

16-Jun-2016

The Coca-Cola Co. (KO)

Deutsche Bank Global Consumer Conference

CORPORATE PARTICIPANTS

James Quincey
President & Chief Operating Officer

Kathy N. Waller

Chief Financial Officer & Executive Vice President

MANAGEMENT DISCUSSION SECTION

Unverified Participant

Good afternoon, everyone. We are heading into the home stretch. It is great to welcome Coke back to the Consumer Conference this year. James Quincey, newly-minted President, or not so newly, actually it's been almost a year and the Chief Operating Officer of the Coca-Cola Company. So, thanks very much James for coming.

James Quincey

President & Chief Operating Officer

Okay. Good afternoon, everyone. I put up the traditional forward-looking statement page without just the post lunch slot and in homage to the Internet trend of can you see an image within an image, there is actually a panda in there. A small price to the one who can find it.

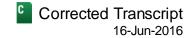
So, with that, having dwelt a little bit on the serious page, let's move to the serious business of what we're doing for growth. So, I'd like to talk about three things with you. One, just remind those of you – many of you will have seen it before, but just remind those of you perhaps haven't, that we build from a set of indisputable strength, and that we have been pursuing an agenda over the last 18 months and we see, based on our learnings, based on our insights, based on what's happening, two things that we're doing, one, around accelerating some of those actions, and secondly, about evolving our strategies and our approach to certain issues.

So, three simple chapters. I'll go through them and I'll attempt to leave a bit of time for Q&A.

So, firstly, building from our strength. We, the Coke company, the Coke system, we have an incredibly strong set of assets. You'll have heard us talk about them before, but I think it's worth remembering and therefore reminding about them. A fantastic portfolio of brands. We have \$20 billion brands. We're number one in non-alcoholic ready-to-drink, not just because we're number one in sparkling, but we're number one in stills as well, and we do that through our over 500 brands. We'd like to think that whilst our marketing can get be tter, we work from a platform of quality, from the right quantity, and marketing that's on strategy for our brands in our marketplaces.

And thirdly, and I know a number of our bottling partners have been here this week, we have an unparalleled bottling system that delivers superior execution. We work with those roughly 250 bottling partners around the world to drive in-store execution, visiting something like 24 million customers, 24 million outlets each week, and we collectively between all of us have 16 million pieces of cold drink equipment. So, a set of assets, so I think gives us a great platform from which to look ahead for growth into the future.

Deutsche Bank Global Consumer Conference



Late 2014, Muhtar laid out a five-point agenda, a set of priorities for us going forward. We talked about focusing on our core business, which meant refranchising. We talked about streamlining and simplifying our own organization and driving efficiency to drive aggressive productivity. We've learned a lot over the last 18 months and we've seen a number of places where we can accelerate our actions, because now we've proven how to go about implementing them and can see an ability to pick up the pace.

The other two parts of the five-point plan focusing on segmenting our markets to be more precise, more targeted in terms of how we approach getting revenue. And the second one was the discipline around investments. There, we believe we made good progress. We'll be making those decisions. And we see in the light of market conditions and the ever-changing consumer, we see how those strategy is going to evolve to continue to support growth for the company. So with that, let me dive into those two big parts.

Firstly, the accelerating actions. Fundamentally, we're accelerating the actions on focusing our core business, because we want to transform the company and return to a new version of our core value-creation model, that's around the company building strong brands, driving customer value, and leading our franchise system. That will make the company, as it says on the slide, lower-risk, higher return, with ultimately a greater confidence in our ability to achieve our long-term growth model. That's the company that's going to emerge from the mist of all the change and the structuring and the latest refranchising press release that comes out on a steady, planned rhythm, this is the company that's going to emerge from all that mist of change.

How are we doing? On the principal dynamic of refranchising, we've talked about five geographies, particularly where refranchising is going on. In the U.S., which is by far the most complicated with the most moving pieces, we are still on track to end it, complete it by the end of the accelerated date of the end of 2017. We have, so far, got agreements that cover 70% of the volume that we're going to refranchise. So, obviously, there's a bit of time from agreement to actual handover, a lot of work to be done. But the team that's focused on this is making good progress and remains on track.

