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The Coca-Cola Co. (KO)

CAGNY Investor Conference

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MANAGEMENT DISCUSSION SECTION

Unverified Participant

For our next presentation, I'm happy to introduce President and COO, James Quincey and CFO, Kathy Waller of The Coca-Cola Company. As you'll know, James will become the company's CEO on May 1. So, I'd first like to offer my congratulations on behalf of the CAGNY board.

Coca-Cola is a company in transition. While its P&L will remain under pressure from the dramatic reshaping of the global bottling network and refranchising, there are already clear signs that the newfound focus on revenue rather than volume is paying off. While red can Coke will remain the company's hallmark, the broader LRB category is becoming Coca-Cola's global benchmark. After two years of exceptionally strong performance in North America, we look forward to seeing where James and team can lead the company in the future.

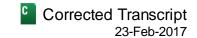
Before I hand the stage over, I'd also like to thank the company for providing us with an endless and broad array of beverages all week. And also, I'd highly suggest the Arctic machine and beg them to get you the chocolate fairlife for the next time they come in [ph] further forums (01:03). So, thank you for the beverages and thanks very much for joining us this year.

James Quincey

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

Thank you. Thank you. Good afternoon. Okay, I'll jump straight in. You know this page. We want to do three things today. We want to talk a little bit about the foundation that we've been laying over the last few years, and then quickly pivot to where we see ourselves going, looking forward a bit and then of course Kathy will come and talk a little bit about our financial performance going back and going forward. So, three topics.

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Firstly, laying the foundation. You've seen the page on – the bit on the left here at CAGNY last year, we've been talking about the five actions we've been executing over the last few years. We've made good progress. I think it's pretty clear that we've got some revitalization of the system, of the brands, of the portfolio, of the marketing, the system is getting stronger and some good progress on the communication. So, some ticks against those five actions we laid out in the past.

In terms of hard numbers, as one of way of representing the progress on re-energizing the business and the business system to move forward, let's just look at our core revenue. If you look at what we've done in terms of the core revenue, so here taking out effectively the asymmetric impact of where we own and don't own bottlers, you'll see that we've accelerated our revenue growth from the 3% that we were running at, the red column, before we took the five actions and we've done 5% and then 4% over the last couple of years despite a somewhat softening macroeconomic environment.

So, the combination of everything we've been doing, reinvesting in marketing, reinvesting in execution and bolstering the system through refranchising, I think has led to some stimulated revenue growth despite some softer macros.

And then in 2016, you saw the announcement a few days, 3% consolidated revenue. As I said, the 4% underlying core revenue and the 8% currency neutral profit growth all while continuing to win in the marketplace. So, in a sense of the sum of all the local markets, another strong result.

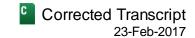
[indiscernible] (03:25) become and we pulled this out in the earnings call is that while on the top row here you see the step-up in performance of our currency-neutral profitability, a clear acceleration as we've executed the five priorities, we have faced two big trends. One which is the decision we made which is the selling off of some profitable bottling businesses which is called structural, but let's call it what it is. We sold some profitable businesses. And the foreign currency impact. Those two things taken together have obviously compressed our comparable EPS; in fact, it's declined for the last three years. And as we go forward, as I talked about on the earnings call, we maintain, of course, our long-term aim of growing our consumer franchise, whether you think about that in terms of how many people drink our drinks, the transactions or our value share, tasking the local markets with growing in local currency but as a corporation, making sure that the comparable EPS grows into the future.

So that's the past. Let's talk about the future. Let's look forward. And let's start perhaps with: is the mark et growing and where is it growing. The reality remains that the beverage industry on a global basis remains vibrant from a revenue point of view. It grew revenue about 4% over the last few years and it's likely to keep growing at 4% over the coming years. And that vibrant growth in revenue is not just a percentage, it's a huge amount of dollar value that's coming into the industry. It's also broadly spread across a whole number of categories. Sparkling remains the largest category in terms of value and in terms of incremental value, even if the percentage is slightly lower than some of the other ones. So, there's broad-based value growth across all the categories in both percentage and absolute terms. So, it's a vibrant industry.

And then, let me tell you how we think about growing in this vibrant industry, and you will hopefully indulge me and I will ask your indulgence for a slightly different way of talking about our growth model. It involves what was drawn on the whiteboard.

In the end, we have a very simple growth model for attacking and trying to grow in this industry. We focus on creating consumer-centric brands. We try and make sure they achieve pervasive distribution.

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We then create share value. We believe that's important. Share value not just for the consumers, the customers, the bottlers, through the supply chain, to the employees, to the shareholders and to the broader community. And we think that, fundamentally, local and, in total, global shared value creation is what attracts more system investment, investment by ourselves and investment by our bottling partners, to help keep the cycle going.

In the end, this very simple growth model has been true for 130-plus years for The Coca-Cola Company.

So, then the question becomes, well, what are you going to do about it going forward, what challenges do you face to make that circle keep going, and what are you doing about it?

So let me talk about some of the things that are happening and some of the trends that we need to adapt to. Self-evidently and something we all know about and have seen across the world, there are multiple things happening on a consumer basis, whether it's the desire for more natural, whether it's desire for perhaps less sugar, whether it's the desire for functional benefits of all different sorts, whether those be stimulation, nutrition, all sorts of benefits including hydration. The consumer is changing what they want.

