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The Coca-Cola Co. (KO)

Barclays Global Consumer Staples Conference

CORPORATE PARTICIPANTS

Lauren Rae Lieberman

Analyst, Barclays Capital, Inc.

J. Alexander M. Douglas

Executive Vice President & President-Coca-Cola North America, The Coca-Cola Co.

MANAGEMENT DISCUSSION SECTION

Lauren Rae Lieberman

Analyst, Barclays Capital, Inc.

Sorry, standing room only, I couldn't make my way into the room. I couldn't find a seat.

Okay. So, we'd now like to welcome The Coca-Cola Company represented by Sandy Douglas, EVP and President of Coca-Cola North America. Coca-Cola is currently in the midst of a dramatic transformation and accelerating its top line and improving operating margins.

The company has shifted its strategy towards revenue realization and profitable diversification, both enabled by organizational changes that will drive increased speed to market and a greater willingness to take risk. Within this context, North America has been a clear leader, delivering 4% to 6% organic sales growth during each of the past few years despite an anemic broader CPG environment.

So today's presentation is going to be a fireside chat centering in North America. So, Sandy, if you'll join me at the fire, that would be great.

J. Alexander M. Douglas

Executive Vice President & President-Coca-Cola North America, The Coca-Cola Co.

Thank you.

QUESTION AND ANSWER SECTION

Lauren Rae Lieberman

Analyst, Barclays Capital, Inc.

Q

Thank you. So, I thought we'd talk first just a little bit about the consumer environment, just knowing that again mentioning that your results in North America have been so stand-out in this really sort of anemic environment. So if you could just talk a little bit sort of your view what you guys are seeing in terms of state of the U.S. consumer and whether or not you think your results are kind of sustainable in this choppy consumer environment?

J. Alexander M. Douglas

Executive Vice President & President-Coca-Cola North America, The Coca-Cola Co.



Sure. Well, thanks for having me, Lauren, and what we're seeing broadly is kind of a bifurcated consumer environment. The upper part of the economy is healthy and vibrant, positive expectation for investor performance, tax relief and then the bottom half is really struggling, which is impacting purchasing habits, trips to retail, et cetera.

Thankfully, The Coca-Cola Company is in the beverage business, which has been a standout category and our business has been a little bit above the category and we've been performing strongly. So we're able to weather the storm because we're able to segment and execute with our bottlers to take advantage of the opportunities where they are and so as a result, over the longer term, we're going to do fine.

Lauren Rae Lieberman

Analyst, Barclays Capital, Inc.



In terms of the high-end versus the low-end, it's kind of leads in well to talk about changes in the retailer landscape. So first and foremost, I think we've all been very anxious the last couple months about the arrival, if you will, of [indiscernible] (02:25) their expansion. So how are you planning for that working towards that and managing sort of what could be the advent of a real, viable discounter presence in the U.S.?

J. Alexander M. Douglas

Executive Vice President & President-Coca-Cola North America, The Coca-Cola Co.



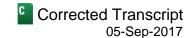
Well, I mean, the retail landscape is broad and it changes rapidly. I'm always in awe of the complexity of that business and sort of our strategy as a company is to build strong brands that are – [ph] that the leader of vibrance (03:01) and growth and then to work with retailers to help drive their sales and particularly to drive sales faster than their business so we're accretive and to grow margins faster than sales. So as the landscape changes, it's changing to serve consumers. And each format, each new concept has a role and our job as a supplier is to understand what they are trying to do and to fit our brand and package portfolio to their business requirements. And so, as it changes, we change. And what we try to do is make sure that all of our activity is transparent and defensible and that we operate with high integrity and continue to drive growth. And my experience is that a supplier that drives accretive growth and drives profitability faster than sales is usually welcome at the table in a changing environment and we try to be one of those.

Lauren Rae Lieberman

Analyst, Barclays Capital, Inc.



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Okay. And I'm guessing that [ph] you would say that (03:46) philosophy in reality applies across the broad landscape of consumers – of retailers, it's not just about sort of how you'll approach and work with the discounters, but the more well-established players that has caused a lot of noise for consumer investors in the last few weeks of August.

J. Alexander M. Douglas

Executive Vice President & President-Coca-Cola North America, The Coca-Cola Co.

A

Well, absolutely, I mean, the – I guess the best thing about the beverage business is that it's completely elastic to marketing and sales execution. So wherever there is traffic, where there are thirsty people – wherever there are thirsty people, there is an opportunity to sell a beverage. And so, we have a very dedicated focus on all of our customers and making sure that we bring value to them, and we see that broadly and we look to their strategies to configure our price and brand pack strategy to fit theirs and then try to make the whole thing work as a part of our system.