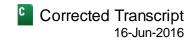
Europe, I'm pleased to say, and they were here this week, Coca-Cola European Partners. That deal is closed and up and running. I think that's a very exciting start for that bottler. Coca-Cola Beverages Africa, we're expecting to close that early in the third quarter. So that will be another one done. China is in process. It's always going to —it was further in the pipeline or later in the pipeline. That's — they'd take a little longer. We said that will take us through 2017. And obviously, we're working on the Japanese possibility of merging the system there, talks ongoing. So, while a lot of our franchise system is in motion, we clearly are marching at a rhythm, an accelerated rhythm and meeting those deadlines successfully.

Once that's done, our business, and the Coca-Cola Company itself will look very different post the transformation. We're going to go from being about 18% of the global bottling volume to about 3% of the global bottling volume, concentrated largely in the ASEAN countries and in India.

And that means that we're going to transfer a lot of employees to our bottling partners. We're going to go from about just over 120,000 employees to just under 40,000. And of those 40,000, half of them will be in the remaining bottling investment group territories that we still own. So, the core business will be somewhere around just under 20,000 employees. So, very different company, we believe focused on the core strengths and the ability to drive value.

And within that, in parallel with the refranchising, the other thing that we are accelerating, the focus on is our productivity initiative. We've taken – we've tried to take some time to – in the midst of all the restructuring, try and just break out where the productivity is and how it's coming through. So just here, I know we've used a page like this before with the numbers on the left, but just to give you an idea of how we believe the productivity

Deutsche Bank Global Consumer Conference



initiative is bold and forceful, you can see here the percent of the relevant spend basis that we're going after in terms of savings, and they're in the teens. So, there's some pretty meaty productivity targets against those three different spends buckets, COGS, SG&A, and with its OpEx and its marketing.

And we're doing that by ultimately moving from it being an event to embedding it in the daily routines, the monthly routines, the annual routines and driving it further into the operating culture. We're on track. We're a little overhalfway through realizing the savings, and we're fully on track with realizing the benefits that come from this program. So, those are the two things we're accelerating; the refranchising and getting the productivity done.

The place we're moving to in terms of productivity is taking the systems to the next level of its collaboration on productivity. We were recently at the Global Systems meeting where a large number of the bottlers come together with the company. And we were discussing how can we take some of these areas and find new ways to collaborate as a system to capture even more productivity collectively?

Collaborative procurement is just one example. We currently have what we call the Cross-Enterprise Procurement Group, which brings together most of the bottlers in the company in purchasing some key commodities. We've been discussing how can we expand that to other procurement category groups and buy more together and more effectively.

And on into the other categories, whether it'd be digital, the route-to-market, or the design to cost. So, intensifying our efforts as a company and intensifying our attempt to connect the bottlers who also have their own programs, so that we can find even more as a system.

The second area that I just wanted to touch on is where we're evolving our strategies. Now, as a backdrop to talking about this, let me just kind of underline for a second, where we see the opportunities and why we're evolving our strategies.

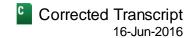
When we look at the opportunities, we continue to see a robust category growing into the future. The non-alcoholic ready-to-drink category, depending on which projection you look at, has robust long-term growth potential; some of the forecast are even above 5%. But we see long-term potential in the 5% arena. Yes, as I talked about in February at another unnamed conference, I said in the short term, it's going to likely be less than that. So may be it's going to be in the 4% range in the short term, in the near term, but still robust growth for the industry.

And on top of that, we ourselves only have about a third of the industry in terms of value share. So we, as a company, we see long-term category growth fundamentally continuing to be there, along with an opportunity for us to gain share as we have done consecutively and continuously over a large number of quarters.

And against this opportunity, we think we have the fundament also fa growth strategy that works. There is this growing consumer demand that we can meet with our great marketing, with the base of the excellence in execution from the system, as long as we make the disciplined portfolio choices along the way and that will drive us towards our long-term growth model.