Shopping patterns are also changing markedly. We see across the world, as I'm sure many people have talked about, big shifts from larger stores to smaller stores. The growth of convenience. The growth of not just ecommerce, but the impact of digitization across all the shopping habits.

We also know and it's self-evidently true that leaders and managers must continue to seek out all those opportunities to redirect resources from either the least efficient activities, or the least prioritized activities, and put them on those on-trend initiatives that we have going.

Lastly, no new news to you, but it's a critically important trend because it crosses through and cuts through everything we do, which is digitization. The way that the consumers are responding to the digital, customers, even internally. It touches literally everything we do.

And lastly, I called it out earlier, we need to find a way of closing the gap in terms of the disconnect between robust underlying performance on a local basis and comparable EPS, which has been declining for the last three years.

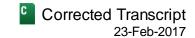
All of that underpinned by what we believe gives the Coca-Cola system an unparalleled ability to operate in over 200 countries around the world, which is the importance of the social license, the work that's being done on replenishing all the water which we did a few years early, female empowerment, and on well-being and the importance of creating real economic advantage in every country around the world.

So, those are the trends that are hitting us. What are we doing about it? Why do we see the biggest avenues of action?

Firstly, we need to reshape our growth equation for sparkling. Consumers still prefer the category. It's still growing vibrantly in terms of revenue but we know we need to do things differently to help some people control the amount of added sugar and to engage more consumers in the category perhaps with smaller packages. So, we need to reshape the growth equation that drives the sparkling category.

We also need to accelerate the leadership in some of the other consumer-preferred categories. We had perhaps in the past spent more time focusing or starting in the volumetrically next largest categories rather than those

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categories most on trend with consumers and of greatest value to us. We made strong progress over the recent years in adjusting that portfolio approach but there's much more we need to do.

Third, of course, we need to complete the refranchising. We need to complete the refranchising that will allow us to set up a stronger system to go for the future. But refranchising is not an engine itself. The refranchising is means to a better end, which is a stronger system more able to expand its executional advantage in every corner of the globe, that in the end can continue to redefine what pervasive distribution means for each of those consumer-centric brands we're trying to sell.

Digitizing the enterprise. This is about of course responding to the convergence of consumer and customer eeverything and the way that that also changes the way the internal company and the system can operate. There's a vast amount to do there.

Finally, we need to continue to free up resources internally. If we've got more new and different opportunities in terms of the portfolio and the channels we pursue, we have to free up the money from somewhere to invest in them. We also have to free up the money if we want flexibility to make sure that we resolve the equation between currency neutral and comparable EPS.

So the way we see our strategy going forward is quite simply making the underlying growth model of The Coca-Cola Company continue to turn and be successful as it has been for a long time, yet respond to the changing landscape that we see in front of us and redirect resources to make ourselves more able to respond and to help our system respond to this new environment.

Boiled down to five simple priorities and recognizing that to some extent, some of these words are no different than they have been in previous years, I think what's important is to start talking about the actions. Yes, we'll continue to focus on our consumer-centric portfolio and are starting with the idea of portfolio, not just a collection of brands. Yes, we're going to continue to drive revenue, and we'll talk a little bit about how. Strengthening our system. I said that it's about finishing refranchising to make ourselves stronger. Digitizing the enterprise. If you want a simple way to think about it, the Coke system spent many decades talking about putting our products within an arm's reach of desire, desire both in terms of the marketing and the mental appeal and the preference for the brands but also the ability to get them.

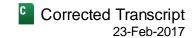
The future, of course, will still end up being physical. The drink has to be drunk. But everything we do, we need to think about: is everything we do within a click's reach of desire. And that's a consumer issue, it's a customer issue and it's an internal issue.

And lastly, to do all this, we have to unlock the power of our people to go in an evolved direction.

But rather than dwell on these words and kind of argue the semantics about how different they are to the last version of the five, let me talk a little bit about how we're going to do that. And let me start by jumping into a little combination chapter that's going to talk about the portfolio and the revenue growth in the same kind of bucket.

Firstly, I advertise ahead of future speeches I'm never going to say the word sparkling and stills again. The consumer doesn't care. The consumer chooses drinks, participates and enjoys different categories and different products. The world doesn't actually divide into sparkling and stills, because actually in the stills people put sparkling products and vice versa. So, it's a seemingly semantic point but I think it's very important for us that we start attacking and being very clear that we're going to make up brand in a series of different clusters of

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categories and look at them on that basis, and even new categories as they emerge. Of course, we don't start from an equal position across all the categories.

We have almost a 50% value share of the sparkling soft drink category. That's a vibrant category. As I said, it's growing in revenue, and of course, we'll continue to push to expand our strong position there and participate in the vibrant growth of that category.

In the other categories, even with those 10% and 15% market shares, we're often number one or number two in the category, or the cluster of categories. There's absolutely not only vibrant growth, there's a tremendous opportunity for us to gain share in each of these categories as we have been doing in recent years, and it's about accelerating the pace of establishing true leadership positions not just in these clusters of categories, but in the most valuable parts of these clusters of categories.

How are we going to do it? Ultimately, we need to focus one by one. But in the end, we will continue to innovate locally. If you look at the some, what, \$21 billion brands that we own, three-quarters of those have been invented and grown from what we do. One of them we bought, it was already over \$1 billion. And the others, we bought small and grew and expanded, internationally scaling them.