Lauren Rae Lieberman

Analyst, Barclays Capital, Inc.

Going out of my – my planned order, so you mentioned – you sell beverages as there's thirsty people, you can sell beverages. When I'm shopping online on my couch at midnight ordering my groceries, I might be thirsty, but sort of a delayed gratification of shopping online. So how are you approaching this shift, right? Dollars moving online, shopping behavior moving online and how you replicate the impulse effect, short of implicitly referenced in your strategy.

J. Alexander M. Douglas

Executive Vice President & President-Coca-Cola North America, The Coca-Cola Co.



Sure. Well, I mean, e-commerce is transformative. I mean, James talks about the digitalization of our business as being one of his top priorities. And what he's really talking about there is how technology is changing the way we serve consumers, customers, and our employees. And so, you're shopping at 10:00 at night and what you're hopefully doing is refilling some in-home out of stocks, so in that sense, it's a tremendous opportunity for us to grow our business and what we're finding is that our items are among the fastest selling of e-retailers.

But remember also that retailers, when we think of e-commerce, we tend to think of the pure-play guys. But as we've just recently seen, the clicks are looking for bricks, and the bricks are looking for clicks and so – and I would really say to the investment community, don't count out the brick retailers. I mean, they're moving fast, they have significant assets and they're working to serve the shopper. And don't think of e-commerce as a channel, it's a way for consumers to research, to buy, to experience brands and then ultimately to have them fulfilled.

And the biggest problem we have within home consumption in our business is out of stocks. So to the extent that we can get on a list and be part of a commerce routine that delivers regularly, hopefully, we can capture that opportunity.

But also more broadly think about like restaurant operators. Restaurant operators think of pizza, for example, pizza orders that have moved onto apps, our instance of beverage attachment, if we're well-merchandized on a digital app, is 50% higher than on the telephone.

So, in each of these cases, whether it's the experience, the order, the in-home, out of stock, or click-and-collect, we're working with retailers to figure out how can we sell the occasion of the collect. But all of it adds up to being another big merchandising opportunity and a chance for us to sell more beverages.

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| C | Corrected | Transcript |
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| | | 5-Sep-2017 |

| Lauren Rae Lieberman Analyst, Barclays Capital, Inc. | Q |
|--|---|
| Okay. I saw the pizza and a Coke advertising on TV yesterday like 100 times | |
| J. Alexander M. Douglas Executive Vice President & President-Coca-Cola North America, The Coca-Cola Co. | A |
| Okay. Well | |
| Lauren Rae Lieberman Analyst, Barclays Capital, Inc. | Q |
| in US Open. So | |
| J. Alexander M. Douglas Executive Vice President & President-Coca-Cola North America, The Coca-Cola Co. | A |
| High reach frequency, we may have to make sure we're being efficient there. | |
| Lauren Rae Lieberman Analyst, Barclays Capital, Inc. | Q |
| I only had the TV on way too many hours. | |
| J. Alexander M. Douglas Executive Vice President & President-Coca-Cola North America, The Coca-Cola Co. | A |
| 100 times is probably more than you need it. Were you thirsty? | |
| Lauren Rae Lieberman Analyst, Barclays Capital, Inc. | Q |
| I was super thirsty. | |
| J. Alexander M. Douglas Executive Vice President & President-Coca-Cola North America, The Coca-Cola Co. | A |
| Excellent. | |
| Lauren Rae Lieberman Analyst, Barclays Capital, Inc. | Q |
| Super thirsty. Okay. Let's talk a little bit about competition, may we? So, ever-incre know that the beverage category has long been an area of rapid innovation and fra | |

Super thirsty. Okay. Let's talk a little bit about competition, may we? So, ever-increasing array of small players, I know that the beverage category has long been an area of rapid innovation and fragmentation, but hard to say it's not – doesn't seem to be bigger and more and more sustainable. So whether it's small players gaining so quickly like [ph] BodyArmor (08:02) or [indiscernible] (08:03), you have sort of well-capitalized players now putting their foot in. So, how are you thinking about that? How are you thinking as manage your portfolio, how does you – how do you think that is where the industry is heading, is it a trend, is it sustainable, and so on?

J. Alexander M. Douglas

Executive Vice President & President-Coca-Cola North America, The Coca-Cola Co.

Sure. And I told you I brought slide. It's a big slide with lots on it. But this slide that I have behind me is really our strategy on the page and it's how I'll come to your question in terms of new items and new innovation.