So, the opportunities are there. We have the strategy. So how are we evolving? We're evolving because we're responding to what the consumer is doing. The consumer, some of these trends have been running for a number of years, some are intensifying, but we are responding to what the consumers are doing, whether it's personalization – I think Share a Coke was one of the best examples responding to personalization or the small packages on people wanting to control calories.

Deutsche Bank Global Consumer Conference



And we need to respond to some of the other trends that are out there on for the consumer. And I want to touch on two of those, two buckets of those; one, on sugar and choice, and secondly, on income inequality. So, we are adjusting our approach to the sparkling category. We have made a shift in how we deal with the challenges and the headwinds around added sugar or total sugar consumption around the world. We realized that we need to go from offering choice to shaping choice. We need to use the ability of our system, our marketing, our designs, our reformulations, to provide a portfolio of products that encourage and enable consumers to enjoy added sugar responsibly.

Now, some of that will be smaller packs of Coke classic or Coke original taste. But also some of it will be on innovation. We're investing more in R&D so that we can reduce to aggregate sugar content across the portfolio and promote zeros and light products, all of which will need to meet the absolute entry price of being great tasting. There is no point of developing products with whatever level of sugar if consumers don't like them, because they're certainly not going to drink them. But we clearly see a vector here where more shaping of choice to help move the industry and innovation will provide a platform to sparkling growth.

Now, along with that we of course need to do a number of other things. They're not so much to do with the product but there's a need for us to support and help lead on the promotion of facts that takes different shapes in different countries given all the regulatory environments, but our North Star is to promote clear facts. Marketing responsibly, we've reinforced many of our leading policies on marketing to kids and other ways to ensure that that is done in a responsible fashion and, of course, engaging with all sorts of stakeholders.

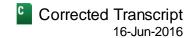
So a different approach to Sparkling. I think what's also worth underlining about this approach is, it connects and integrates a number of other strands of what we're doing out there in terms of our Sparkling approach. I just talked about how we're going to go from offering choice to shaping choice. How we're going to be proactive in trying to take the consumer somewhere. But that also integrates with our strategy choice of being less dependent on being volume-led and being more focused on being value-led. The two things can go together because as I shift from trying to sell the extra 2-liter bottle with a oversized discount to selling more beautiful small glass bottles that is good from a revenue point of view, yet it's also good from a shaping choice point of view.

And thirdly, the way that we're marketing the Coca-Cola brand for example. By taking it from different brands and making it into the one brand strategy with a number of variants, as people, for example, someone who's loved Coke classic all these years, at some point when they wanted to have a little less sugar, we made them change brand. You either have to go to Diet Coke or Coke Zero, but these brands all had different personalities. And the reality is we used to lose people along the way.

So what we've done through the one brand strategy is create Coke as one singular iconic brand with different variants, so that you can participate and always continue to participate in the Coke franchise whichever the ingredients, on whichever occasion you don't happen to want to participate in. Of course that needs to be underlined by what I talked about to do with innovation, the transparency and to some extent, the leadership. So, a different way of looking at category growth and integration of the strategy of shifting from volume to revenue and a new way of marketing brand Coca-Cola.

The second evolution of the strategy I just wanted to talk about was something on this reven ue segmentation. And let me enter that through just an optic of what's happening globally and with the macroeconomics. We've talked in the past about how we've seen yet a slowdown macro-economically in the developed and the developing markets, and that's flow-through into the NARTD value equation for the industry, but also, and not immaterially important for us, a pickup in the developed markets.

Deutsche Bank Global Consumer Conference



And as we ended 2016, obviously, we saw a portfolio where the develops could continue to do well, and some pressure in the developing and emerging markets. Knowing that developed and emerging tend to be more volume or revenue-focused and the develop being more obviously revenue but also profit focused. The reality is that this year has started and gone on economic forecasts, and therefore, industry growth is starting to impacted by a number of economies.

You can see the latest downgrades of the GDP forecast from the backend of last year to now. A lot of that is coming in the emerging markets. I think we all knew that some of them would be bad, not forgetting that some of them are doing very well. And some of our businesses in some emerging markets are doing very well. But we knew some markets will be bad. I think a couple have come in a little worse than people expected for the year, places like China, also Argentina as the government begins an economic correction. So some have come in worse economically and I think worse from an industry point of view. The question is not to admire the forecasts or lament the forecast but to talk about what are we doing about it.