So, we absolutely see that the likely trajectory is accelerated use of our own innovation, accelerated scaling of the ones that are working the best internationally, whether that be, for example, here, smartwater into a whole load of more countries this year, Honest Tea. But we will also continue to invest in smaller companies and make smaller acquisitions in order to bring more opportunities for billion dollar brands into the pipeline. So, I think there's a clear track record of being able to create the right products and the opportunity to scale those more rapidly globally as we also complement them with small other M&A.

Of course, the basics are always going to remain the basics. No matter how sophisticated we want to make portfolio planning, no matter how we think about that, in the end, what's going to get it to work on the ground starts with some great marketing. We have some very strong plans for 2017. We think marketing is a core capability of the company, and in fact, in the biggest sense of marketing, is a core capability of the system.

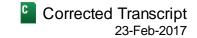
We continue to drive out the Taste the Feeling campaign with Coca-Cola. We've got a lot of activity around increasing the availability and options around smaller single-serve packaging, relaunching and expanding the use of Coca-Cola Zero Sugar with a much more red label. We even have flavor innovation in Coca-Cola aimed at the premiumization opportunities. So, a lot of ongoing activity under the One Brand strategy of Coca-Cola to expand this brand and continue the strong revenue growth that it has been experiencing in recent times.

Fanta. Fanta is actually our second biggest brand and we have a new look, a new bottle, a new label, a new campaign. We've begun rolling it out and in many places, we have reformulated to reduce the sugaring. Fanta has been growing strongly in recent times and we believe it will continue to do so.

Likewise with Sprite. Sprite is a great brand. It's very big in a number of countries. It particularly does well in the U.S. and parts of Asia. And we're continuing to back that and to look at local activations and reformulations.

Plus of course, a continued focus not just on trying to premiumize through smaller packages and different variants of our core sparkling products, but bringing in new variants and new innovative sparkling beverages to try and push up the price point of the sparkling soft drink category.

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But I talked about added sugar. I talked at the beginning that one of the things we need to do with our portfolio approach is to really help the business grow yet in many places help the added sugar come down. We talked a little bit of this about – at CAGNY last year, and our approach has continued to evolve and become more clear and more focused. If you want to make the example simple, if we just talk a little bit about what we do inside the bottle and what we do outside the bottle.

What we do inside the bottle is we've got a large number of programs and projects aimed at reducing the amount of sugar in some of our core formulas. We've been evolving different recipes across the globe to try and tweak out and test all sorts of different combinations. For sure, some of them won't work, for sure some of them we'll have to adjust, but we're doing a lot of experimentation on how we can reduce the added sugar in places yet still give consumers products they love because at the end of the day, if we put out stuff that simply doesn't taste good and they won't buy them, they'll buy something else and nothing will be achieved. So, a lot of work going on inside the model.

A lot of work going on outside the model. Not just the smaller packages, but the way we make information on nutrition available, the labeling, the different contents, the different nutrients and not targeting the advertising to the under 12s.

In the end, we're very clear that for us to drive sustainable, profitable growth for our brands, we also need to encourage and enable our consumers to be able to control and then moderate if they're consuming too much added sugar.

So, we have a way forward, and we've actually got a lot of aggressive actions in 2017. As I said, firstly, a focus on Zeros. I mentioned earlier that we are making a global rollout of Coca-Cola Zero Sugar. It started in the UK, it's gone to a number of other countries so far this year. And it is part of what's going to help us continue to drive sparkling revenue. The reality is, even if you just look at it on a volumetric basis, Coke Zero Sugar was growing about 3% in 2014, it grew about 6% in 2015 and it grew about 9% in 2016. So Coca-Cola Zero Sugar is gaining a lot of traction and a lot of momentum and we think this global relaunch will help us go even further in terms of accelerating the sales of Coca-Cola Zero Sugar.

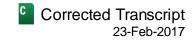
As I said, second big thing we're doing is doing a lot of reformulation on the products. We have a whole variety of experiments. We have some countries where we have taken the sugar out of the regular soft drinks and not called it Zero, just reformulated and left the main brand look as it is. So, lots of experiments out there. As I said, some won't work will but some will, and we're going to learn and we're going to help continue reformulation

Or course, smaller packs. We're even going to experiment in some places with downsizing some of the packaging and test what is the price point. I think many industries, including beverages, or many categories including beverage spent a lot of the last few decades upsizing. We're looking at different places where downsizing some of the pack sizes might also be very effective.

And then, of course, it's not just about the sparkling beverage category when it comes to added sugar. Actually, many of the other categories have it in too. But we are looking – as we pursue the portfolio strategy, as we pursue the expansion of categories, we're looking at and being conscious about are we putting out products at what levels of added sugar and what sorts of sweetness. So, a very conscious effort to not just expand the portfolio, but also to shape the portfolio in a very deliberate way going into the future.

And that leads us to a couple of key points. The first one is we get that this needs to be done. Actually, we support the World Health Organization guideline of limiting added sugar to 10% of the daily intake. And let me

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give you the thought experiment because, of course, the question you're going to ask me at some point is, well, if you support the 10% WHO commitment, what does that mean for the growth of your business.

And the thought experiment on the other side of the page is if you start from the simple idea that every person is going to drink about eight drinks a day, eight 8-ounce drinks – sometimes you take them two of them in one go, but you're going to have eight 8-ounce drinks a day on average. The Coca-Cola Company currently, globally, is less than half of one of those drinks, much less than half. We're much less than half of one of those eight drinks. But if you were to drink these eight drinks that are all current brands for The Coca-Cola Company, many of them billion dollar brands or on the way to being billion dollar brands, the sum of all the added sugar in those drinks would still be less than the WHO guideline. Would still be less than the WHO guideline. In other words, our opportunity for extended and long-term growth is actually massive because we today are way under half of one of those drinks.

