkling beverages in China.

So actually, Coke grew volumetrically in the third quarter in Japan, so it's clearly about — some of it's about the choices we make. But we need to focus more on the things we can control in China to have better marketing, innovation, and execution. But we see light at the end of the tunnel and long-term investment opportunities for the China business.

The Eurasia business is more of a confluence of factors, the spill-over from the Middle East conflict, plus there's a set of markets there that are undergoing quite significant macroeconomic adjustments and that is also coming together to kind of create a relatively big headwind, volumetrically speaking.

Operator: Our next question comes from Bill Chappell from Truist Securities. Please go ahead. Your line is open.

William B. Chappell

Analyst, Truist Securities, Inc.

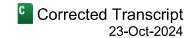
Thanks. Good morning. Could you just dig a little bit further into fairlife. I guess maybe the size of it at this point, are we nearing \$1 billion? How much impact is it having on mix and kind of the prospects as we look to next year, can it continue to expand or do you have tougher comparisons? Because it's really been a big driver particularly in the past kind of 12 months, 18 months and just trying to understand the prospects going forward, and how much impact it's now having on North American overall sales? Thanks.

James Quincey

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

Thanks, Bill. Well, for sure, it's going to be \$1 billion brand. It certainly passed that mark a while ago. I think firstly, like, one of the most kind of I think standout facts about the North American businesses, and I think we said it in the script, is the two biggest brands in terms of retail dollars added to the North American beverage landscape by

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any brand across the whole industry is Coca-Cola Trademark and fairlife. That shows you, I think, the ability to take something that's been around for 138 years and make it continue to be relevant and take something that's not much more than a decade old and make that relevant too.

And so, yeah, it's having an impact on mix because largely we're consolidating a vertically integrated business. And so there's a mechanical effect at the revenue line, which is part of that slightly outsized contribution for mix that I talked about earlier, but it's also delivering on the bottom line. But just to allay fears that somehow that means that the rest of the business is not doing well, no.

The North America ex-fairlife is also growing top-line, gaining – doing well, and growing profit. So both engines are firing, or all the engines are firing, and it's not just one engine, which I think is very important to understand. And it can certainly continue to expand.

I mean, clearly next year, we're going to be cycling a very strong year. And we are in the process, as previously advertised, about bringing online more capacity. The New York plant is being dug out of the ground or built out of the ground as we speak. And so, you know, we will be aiming to blend in that capacity.

Clearly, it's going to be hard to cycle this year's numbers until we get the capacity. But I think there's huge opportunity and demand in the marketplace. We just need to continue to run, keep it relevant, and bring online the capacity.

Operator: Our next question comes from Kevin Grundy from BNP Paribas. Please go ahead. Your line is open.

Kevin Grundy

Analyst, BNP Paribas Securities Corp.

Great. Thanks. Good morning, everyone. James, I was hoping to pivot to the alcohol strategy and learnings there. I think it's gotten a little bit less attention from investors more recently. The company is about a few years in or so to the strategy extending some of the brands. You have a number of different partners in the space with a number of different trademarks.

Maybe comment, number one, sort of broader learnings here a few years in? And two, which opportunities do you think are more scalable globally and can become a more meaningful part of the portfolio? Thank you.

James Quincey

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

Yeah, sure. Yeah, it's a couple of years in, still very early days. I would advertise here a kind of an overall learning that, most things take a decade to work out whether they're going to arrive at scale, a minimum of 7 years. And that's true even if you look back at the beverage industry, the most successful of any brands, it was very hard to tell whether they were really breaking through to scale until about year 7. And it took at least till the year 10 to get to scale, and often much longer.

So a few years is still relatively early days in terms of really building out something that scales. That's point number one.

Two, we've been taking a measured approach to work out what will work, and we've got some good learnings, and we've pivoted where things didn't work, and we've kind of continued to advance where things are working. I



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think in terms of – you kind of – implicit in the question is like, is one of these going to work and the other one's not going to work?