Clearly, as we approach the segmentation of revenue and giving different markets different roles in driving revenue and then ultimately profits, we have really looked at these different — obviously, the countries within these three different buckets of developed, developing and emerging. And not so much focusing on where we're doing well in the developed and the strong, and continuing focus on price and mix in a number of these markets that's paying dividends. We paid dividends in 2015, and we believe it still will in 2016.

Let me talk a little bit about the emerging markets. As I've said, some are doing well. Good growth in places like Indonesia, Philippines. Some are coming under pressure like the Chinas, Argentina, and when I get the business continuity may be even Venezuela. But what's important about these is not to stick with whatever the piece of paper said the plan was back in 2015.

If there's a change, our experience and our game plan for emerging markets to go into problems is to get in there early, rip off the Band-Aid and get on with adjusting the business. And that's generally speaking, get a real focus on driving execution and affordability, more disciplined around pricing and inflation, because as these markets tend to go down in currency, theretends to be more local inflations.

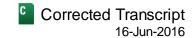
Get really disciplined on pricing, adjusting the marketing mix to follow the consumer where they're going. Whether it's some countries, the rich get richer and you need more premium, and the poor get very impacted by devaluation/inflation and you need to get very focused on affordability. We've got to do that in some of these markets and we're pulling the Band-Aids of some of those.

Now, having said that there are couple of other things that are important. One is, we're not going to continue to invest in places where there is no good return in the short term. We will reallocate the money from those that aren't going to succeed in the short term, who don't need it to rebalance the market to those economies and those businesses that are doing better. So we're doing a fair bit of reallocation to get that done.

And secondly, the business continuity for some markets get so bad that just staying in business becomes the part. Clearly, this is a very small part of portfolio but we are focused on it and we do know how to do it. So in the round, the emerging markets still growing, some of them a little worse than was expected. And we've got in there and we're taking action to set the businesses within these new tougher environments and moving the money elsewhere.

When it's taken in the round, obviously, we're looking to do the right thing in terms of revenue for the long term but also leverage the total picture and the total picture's productivity so that we can deliver what we said we were going to deliver in terms of delivering value for the business.

Deutsche Bank Global Consumer Conference



Now, one way of doing that and I think it's just worth underlining because of the importance to the business whether it's some of those struggling emerging markets or whether it's the growing emerging markets or whether it's even the developed markets.

I mean, here India which has certainly been growing, a lot of deep focus on affordability. You can see some of the Splash Bar which is the cheapest most accessible Coke you can probably buy in the world. We just launched, I know I've talked about it before, but the Entry Pack PET, it's a new technology, first in the world. The line is now up and running for a month. It's running at full speed, and we're selling what we can. What's important about that package is the new technology radically extends the shelf life of small PET. Shelf life of small PET to reach rural areas has always been a problem for anyone in PET bottles because it loses the gas. So this is a way of really being able to extend the reach way further into the rural areas. So I think that's a very exciting innovation.

And then the U.S. The U.S. continues to make good progress on its packaging strategy and that's not just affordability as it's the case with India, but it's also premiumization. There are a whole set of markets around the world where that trend of income inequality continues to play out and where the necessity becomes to move from the middle to more premium offerings and more affordable offerings.

The third area where we're doing some evolution of our strategy is in stills. As I said at the beginning, number one in sparkling, yes. But we're also number one in juice and juice drinks. Number one in ready-to-drink coffee around the world. And a strong number two in most of the other categories within stills either through the energy partnership with Monster or in water, sports drinks and in fact, tea.

The basic premise is we've got a 50% value share in sparkling beverages, but even that number one in stills is only at 15% market share. But on top of the growth of stills, which is continuing and which is robust, we believe there's an extra opportunity in terms of share gain.

But we are seeing, as that pressure from income inequality flows through into the beverage industry as in many other industries and the availability and in fact the effectiveness of the supply chain, offers new opportunities to premium and closer-to-nature type beverages. We are seeing a wider spectrum emerging from premium to affordable offerings. There's growth on both ends of that spectrum.