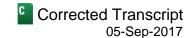
But as you referenced when you introduced me, The Coca-Cola Company has shifted its focus to growing sales as opposed to [ph] gallonese or (08:45) volume. And the reason is that we're aligning how we get paid by our bottlers to what consumers and customers are willing to pay for our brands and it makes sense, right? We'd be focused on driving dollars, which ultimately drive the economic engine. We have two metrics in our logic though that keep us on us, one is incidence, which is household penetration and the other is transactions, which gives us unit velocity because you don't want revenue that's not a function of healthy brands in more people's hands more often.

And then obviously, we measure margin growth and value share. We have been in an overhaul of our business in North America for 10 years, really going from a heavily CST-focused business to much more of a Beverage for Life strategy. We're kind of a early adopter of James's strategy for the company and it's working. And in that, we've acquired some businesses, we've grown organically some businesses and we've created a pretty important combination of kind of core and new. Our growth which you mentioned has been pretty strong in the last few years is borne of that focus, it's finding innovative and creative ways to grow our core business, whether it's sparkling our CSDs with small packages or organically building brands like Gold Peak and Dasani and Simply and then acquisitions like Glaceau, which were big, kind of catalytic acquisitions 10 years ago and then the other thing we've done is we found that – and it gets to this very fragmented innovative category that we're in, is that the innovators are launching hundreds of new products every year.

But once they're successful, they all have the same kind of issues, issues like buying, procurement, like selling, distributing, manufacturing and capital. And so, we have a venturing group that we started about 10 years ago and basically it goes out to all the entrepreneurs and says, instead of going to private equity to get money, why don't we work with you, we'll invest in you and we'll help you and we'll help you or take your idea, solve some of the issues you might have and we can see how you can be a part of what we're doing and we can help you achieve your dreams as an entrepreneur. So, Honest Tea, Zico were early wins there, more recently Fairlife, which has been a transformational beverage that we've gotten into in the dairy platform, all of that allowing us to kind of source external innovation, so that when you take a healthy core, build strong new businesses and then bring all the next businesses in, it gives you a sustainable top line and it's how we think about growth and innovation in a world where increasingly lots of people have ideas and the retail infrastructure is allowing them to bring them to market, we can be helpful and they can feed our growth long term.

| Lauren Rae Lieberman Analyst, Barclays Capital, Inc. | Q | | | |
|--|---|--|--|--|
| I haven't [ph] tried this (11:36) math and just taking there right now. How much your growth do you think in the latwo or three years – one to two years has actually been from these sort of smaller, inclusive of an Honest and a Zico and some of the bigger ones | | | | |
| J. Alexander M. Douglas Executive Vice President & President-Coca-Cola North America, The Coca-Cola Co. | A | | | |
| Sure. | | | | |
| Lauren Rae Lieberman Analyst, Barclays Capital, Inc. | Q | | | |
| with the ratio? | | | | |

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J. Alexander M. Douglas

Executive Vice President & President-Coca-Cola North America, The Coca-Cola Co.

A

The way to think about our growth is our sparkling business and this is – it's interesting because we talk about sparkling and a lot of us use the old volume or [ph] gallonese (12:02) metric because it's what we talked about for a lot of years. But sparkling volume has been declining because packaging is changing, but sparkling brands like Coke, like Sprite, like Fanta have been really healthy and small packages like mini-cans are growing in the midteens and so, we kind of look at the sales growth of sparkling.

And if you analyze it in the North America market or the global market, one, three, five years out, the most growth dollars and beverages are still going to come from sparkling. But the percentages are going to come from newer things. So the way we build the 3% to 4% sales growth in the U.S. is we grow our sparkling business 1% to 2%, we grow our new sort of tea or sports or hydration products, call them 4% to 6% and then we get all the extra growth from the new ones and that's how we get to 3% to 4%.

Lauren Rae Lieberman

Analyst, Barclays Capital, Inc.



Competition also from big players, right, so Pepsi talked about increasing investment behind sparkling in the second half of the year. So just kind of – are you concerned about or seeing any signs yet of a more promotional environment and [indiscernible] (13:18) how you responded to pricing is kind of the path that they take?

J. Alexander M. Douglas

Executive Vice President & President-Coca-Cola North America, The Coca-Cola Co.



Yes. I mean the experience we're having in the market is this – I mean, we like to think of this as the NFL or beverages here. I mean it's an extraordinarily competitive market and our competition, big and small, are really good. The overarching pricing environment still appears to be pretty rational. The competition for growth is as intense as it's ever been, but net-net, what we as an industry are creating is one of the most vibrant growth industries in this country and around the world. And for us, as a participant in it, we think everybody playing successfully is good and we'll try to be just a little bit better as opposed to the alternatives.

Lauren Rae Lieberman

Analyst, Barclays Capital, Inc.