I don't think I see this category that way. I don't think there's going to be one killer SKU that is 50% of the market. I think it's going to be much more – the alcohol industry has more variety and more variety-seeking behaviors. And therefore, I think it's going to be more about us using a combination of some partnered ready-to-drink offerings like Jack & Coke, BACARDÍ & Coke, Absolut & Sprite, complemented with a set of our own brands, ARTD, like Simply Spiked or Minute Maid Spiked, in a portfolio effect.

And I think it's going to be about having a robust portfolio of choice is going to be the approach that is likely to do well in ARTD. And if you look around the world at the few markets, and there are only relatively few, where ARTD is a meaningful percentage of the beer – relative to beer, then that's the characteristic that stands out. So the question is, can we put together a bundle that can be effective, not just in share terms, which I think is possible, but in terms of making ARTD a relevant sized category?

but in terms of maining / it (15 a followant oles a category).	
Kevin Grundy Analyst, BNP Paribas Securities Corp.	Q
Very good. Thank you.	
Operator: Our next question comes from Robert Moskow from TD Cowen. Please go ahead. Your	line is open.
Robert Moskow Analyst, TD Cowen	Q
Hi. A quick question. You expect price/mix to decelerate next year, some of it's due to North America due to hyperinflationary markets. So do you expect any benefit to volume from that? Like, is there are assumption? You did sound very positive about volume into 2025. Thanks.	
James Quincey Chairman & Chief Executive Officer, The Coca-Cola Co.	А
Yeah. There is a certain mechanical effect to price/mix and volume. In other words, I'm expecting 20 inverse of the third quarter. In other words, I would expect the emerging markets to retake their more position of growing faster than the developed economies, which will obviously contribute to volume ginstead of – but it won't contribute to a positive price/mix. So I think there'll be some stabilization in the relationship, such that next year is going to look more like essentially what this year has looked like, where you've got some volume growth, a more normal level of volume growth, a more normal level of a kind of a top-up of what will still be a residue amount of high-inflationary countries. And that's likely 2025 is heading.	e traditional prowth, but nat kind of which is of pricing, with
Robert Moskow Analyst, TD Cowen	Q
Okay. Thank you.	
Operator: Our last question today will come from Carlos Laboy from HSBC. Please go ahead. You	r line is open.
Carlos Laboy Analyst, HSBC Securities (USA), Inc.	Q

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Yes, good morning, everyone. I have a North America-specific question. Can you tell us more about the improving system digital capabilities are being built that you might find most promising as you look forward to accelerating volume and revenue growth? And how are you compelling the bottlers to make investments behind these capabilities?

James Quincey

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



Yes. Sure, Carlos. I mean, from a bottling system point of view, I think in a way, it's the expansion of the digital engagement with the retail system. I mean there was always the electronic ordering in the modern trade, and that's been around a long while.

What's really interesting about what's going on is more in the kind of mom-and-pop traditional trade or independent trade part of the marketplace, which is not just the ability to provide a platform, which allows the retailer to engage with the ordering system 24/7 rather than waiting for the pre-seller to turn up. They can engage to add product order – add to order, they can register service request for the coolers or for merchandising material. But also as we start to get into AI, the system can also start interacting with the retailers with suggested orders and the engagement, not just from the retailer to the bottler in terms of ordering a service that's actually from the bottler to the retailer suggesting orders because of whatever is happening, there might be some events coming up, there might be people like you buy these sorts of things you should add. And so we really see a combination of enhancement to the market developers who are out there.

It's not going to go from being a human system to being an entirely electronic system. I think it's going to be about the enablement of the humans to be as productive as they can be, whether those are pre-sellers, market developers or the retail operators themselves. And so I think it's very exciting, and the bottlers are leaning in to the investments in this area.

James Quincey

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

So with that, just to conclude, we think we're well positioned to deliver on our ambitions towards 2024 and over the long term. We're certainly managing near-term uncertainty as we continue to build our system for long term. And we're confident we will create sustainable value for our stakeholders. Thanks for your interest, your investment in the company, and for joining us this morning.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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