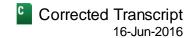
We see ourselves and the industry being able to offer more affordable entry and products on the bottom -end of the price spectrum whether that's juice drinks and teas, people do it in water that's not our focus though, but in the premium end, we see more growth. There's more growth in premium juices and plant -based drinks, the expansion of chilled and all sorts of new technologies and we participate strongly in those sectors.

Premium teas are growing. Gold Peak, which is our – one of our chilled brewed teas in the U.S., is growing well into double-digits. A lot of growth in the premium end oftea.

Similarly, in value-added dairy and protein-based drinks, there we've made a number of bolt-on acquisitions in the recent months, most recently announcing a deal not yet closed on AdeS, built on our Chinese deal, built on our Nigerian deal, built on the U.S. deal that was done at around fairlife. We see opportunity for us to participate in the value-added end of dairy and plant-based protein drinks.

And then coffee. We are ourselves premiumizing what was already a premium category in ready-to-drink coffee in Asia. And our focus in water is largely in growing on the premium value-added end, and the great success of smartwater in expanding that. So a lot of opportunity in stills, a lot of that occurring at both ends of the spectrum.

Deutsche Bank Global Consumer Conference



And the way we're attacking it is how. We're attacking it by, yes, building some b rands locally. There are some of our billion-dollar brands that started off organically in one part of the world and we have just built it and built it and built it until it's successful where it started from, whether that Simply or Georgia and the latest upcoming one being something like Gold Peak – Golden Peak.

We use bolt-on M&A. I mentioned a couple of the recent examples. And ultimately, we're not looking to just build lots of local jewels but to scale brands globally. The nirvana is when we can find either one brand that can be scaled globally or a family of brands that can be scaled globally as though it were one master brand. And that helps us drive value. It helps us drive value because we get scale-value leadership, and therefore we can participate profitably in many of these sectors.

All of that underpinned by a realization and a further development of fit-for-purpose routes to market. Whether that be chilled or different types of manufacturing or different types of selling, we know we need to find the way that helps work for the consumer and the customer, not prioritizing the fit with the base business.

So with that, let me summarize with a couple of pages. Post refranchising, we're going to look different. But we have greater confidence in being able to meet our long-term growth model. We're going to look different. I won't go over through these numbers. Kathy, Coca-Cola's CFO is here, we'll be able to take questions together in a minute. But we will look like a very different company. But I think the point worth underlining is not just the shape of the company that will emerge from the mist of the change, but the potential and the greater confidence in hitting our long-term growth model.

So with that last page of summary. We've got a strong set of assets and some clear strategic initiatives. We're accelerating on those ones where we know how to execute and we're making a lot of progress, the refranchising, returning us to our lower-risk, higher-return routes. Leveraging the effective revenue growth strategy in some of the volatility of the modern world, yet underpinned by solid stability and growth in the developed markets. Accelerating our stills, finding those country, category, price point spectrum positions where there's value and growth. And then, of course, last but by no means least, reshaping our approach to the sparkling category.

So with that thank you for listening. I'm going to turn the questions – Kathy, do you want to come up and we'll take some questions.

QUESTION AND ANSWER SECTION

While Kathy is walking up, James, can you just talk about what do you think the progress so far on the One Brand strategy is? I'm sorry, I know it's still fairly early days and – the impact on your labeling mark and the sugar taxes, so is it about choice or is it really about leveraging marketing investment, or is it both?

James Quincey

President & Chief Operating Officer

А

I think it's a representation of the various different elements of the strategy. I mean, the one brand strategy, just to summarize, for those who perhaps don't know is, bringing on the – taking the different brands of Coke whether it be Coke, Coke Zero, Diet Coke, Coke Light, Coke Life, Cherry Coke, Vanilla Coke, whatever, and bringing them under one integrating idea and brand proposition, saying look, there's one Coke, you can enjoy it in lots of different ways, but the bottle is shared, the iconography is shared, the brand proposition is shared.