Okay. I'll try again. So, plans for smartwater, so asking more from a Coca-Cola standpoint [indiscernible] (14:21) Pepsi standpoint, but clearly since the launch of LIFEWTR, smartwater's numbers, the trajectory has changed. So, I think you recently commented, I think I've read somewhere you've talked about some plans for smartwater, so if there's anything you could share on sort of strategy for smartwater from here, how you sort of reassert the brand merchandising plans, et cetera?

J. Alexander M. Douglas

Executive Vice President & President-Coca-Cola North America, The Coca-Cola Co.



It's a perfect example. So, smartwater had a two- to three-year kind of complete breakaway without a whole lot of aggressive competition and it was doing so well and then all of a sudden in one year, lots of good ideas including LIFEWTR, including CORE, Essentia, all of them came into that premium water space all at once.

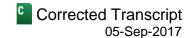
Lauren Rae Lieberman

Analyst, Barclays Capital, Inc.



Yeah.

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J. Alexander M. Douglas

Executive Vice President & President-Coca-Cola North America, The Coca-Cola Co.

Category expanded its growth, smartwater took a hit, lots of competition. We're obviously paying a whole lot of attention to that. But the pricing structure stayed there. It's marketing competition which is creating the most possible value for customers. We obviously look at everything from the consumer proposition, there is a commercial strategy. We took some price on smartwater at the beginning of the year, probably wasn't the best timing, to be honest, given all the competition that entered the market. Our plan for next year for smartwater is terrific, it's marketing-driven and we think that part of the category is going to continue to be exciting and we think

Lauren Rae Lieberman

smartwater will do really well.

Analyst, Barclays Capital, Inc.

And smartwater has actually been the flavored sparkling in Europe. Is there any plans to do flavored smartwater here that you've disclosed at this point?

J. Alexander M. Douglas

Executive Vice President & President-Coca-Cola North America, The Coca-Cola Co.

No, but just like this item here, Coke Zero Sugar, which was pioneered by European execution in the UK and did so well that we brought it here and it's off to a fantastic start. I encourage everybody to try it while you're at the conference. The smartwater trials in Europe will be something we watch really carefully.

Lauren Rae Lieberman

Analyst, Barclays Capital, Inc.

Okay. On Coke Zero actually, I was very surprised the day that you put out the press release [ph] but it's coming (16:26) Coke Zero Sugar, when I had like four or five emails internally from people panic like they're taking away my Coke Zero. So – and then I wrote back, relax, drink it, you'll be fine. But are you getting any kind of push back or [ph] any concerns with (16:40) all that loyal Coke Zero drinkers and so on, has there been any backlash or concerns?

J. Alexander M. Douglas

Executive Vice President & President-Coca-Cola North America, The Coca-Cola Co.

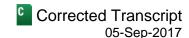
There was. When we announced that we've got lots of what are you doing, why are you doing it, didn't you learn your lesson from New Coke? I mean, this is a 31-year-ago innovation mistake we made. But the reality is that the change in this one versus the last one small, but it makes it taste more like Coke. And so when people try it, they love it and we've tested it like crazy. Now, let's imagine the worse case. The worse case is they really want a Coke Zero back, well, we give it to them. But I think everyone will love this. And based on our experience in the UK and based on the early results here, it will take Coke Zero Sugar and take it to a new level, and we're looking forward to that.

Lauren Rae Lieberman

Analyst, Barclays Capital, Inc.

Is the research here the same? I think in the UK, my recollection is that it was sort of like Brexit, like people didn't know Coke Zero had zero sugar. Is the research the same here? You guys hopefully [ph] that show (17:46), that's right. The Google searches on Brexit, now, after [indiscernible] (17:49). Anyway – yeah, come on, but anything – was the research the same here, was it the case?

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| J. Alexander M. Douglas Executive Vice President & President-Coca-Cola North America, The Coca-Cola Co. | | |
|--|-----------|--|
| Yeah. One-third of American consumers did not know that Coke Zero had zero sugar. | | |
| Lauren Rae Lieberman Analyst, Barclays Capital, Inc. | Q | |
| Okay. So, yes. | | |
| J. Alexander M. Douglas Executive Vice President & President-Coca-Cola North America, The Coca-Cola Co. | Д | |
| So, Coke Zero Sugar, we should improve on that number. | | |
| Lauren Rae Lieberman Analyst, Barclays Capital, Inc. | Q | |
| Sounds good. You know what, you never know, states that we're in. | | |
| J. Alexander M. Douglas Executive Vice President & President-Coca-Cola North America, The Coca-Cola Co. | Д | |
| What I can tell you since the launch, the brand's growth has accelerated. So, we're excited about it. | | |
| Lauren Rae Lieberman Analyst, Barclays Capital, Inc. | Q | |
| Creat Okay Let's talk a little hit about refrenchising. So maybe it's begting a dead horse, but it's a vibra | ant haraa | |

Great. Okay. Let's talk a little bit about refranchising. So, maybe it's beating a dead horse, but it's a vibrant horse. So, if you could tell what would you define as sort of the key benefits of refranchising? And then what are you seeing thus far in terms of sort of specifics and performance in the sort of nearly post-refranchising world?