So, it is in part about having less added sugar in some places even if it does grow a little in places where there's much less consumption of added sugar. So there is actually an exponential opportunity for us to grow and operate under the WHO.

Now, of course, in this thought experiment, it's assuming that you don't take added sugar from any other categories, which isn't likely. But even if you took half of the objective, you could still consume a tremendous increase in the number of products from The Coke Company because in fact many of those don't include added sugars, or reduced levels of added sugar. So there still is a vast opportunity to growth.

So, if there's a vast opportunity to grow and we do it by driving a portfolio approach focused on categories, focused on the consumer but being mindful and very deliberate about how we shape choice to manage the added sugar delivered into the marketplace and consumers choose to consume, we then of course need to make sure that all works from a revenue perspective.

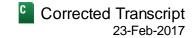
From a revenue perspective, we are very focused of course on some degree of volume but in the end, as I've talked about, the ultimate objective as we're growing the franchise, it's about growing consumer incidence, it's about growing the transactions and it's about growing our value share. Volume can't decline exponentially because you can't sell the product for that high a price. But in the end, you want to have people in the franchise more frequently even if at small volumes per incidence. And of course, price/mix.

So, particularly in some of the developed markets, we're looking for much less volume, more transactions, more consumer incidence, more value share. In places, emerging markets, India, Indonesia, of course it will primarily be driven by volume growth but will go along with obviously a lot of the transaction incidence but it will be a volume-based equation.

And just let me unpack that a little in the case of the sparkling category because it's clear to everyone that something slightly different happened in 2016 in terms of the mix of volume and price. The average previously had been about 3% to 4% revenue growth and it had been kind of two-thirds price, one-third volume. In 2016, it was clearly all price or even more than 100% in price because volumes declined in 2016.

But that volume decline was spread in a very different way. What you saw was perhaps a more logical pattern in some of the developed markets and a big slowdown in the emerging markets and the developing markets. And what I mean by that is, and we've talked about it in the context of the U.S. operation, we're not necessarily focused that volume has to grow every year in the U.S. And in fact, there's a reshaping of the equation going on in

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the U.S. because we've said that if volumes were to decline for a short-term period, that wouldn't be so bad as long as we pursue consumer incidence, transactions and value share.

Now, what is the biggest change and the reason that the volume declined in 2016 is actually the macroeconomic slowdown. I know I've said it on some of the other earnings calls but I do want to repeat it that I think the principal difference in 2016 was actually the passthrough of the macroeconomics in important markets like Brazil, like Argentina, like China in the first half. But particularly in some of those Latin American ones there was much more inflation and much more reduction in local personal consumption across many categories that affected the sparkling business, and we believe that particularly the emerging markets and the developings will bounce back in terms of revenue as the economics settle and there will be a better mix of volume versus total price and therefore, on an aggregate basis, volume will come back to growth and normalize with price/mix. But in the end, it's not about something happening on average with the category across the globe. It's something happening specifically in a number of different countries.

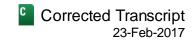
Even within that sparkling focus on price/mix across the world, I think it's also logical and consistent with what I said about the portfolio that you would expect us to try and manage price/mix by looking at how we position different brands and different packages independent of the category across some of the emerging markets and across some of the developed markets. Here you see some of the examples that we've put up here.

And it is partly to put this up to say – and I know I've said I wouldn't say sparkling and stills again, but I'll say it but one more time. I know that when I say sparking and stills and we're going to grow more in stills, sometimes people go, okay, that's automatically lower margins because there's something inherently wrong with these categories. Again, I would make the appeal, we need to disaggregate the question. We need to disaggregate the question. There are self-evidently parts of other categories that are not so attractive from a financial point of view, bulk water, ambient juice perhaps in some of the supermarket shelves in large packages. These aren't so profitable as sparkling, totally agree. But there are plenty of parts of those categories which are as robustly profitable as the sparkling industry.

And so, we're going to make sure that as we expand from sparkling, we not only do the job we need to do in sparkling to sustain the revenue growth that we're achieving, but as we accelerate the revenue growth in some of these other categories, we are doing so in a way that works as a portfolio to make the financial equation work. And we do that by thinking about where are those brands and where are those packages positioned in terms of pricing. So you see, as I said, the examples in China, you've got Schweppes C+ at a more premium to Coca-Cola. You've got ZICO Coconut Water launched at a premium. In the developed markets, you've got a whole range that you'd be much more familiar with of products that sell at a premium to the standard averages of sparkling. So, it's not about A versus B, it's about choicefulness and picking the places for us to compete for value for the system.

And then you try and bring that altogether in one conceptualization and one idea, which is The Coca-Cola Company has grown to be bigger than the brand Coca-Coca. The brand Coca-Cola will always be the heart and soul of The Coca-Cola Company but the company has outgrown its core brand. The company needs to be bigger than the core brand. And so, deliberately, in this kind of visual representation of where we're going, The Coca-Cola Company is not written in Spencerian script, the symbolization that we can be in all categories, we can be a part of every one of the eight drinks a day that people consume and that we can participate in beverages for life. Life is not just about the functional; it's also about emotional. And we can do so in a way consistent with leading a healthier life.

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So The Coca-Cola Company is taking a step forward. The Coca-Cola Company is going to be a total beverage company, and that's how we see our way forward.