And bringing them under one brand and calling each of the rest variants. I mean, it sounds like kind of a marketing piece of paper, but what is really driving that is allowing people to enter the franchise at any particular point and stay in the franchise. If they have concerns about ingredient X or ingredient Y, they can stay in the franchise, because you can have a Coke classic or you can have a Coke Zero sugar. You can have a Coke classic, or you can have a Coke caffeine-free. We are providing the variance for people to stay in the franchise. And that then connects with all the work on the visual identity.

So how is it going? To be honest, it's still early days. It only really rolled out a few months ago. The initial consumer feedback is very strong. The first – the next iteration of the graphic representation of this on the packaging, I think is going into Mexico right now. That's the first place this representation is going. And we had some 1.0 versions of the packaging. We tested in Spain and in Northern Europe, and Chile and Russia. Both of them had the same basic reaction. It was a much stronger implementation and look for the brand in store. It drove extra sales and extra mix of Lights and Zeros. And that's the results from the tests. We're now moving to a larger scale with the 2.0 of the graphics. So we're hoping to see equal and better results.

How far along are you in the price and mix journey in developed markets?

James Quincey

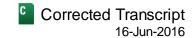
А

President & Chief Operating Officer

I think the price and mix journey, we're not in the same place in each market. So I think where they are is very different by market. Generally speaking, I'd say we're further along the kind of the right journey in Europe, especially in the current kind of tough — may be not deflationary but low inflation environment that is Europe. So I think we're looking for mix. Of course, we're looking for price but we're looking for mix and I think Europe is a place where differentiation on packaging has still got more to go.

In the U.S., we still got both levers. The premium to the rest of the industry in the U.S. is lower than it is in Europe. So I think there's space for both. And the team in the U.S. has made consecutive quarters of good progress

Deutsche Bank Global Consumer Conference



on price and mix, and we think there's plenty of runway left to go. I always say, yes, there'll be quarters when it won't come through and when competitors or customers, something will go wrong. But we see that we've got a track record of quarters and we see plenty of runway in the U.S.

Q

Do you have a target in U.S. for what percentage of sales? I think it's about 15% now. Is that the right number of the - sort of new packs?

James Quincey

President & Chief Operating Officer

А

Oh, yeah, the new packs. Yeah.

Yeah, yeah, exactly. So do you have a target for where that would get?

James Quincey

President & Chief Operating Officer

eta

No, because – and the reason that we don't have – I mean, of course, there's a business plan and there are targets to where it's got to get to this year and next year and the year after. But in conceptual terms over long term, it's not we're trying to create, get to a specific number for those packs. Because what will happen in the road is we'll think of new packs that need to be out there in the market because as consumers change, so as households gets smaller, as retailing moves more towards convenience away from the bigger boxes, you can find yourself wanting to have smaller packages. So may be, we'll have to introduce other large PET packages.

So there will be continuing package evolution to meet our needs to diversify and segment the occasions in the price points and that will – that's got plenty of good to go.

Q

Questions from the audience? [Inaudible] (31:46-31:52) find you.

John (sic) [James], long-term – I have two questions. First one pretty easy. Long-term is a 2% to 3% price mix, top-line contribution achievable globally once you kind of get things where they need to be?

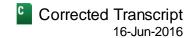
James Quincey

President & Chief Operating Officer

 \triangle

I mean, I guess I would answer that if revenue is in the number in the long-term growth. Well, I mean it's in that sort of ballpark because we're looking for price and volume in a broad mix. So as that's roughly half of what we're going for in revenue, then yes it's in the ballpark. Now, we've been more in the two kind of end recently. But, I mean, I think clearly we're not going to want to go for one and I don't think four is achievable. I'm not trying to give a guidance that is 2% to 3%, but that's clearly what's implied and what's kind of going on, Kathy.

Deutsche Bank Global Consumer Conference



Kathy N. Waller

Chief Financial Officer & Executive Vice President

A

Yes. As James said earlier – a few minutes ago though, there will be times when 1% is 2% is probably going to be what we get and that's actually perfectly acceptable and it depends on what else is going on in the macro environment. But on a consolidated basis, 2% to 3% would be great. But sometimes we're going to be at 1% to 2% and that's perfectly acceptable.