In order to get that done, we need to do certain things. We need to continue to strengthen our system. As I've said, we need to digitize the enterprise and we need to unlock the power of our people.

Refranchising. The end is in sight. If you had to take one thing from this page, it would be the phrase the end is in sight. Several of these are done. Some are closing in the very near future. North America is on track for what we've said as to what we're going to do, particularly the U.S. And Africa, we're in the process that we announced. So the key message from this is the refranchising is coming to an end.

And it's coming to end not as an end in itself, but as an enabler of greater execution because the very simple idea that better marketing and better execution leads to faster revenue growth. If you analyze the top 32 markets, every year that we do it, we should see a very strong relationship between not just those who've gotten good marketing and good execution, but those that have better marketing, more on trend, more relevance to the today's consumer, and those executions which are more in the right place to where people are shopping and achieve the pervasive distribution that needs to be achieved for today's consumer. When you segment the markets, it's self-evidently clear, and it's in a way good news, that those that are improving continue to grow much more robustly.

So our focus will be not just on creating the portfolio that provides the brands consumers want, but continuing to work with our franchise system to improve the execution and to make the most of this new refranchising that has occurred to get the most bang for the buck and to drive the revenue forward.

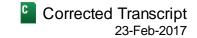
We're going to drive the revenue forward but we're also clear as the system that productivity is a source of funds to make all that happen, it's a source of funds for building the brand, it's a source for building better execution. And we, as a system, collaborate strongly on a global basis to design many of the things we do to cost, to really think about routes to market, to collaboratively procure, to try and work on the marketing productivity, all with the end of investing to grow and making the circle turn again by attracting system investment in growing the business, the brand, the execution and the capabilities.

I'm not today going to dive deep into digital. But let me leave the placeholder saying the way we're looking at it is it's a critical part of how we need to enable our growth with consumers, with customers but also part of how we're going to make the internal operation much more efficient and effective and faster in order to capture off the opportunities. There'll be lots of enablers and we already have a number that are in place but there's a lot more to do.

So, we've got the brands, we've strengthened the system, we're digitizing the enterprise, we're attracting investment. We need to organize ourselves to get all this done. And what we've launched internally is a clear process to drive change, to drive change, to drive a new, leaner, more agile operating model to enable this growth strategy to come to fruition.

Firstly, from a culture point of view, it's pretty clear where we need to move towards. All big companies naturally tend towards look internally and it is a constant battle that needs to be undertaken to maintain that external focus. We need to get sharper on how are our local operations empowered. We need to adopt more of a technology company modus operandi. Rather than trying to invent the perfect thing and take a long time doing it, we need to get out there faster, have a version 1.0 [ph] to kill it (36:07) or have a version 2.0 or 3.0. Take smarter risks. And then, have more of an accountable, performance-driven culture.

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I say all of that not just from a culture point of view, but in terms of backing it up with the HR systems. We've already launched a new performance management system, the way that we rate and curate the employees. That's beginning this year. We're going through a robust talent assessment process. We have launched a review of our compensation for employees on are we actually got a system that is going to drive the new culture and drive against the growth strategy. All with the objective of underpinning a shift in culture. But our operating model and, by implication, our organizational structure also needs to change.

Now, some things remain a constant. We will continue to have local business units, a corporate center, and enabling services. But within that we're going to do some things differently. Yes, the local businesses will continue to focus on the local operations and we will continue to task them to chase results in local currency. They will have to make some accelerated moves to orientate the business models to be fit to win in each of the categories. We're not starting from zero. In a number of places in the world where we have broader categories already, we have multiple routes to market, we have multiple manufacturing systems and we have actually a lot of success in developing a broader portfolio. Well-known examples like Japan, here in the U.S., Mexico and others. But other parts of the worlds need to do it too, and at an accelerated pace.

The enhanced performance management system or performance enabling system, I just talked about. We need to underpin a desire for a culture with the proper and appropriate HR processes.

Secondly, the end of refranchising that is in sight produces an opportunity to reshape the way we do things at corporate. We no longer have to support all these profitable businesses that we've sold off. The opportunity and the necessity of the growth strategy to become more category-focused, to upweight in the corporate center profile innovation and R&D, to upweight in the corporate center and profile everything to do with IT and digital. So we need to re-orientate what corporate is focused on.

We also need to accept that the world keeps changing and digitization has created new opportunities and ways that we can organize. And [indiscernible] (38:49) able to implement the culture on the right-hand side, that also is a source of opportunity.

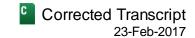
So as I said, we've launched a fundamental review of the work that needs to be done at the corporate center. I think it's fair to say that a significant amount of activity is going to change and reduce. And of course, it will have an impact on jobs. Our employees know that. We've been started talking about it. But the corporate center is going to be more focused and much leaner as we drive the business forward.

And that will go along with the deepening of what we call enabling services. Enabling services that will make it much simpler and better to be an employee of The Coke Company, be much easier to get things done.

So the net result of all that is intended to drive the growth strategy. It's intended to drive the top line at an improving operating margin line. Of course, we're not here to provide outlook for 2018 and 2019, but executing this plan will provide financial flexibility as we go into 2018. Whether we end up reinvesting that for better top line or using that for flexibility at the bottom line is yet to be decided on but it is going to be a reality.