I understand. And just regarding Coke Africa, right? You've been accelerating or you're refranchising globally, right. And it's been on your timeline even though you've been pulling things forward a little bit. Coke Africa is a little bit different because it's on, really, somebody else's timeline, right. So when this ABI -SAB deal closes, all of a sudden Carlos Brito is going to be a pretty big partner with you. And I'm just wondering how that kind of develops. I know that you could pull that partnership and give it – create something else, or do you want to wait for that deal to close where he then could, from one minute after it closes, he can look at the books and kind of see what you're doing? Or how are you thinking about the evolution of that relationship?

James Quincey

President & Chief Operating Officer

Α

Well, of course, we're thinking about where we're going in Africa. But unfortunately, given that there is not just one but two deals to not comment on, I have a double no comment.

Thank you.

James Quincey

President & Chief Operating Officer

 \wedge

Sorry. It was a good try.

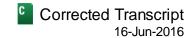
There's obviously a huge amount of consolidation of the bottling network everywhere around the world pretty much. If we sort of take a very long-term view, may be, I don't know, 15 years, what's the ultimate aim? Is it one bottler per region, one bottler globally, no bottlers? Is there – can you give us a bit more color in terms of the ultimate direction?

James Quincey

President & Chief Operating Officer

I don't think there's a one answer for the future, because the consolidation and the evolution of the bottling system obeys a whole series of dynamics and they're not static. And they're not just about who wants to go where and do what. But we have to steward a franchise system that responds to the opportunities of the consumer. I don't mean just consumers who want to exit that, creates a whole range of manufacturing and distribution opportunities for the system, also where is the customer going. So, the perfect shape of a bottler is not a static picture. So, I don't

Deutsche Bank Global Consumer Conference



think that have – now, clearly, we have a view. Clearly, we have a plan as is represented in what we're doing in the refranchising. But there's not a single destination point at which history will end.

Q

James, can you just elaborate on the challenges now in China. I know it was a pretty rough first quarter. And it sounds like things aren't great so far this quarter. And then do you think China could ever be a Cola market? I think it's more of a Sprite market. Is that – is that right in terms of relative market shares?

James Quincey

President & Chief Operating Officer

Δ

Okay. Let me try both of them. I mean, I think China is a bit rough at the moment. I think what's — macro-economically, I'm not going to give a number. I'm not sure what the number is for the GDP, but it's clearly slowing down. I mean, I think you can see in Nielsen, FMCG or whatever category you want to look like, it's kind of been stepping down over the last couple of years. And this year, it's probably in the low-single digits to flat.

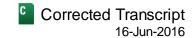
I think the way the band-aid needs to come off is sometimes it's – in an industry and a market that's developing, when the trend changes, you can kind of get whiplashes through the supply chains. So, I think some of what you see for us is the effect of the inventory, as the kind of distribution system, the wholesalers, the distribution partners accommodate a lower level of sales in the short-term, there's kind of an inventory whiplash effect. So there's some of that going on. But I think what's important for us is to look through that kind of short-term – it's like one of those supply games you play at business school and look through, again, what is the consumer doing. And ultimately, it's going to be a couple of things. There is more of a middle-class emerging and they continue to go up the spectrum in terms of their demands for high-quality interest in beverages.

So we will continue to push, whether you want to call it premiumization or new higher-end offerings. But the opportunity in the rest of China, whilst those people are more under pressure from the kind of economic shift that the government is making, there's a vast opportunity there that's still untapped. I mean, distribution in the rural and the lower socioeconomic areas is still not fully tapped. But we see ourselves, yes, adjusting to the kind of the short-term, kind of whiplashing into the supply chain, but staying focused on where this is going long term.

And of course for us, it makes a difference which emerging market gets into problems, because in only some of them, do we have bottlers, and of course, that magnifies the impact on our consolidated revenues, but given the emerging markets, it doesn't make so much difference to the profits. So you got a bit of the, who goes into the — who goes through the ring and makes the difference in that sense. But we stay focused on where we're going. Pull off the plaster, take action, get yourself set up for the new normal. So we think there's going to be a vibrant business in China in the long term.

Now, is it a cola market? I think the cola markets have been built in history; most business – even Latin America, which everyone will call a cola market. If you go back far enough in history, they were flavor markets. And the cola business got built overtime. And you can see that happening in some of the Asian countries where the Sprite – they're flavor markets, but they can become cola markets. And you can see that in China. Steadily over the last 10 years, Coke has narrowed and narrowed and narrowed and narrowed the gap towards Sprite. It hasn't over-taken Sprite. But very often, it's the pattern whereby people come in on the flavors and then over time it develops more into cola market. And you can see – it's going to be a long-term trend, but you can see that path being laid in China.

Deutsche Bank Global Consumer Conference



[indiscernible] (39:05)

Q

Also a question about agility, speed of movement. A lot of CPG companies talk about wanting to make their innovations expand into all their territories as quickly as possible. If I look specifically to your sparkling business, the speed at which Zero and Life rolled out, it still seems relatively measured compared to what we see from other businesses. Is that something that's special to the cola market or to do with the system or was that something you'd hope to see changes across the Coke system in future?

James Quincey

President & Chief Operating Officer

Δ

Well, I'm certainly not going to say I'm happy that we're fast enough. But Kathy knows me. Those words are never going through pass my lips, okay, you went too quickly, well, maybe they will when doing better. No. So, do I think they could – that Coke Zero could have rolled out faster? Yes, I do. Do I think Coke Life should rollout to more places? Not necessarily, because it meets a particular point of development in the cola category in a number of markets and responds to the set of consumer demand.

So, I would definitely segment initiatives between, which of those are targeted intended to drive a specific purpose with consumers, and Coke Life is one of those. I'm not looking to be it in every country. Coke Zero, clearly – and we'll be calling it Coke Zero Sugar – clearly, I would have liked that to rollout. I think clearly we're focused on how do we move faster with the winning offerings. Those that clearly have resonance across many countries, whether it's all of the developed countries or all of the world, how do we get that out faster. Absolutely, I'm not satisfied and we're working on making that better.

Q

Just one last one. Do you think the organization knows what the new marching orders are? I mean, you know like if I ask sort of like lower and mid-level employees, you know like they've done is volume, volume, volume for instance in the U.S. I mean, is it sort of cascaded all the way down, like I think in those RED score things, I mean is that price mix such a big element of the RED score that you sort of can avoid?

James Quincey

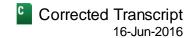
President & Chief Operating Officer



Yeah, I mean – Yes, I mean, do I think it's – again, it's back to the previous – am I satisfied as to the – whether it has to be 100%? No. I mean, there's no question that – I think in all situation, senior management gets bored with the messages before the messages reach the furthest reach of the organization. So, absolutely, we need to keep being clear on what the priority is.

There's nothing that's more confusing for the organization than lack of clarity on direction. Clearly, we have to provide the framework. They have to act within it. And we have to provide the directions. So, I would never give up on continuing to provide direction. But yes, I do think it's penetrating. Yes, I do think it's reaching the middle and the front line. I mean, whether it's the RED scores which is more about the bottler front line and the people in our operations helping to support them. And a lot of that has always [indiscernible] (41:58) price mix. Now, the

Deutsche Bank Global Consumer Conference



important thing is, are we changing it within RED, which is the in-store execution tracking system. Are we changing what we're looking for to the smaller packages and the more price-orientated packages from, is there a big display of 2 liters, and the answer is yes.

Are we more focused on revenue inside? Yes. We've shifted from volume to revenue in the incentive system. So, people are starting to see that's what drives the paycheck. Are we there on the complete culture shift? No. The fact they've got the message doesn't mean that it's all fully implemented. So, we will have to keep reinforcing it time and time again.

Unverified Participant

I think we're out of time. And thank you, again, for the beverage. That's going hurt the CCEP incidence pricing, I think, because people drank a lot of soda.

James Quincey

President & Chief Operating Officer

Good. Thank you.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, Factset Calistreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2016 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC.

All other trademarks mentioned are trademarks of their respective companies. All rights reserved.