So in the end, what are we aiming for as a company? We're aiming to grow faster than our industry. We're aiming to benefit from category mix by taking a portfolio strategy. We're going to manage the gross margin, not us officially, but through the choices we make in terms of where we play, how we participate in different categories, the leverage we look at from leadership. It will be business school 101 to say that market position matters. And then how we turn that into operating margin. Of course, we benefit from scale in marketing. And we will continue to benefit from operating expense leverage such that we bring together a growth equation that drives a stronger

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consumer franchise in the marketplace, higher consumer incidence, more transactions, more value share, driven by local operations that deliver the business in local currency locally and that we manage and turn into a better result from a comparable EPS basis.

So with that, I'm going to drop off the stage, hopefully not literally, and pass over to Kathy to do some of the financial numbers. Thanks.

Kathy N. Waller

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

So, thank you, James, and good afternoon, everyone. Today, I plan to touch on the progress that we are making in our underlying business and on the refranchising, our 2017 outlook, and then our world post refranchising.

So 2016 was a very busy year in terms of refranchising. We contributed our German bottling operations to form Coca-Cola European Partners. We created Coca-Cola Beverages Africa. And we made a lot of progress refranchising our North American bottling operations. Now, the story continues to unfold for the newly formed Africa bottler. But our North America operations is doing well and has delivered mid-single-digit organic revenue growth in each of the past two years. In Western Europe, results improved in the back half of the year due to increased investments, coupled with a reinvigorated new bottling partner.

So as we sell or refranchise these finished goods businesses, we are reducing our top line and our profit, but we are positively impacting our metrics.

Operating capital decreased with a net reduction of approximately \$5 billion for tangible and intangible assets. And importantly, we delivered operating margin expansion driven primarily by strong underlying performance.

Now looking at the current year, we have a strong foundation in place but we still have a lot of assets across the system that are in motion. In North America, we will refranchise more this year than we have cumulatively to date. And in Asia, we are on track to divest our China bottling operations. As a result, in 2017, we expect a 5 point to 6 point structural headwind to profit before tax as we exit these profitable businesses.

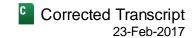
While this is absolutely the right thing to do for the long-term health of our company and our system, we anticipate that refranchising these businesses along with a 3 point to 4 point headwind from currency will result in a 1% to 4% decline in comparable EPS in 2017.

And before I move on to talk about post refranchising, let me quickly touch on our first quarter guidance. As I understand it, the shift in the calendar days have caused some confusion. Our first quarter will have two less days than it did in 2016. Absent any other change, we would expect about a 2 point impact to top line growth just from the two fewer days. But remember, our fixed costs, largely from the bottling operations, are not affected by the number of days in a given quarter.

Shifting to post refranchising and to help put the refranchising into perspective, on the left-hand side I'm showing selected actual full-year 2016 financial information. On the right side, the same metrics but assuming that the transactions that occurred in 2016 and the planned 2017 transactions all occurred as of December 31, 2015, so said another way, if 2016 was post refranchising.

And since we are selling profitable finished goods businesses, revenue does decline but all other metrics improve as we return to a predominantly concentrate model.

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So 2017 marks a turning point in our return to a more efficient capital-light model. In 2016, we reduced invested capital by \$3 billion. In 2017, as we look to complete the North America refranchising, we expect to reduce invested capital by approximately another \$7 million to \$8 million (sic) [\$7 billion to \$8 billion] (45:29) and we expect to receive approximately \$5 billion in cash proceeds from the refranchising. We will recoup the other 2 or so billion dollars over time through the quarterly sub-bottling payments from the bottlers who have received transition territories.

We also effectively swapped our Southwest operating unit comprised primarily of Texas for a 20% stake in Arca Continental's beverage business. And this transaction will have a minimal impact to invested capital because we will record this as an equity investment.

And as we have said before, refranchising does allow us to become less capital intensive, but refranchising primarily strengthens our system and allows the system to deliver stronger, sustained growth in the future.

When the franchising – when this transformation is complete, we will look very different than we do today. In 2017, we expect our core business to continue to grow organic revenues faster than our consolidated results. And given the size of our refranchising activities, the core business is an important indicator of the longer-term trajectory of our top line.

Our refranchising efforts will result in scaled bottlers in Western Europe, China and Africa, all with strong execution capabilities and the flexibility to invest to drive growth in their respective markets.

And in North America, we have taken the necessary steps to support the system for long-term growth. We have amended the bottler contract to drive an incidence-based pricing model. We have the right governance process in place for national customer accounts and for product supply. And importantly, we are setting up strong and aligned bottlers to drive execution going forward.

As a result of the actions we've taken to strengthen the system in several key markets, we expect to deliver stronger financial performance in the coming years.

So just a few quick points on cash. We have and will continue to generate a significant amount of cash flow, and we have a strong track record of returning cash to shareowners. Over the past five years, we have returned over \$40 billion to our shareowners. Our dividend is important to our shareholder base which is why we've increased our annual dividend for 55 consecutive years, and we consistently remain in the top quartile of the consumer sector in terms of yield. In fact, with the 6% increase announced last week, our dividend yield has reached 3.6%.

So now before we take questions, I think James has a few final comments. I'll turn it back over to James.

James Quincey

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

Thank you. So, we've spent our time over the last few years accelerating our focus on a consumer-centric brand portfolio, and that's the future we see for ourselves: reducing our sugar footprint, segmenting our revenue growth strategies, driving the underlying top line and operating margin expansion. We will be implementing a new operating model to become leaner, and we lead an unparalleled system of aligned bottling partners. In other words, the future is bright.

So I don't know how the Q&A thing is going to work, but that's – how is it going to work? I'm just going to wait for questions to appear.



QUESTION AND ANSWER SECTION

James Quincey

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

А

So, [ph] Melinda (49:11), there's a microphone. It's on the way. Are you choosing, [ph] Pete (49:17)?

Dara W. Mohsenian

Analyst, Morgan Stanley & Co. LLC

(

Thanks. So, James, you highlighted you wanted to accelerate share in still categories. Can you discuss the balance between M&A and organic efforts in terms of driving that higher share over time which is likely to drive greater share expansion? And it sounded like your M&A efforts are more focused on smaller acquisitions. Is that the case and how do you really move the needle in terms of still share, if it is? Hopefully you can answer it without mentioning the S word but we'll see.

And then, you mentioned on the call and here today that going forward you'll look to find more ways to offset currency pressure if it continues. Can you just give us a little more detail on the specifics there? Is that pricing in markets where you see a depreciation in the currency? Is it more flexible cost-cutting, investment in the business, et cetera? So, specifics.

James Quincey

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



I mean, a couple of thoughts on organic versus M&A and at what speed. As I said, if you take the billion dollar brands, we made three-quarters of them ourselves and we bought small things that we turned into billion dollar brands for the other quarter. So I think that given how many things around there and given what we know about the beverage industry, you would logically expect that we must know something to be able to generate some of our future through our own innovation, and that's what the history demonstrates. Of course, we're going to continue to look for small bolt-on M&As. M&A is like everything else in life: the bigger it gets, the fewer there are and the much more episodic those things become.

So the most likely outlook is similar to what it has been in the past in the sense that we will do the majority of the transactions we do will be small bolt-on ones that we will aim to grow in their home country or region and through global expansion.

In terms of managing the business for currency, we'll manage it. We'll certainly attempt to. But the one thing I know that in the long run, you can't have permanent devaluation without local inflation. So, that's not an annual automatic effect, but over time, it must equalize itself out. In the short term, we'll manage all the levers of the business to try and get the results that we've talked about.

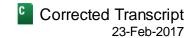
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Ali?

Ali Dibadi

Analyst, Sanford C. Bernstein & Co. LLC

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Thanks. I have two questions. One is regarding the new leaner operating model that you mentioned on page 30. Is that incremental to the \$3 billion number that you've been talking about so far there or is this something new? That's the first question.

The other one is, from a portfolio shift perspective, clearly you're going to accelerate that shift. What's the impact on the bottlers and their margins, as well as the sharing of the profit pool of the overall system?

James Quincey

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

Sure. What we're doing on the operating model is productivity. I mean, we're going to treat it as a productivity initiative from a technical point of view. We're certainly not making a comment about how big it is at this stage and therefore how it relates to the numbers, but it absolutely is a real world initiative and it is going to affect jobs. So as we go through that program with the employees, we'll provide more information as we go forward.

In terms of the portfolio shift, I mean, clearly, the question becomes which categories are we expanding in. And we are very conscious that as we plan the expansions, we will need to take into account to what degree do they fit with either the production systems that exist in different countries or the route to market systems that exist in different countries.

Now, net-net, we're going to see some of both. And what I mean by some of both is there are multiple categories that fit nicely within the current bottling system and within the current routes to market. The introduction of Monster would be an example of that. It's very accretive from a profit point of view, for the bottlers it fits simply into the system.

There are other categories on the far end that are less – that don't fit the bottling system completely. I mean, a chilled system is outside an independent [indiscernible] [ph] bottling system (54:12). Our view and our approach has been to try and develop all these businesses with our bottling partners. That's not always true and always possible, and it is something that we sit down at the table where the bottlers are. And of course then there are a range of categories in the middle that may require more or less investment.

Now, again, it depends on where you are in the world. There are parts of the world where our bottlers are heavily invested, for example, into septic production capability. So entering some of the more sophisticated, subtle flavor categories is actually relatively straightforward because there's an existing base. In other parts of the world, they need to invest. And so it depends.

Ali Dibadi

Analyst, Sanford C. Bernstein & Co. LLC

Can I just follow up on the first one of \$3 billion? So when you laid out your \$3 billion plan, you said you had a bunch of plans to get there. Was what you're describing today part of those plans?

James Quincey

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

I think when we laid out the \$3 billion – there's that same \$3.5 billion and then we sold half of it, just to remind everyone that we took it up. We'd said that we had line of sight to the things we had line of sight on in the beginning, and we had set ourselves an objective for the scope of the plan. So they were things when we started that we didn't know how we're going to do but we believed we could. That may still be true about 2019. But this is the product initiative, and we'll come out with more clarity on numbers as that clarity develops.

А

[ph] Caroline (55:10)?

Q

Thanks. I was just wondering if you could dive into the compensation and the metrics and performance metrics a little more deeply. First of all, from an executive standpoint, are you changing anything there? And I think you're motivated by pre-tax profit as well as revenue. But if you could just remind us and talk about whether there could be changes and why it's structured the way it is. And then similarly, how long do you think it takes you to change the way you're paying people below executives, to implement that, because that seems like an important part of changing behavior.

James Quincey

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

A

Sure. Look, nothing we're going to change on a fundamental basis is going to affect 2017. The compensation scheme for 2017 is in place. It's not like it's 100% broken. I'm not trying to say that we are going to throw out the old and bring in something entirely different. But we have scheme in place. It's obviously got salaries, it's got bonus aimed at the targets of the business units or the corporation and those are largely based around revenue and profits. The executive scheme is largely revenue and economic profit, not just profit before tax.

As we look forward, it's not just about what are the incentives, but it's the nature of the system. I mean, most large companies still have a 20th century model orientated around service, tenure and there's a lot of things we need to look at in order to drive this forward. They tend to be kind of – the dispersion of what the results are in the scheme tend to be crowded into the middle rather than a greater amplitude, depending on results. But my point is not to say that it is completely broken, because it's not. My point is to say that if we want to drive a different growth strategy or an evolved growth strategy with a more agile, faster culture that's more empowered but more accountable, we have to reconsider the compensation strategy from the beginning. Doesn't mean it will all change. And so really we're talking 2018.

A

Judy?

Judy E. Hong Analyst, Goldman Sachs & Co.

Thank you. So a bit of a follow-up to Dara's question earlier. So I guess, James, what you've talked about today makes a lot of sense. But I guess we're still looking at a company that hasn't grown earnings since 2011. So I think you talked about this on the call where you're really trying to focus on growing comparable earnings, you've talked about some of the operating model that gives you the financial flexibility. So I know you're not giving 2018

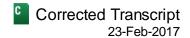
guidance, but can you just broadly talk about some of the things that you can do in 2017 to really ensure that in 2018 you can actually look forward to offsetting some of the headwinds is my first question.

James Quincey

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

A

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Yeah. I mean, I think, 2017, it is what it is. We're going to manage to lever the business and we've been clear about where we expect 2017 to aim. Of course, we'll continue to take action, as we've said, to try and continue to improve the trajectory. Whether we're offsetting macros or riding better macros, we will see as we get closer to 2018. But I think the faster action on taking control of our destiny and driving forward in the most attractive other categories, driving forward on the things we know make a difference in the sparkling to drive revenue. So a lot of it is about in sparking accelerating what we've been talking about, or trying to accelerate what we've been talking about. In some of the categories, we need to take some action. I'm sure you'll see us take action over the course of this year to be able to set ourselves up for a better result in 2018.

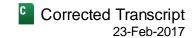
And then from an operating model point of view, we're going to take the action. We talk to the employees. Of course there's a process, as it should be, so that everything is done with fairness and with rigor. But that itself will provide some flexibility for us in 2018. Whether we see better tailwinds and we invest at the top line or not, we'll see as we go along, and we'll know the levers to pull.

| Judy E. Hong Analyst, Goldman Sachs & Co. | Q |
|--|-----------------|
| And then, Kathy, just one clarification. The refranchising impact on operating margin in 2016 is a little than the 2015 impact. So, I think it's 900 basis points impact versus 2015 was a little bit larger. So difference between 2015 versus 2016 in terms of just looking at the refranchising impact on operations. | what's the |
| Kathy N. Waller Chief Financial Officer & Executive Vice President, The Coca-Cola Co. | А |
| Yeah. So really, that's really the impact of currency on the prior year's results. So that's really the batter that difference. | pasic driver of |
| Judy E. Hong Analyst, Goldman Sachs & Co. | Q |
| [indiscernible] (59:50) | |
| Kathy N. Waller Chief Financial Officer & Executive Vice President, The Coca-Cola Co. | А |
| Yes. On the prior year's result. | |
| | Q |
| Against the clock. I think we're - one more? Okay. We have time for one more. | |
| | Q |
| | |

Great. So, just building on Judy's comment, I think that same slide – I wasn't quick enough to pick it up, but I think you gave us enough information to calculate free cash flow as reported and then the kind of pro forma. If you'd just give us those numbers, that would be helpful.

And I guess my larger question, just to tie all these other questions together, is it seems like, James, from your presentation, there's a clear view as to what you're doing and how it benefits the system. It's less clear how that benefits the KO investor, I think, because the economic flow-through to KO versus to the bottler isn't clean. fairlife

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is one of the brands you're highlighting here. You don't own that. So it doesn't hit your revenue. Monster will never hit your revenue. And it won't hit cash let alone pay dividends. So can you just tie that all together and give us more reason to be confident that what you're doing actually benefits the KO investor in the near and medium term?

Kathy N. Waller

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

А

Let me answer the first question on the free cash flow.

James Quincey

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

Δ

Please.

Kathy N. Waller

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

Δ

So, yes. So we do have enough to calculate that number. The difference between the two years, so what we showed you last year which I've listed, is what happened really to cash. Part of that is currency as well. But part of it is there was a pension payment that we made in 2016. So if you take those two things in consideration, that's the total differential between what we showed you last year and what we're showing this year on free cash flow.

James Quincey

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

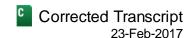


On the second question, look, I think we have a pipeline, if you will, of things we can do. There are lots of things we can do immediately to deliver near-term benefit in 2018 and 2019 whether from a top line or bottom line point of view. We are not going to give up on building things over time. I mean, it is a truism of food and beverage is that it takes a number of years [ph] some odd, say, (01:01:59) 10 years to build a billion dollar brand.

And so we are going to continue every day to chase the next five to 10 years' billion dollar brands even if they don't immediately show up in our revenue and profits in the near term because those are the things within our funnel are fueling the long term. But we have enough levers and enough things that got started five and 10 years ago and that can be done today to drive the results for the KO investors for 2018 and 2019 and beyond.

Unverified Participant

Okay. We'll stop there and go to breakout. Thanks again for the beverages and sweets.



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