J. Alexander M. Douglas

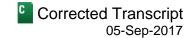
Executive Vice President & President-Coca-Cola North America, The Coca-Cola Co.

Sure. I mean, we created our new franchise vision to accelerate profitable growth that – that's the definition of success. We began the work on the strategy and a conversation that Neville Isdell and I had with The Coca-Cola Company's board in 2006. And we – CCE was operating in the U.S. – 75% of the U.S. We hadn't grown our business for three years. We were losing share at the time. And we had three issues. We had to galvanize our system because a lot of our independent bottlers were really confident about the future and wanted more. We had to overhaul our brand portfolio, which I described for you a little bit, and then we had to widen our route to market and our customer capability.

And in order to do that, we not only had to rethink the DSD system, but we had to redo the contract with the bottlers. So, we acquired CCE, we went through the collaborative process with the bottlers of rewriting the contract, which is the first – the franchise contract for Coke was written in 1890 and sold for \$1. So it needed some modernization.

And we solved for the scale things. We solved for customer management, manufacturing, for IT and procurement. And we built processes and we started testing them. We started testing the customer system in the second quarter of 2008. And so, everybody got confidence and we were able to ultimately codify it in the new contract. And then we turned around and refranchised CCE to the best coke bottlers where it made geographic sense and then we recruited or took really applications for people who wanted to get in the system because what we wanted

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was, we wanted a system with long-term patient capital, high levels of capability, multi-generational vision, and we wanted diversity. We wanted a system that was reflected in its capital ownership like the population of the United States. So, almost a third of our new system is owned by African-American and Hispanic capital.

And so what that gave us is the benefit of scale on the things that were important and then we have local community touch. And the net of it has been that it has worked better than we thought. It hasn't been easy. We replaced the ERP system with a common ERP system with every territory that changes, but the net effect of the whole thing is that our business has been growing ahead of the category now for over seven years. The bottlers are coming into their own, the enthusiasm in our system is very high, and the competition to get into the system reflected a bullishness for the beverage business in the U.S. that I think has given us a lot of confidence, and the results are, obviously, already happening and have been happening for a few years now.

Lauren Rae Lieberman

Analyst, Barclays Capital, Inc.

Would you consider refranchising Fountain and [ph] Hot Sale because that is (21:38) a thought process, or do you have that conversation 10 years ago also?

J. Alexander M. Douglas

Executive Vice President & President-Coca-Cola North America, The Coca-Cola Co.

Well, I mean, our Fountain business, the oldest Coca-Cola business is a source of enormous strength for us here. It's a business where we have a very – we have the privilege of serving the high majority of customers. It's attached to our brand equity in terms of Coke goes well with food and a capability that we built around an integrated model and it's a very valuable business for us, it's a business that we grow and that we create lots of economic profit in.

And so, bottlers do an outstanding job in [ph] founding (22:20) the local market. So, it's not a – it's a shared business just like bottle can is, in a sense, but I think our model is good. Would we ever look to change it or improve it? Of course. And similarly with manufacturing of still products, as manufacturing platforms kind of mature and the SKU characteristics become more like soft drinks, it would make sense. But as we continue to want to capitalize new capabilities, new platforms and stay with the speed of entrepreneurs and with the speed of consumers, we want to make sure we're agile that way as well. So, it'll probably be a little bit of both.

Lauren Rae Lieberman

Analyst, Barclays Capital, Inc.

Okay. So in terms of productivity related to refranchising, so how are you thinking about incremental opportunities on cost saving post refranchising, and what are the kind of key areas where there may be incremental savings available?

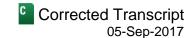
J. Alexander M. Douglas

Executive Vice President & President-Coca-Cola North America, The Coca-Cola Co.

Yes, I think this area that I want to try to provide some context on it because I mean, James – when James was announced that he was going to take over as CEO, he did two things really quickly. He communicated the Beverage for Life vision for the company and then he got about productivity in Atlanta. And the reason is, is that he saw a big beverage opportunity if we could open up to what has already happened in Japan as a vision or what's happening here in the U.S. as a vision, and that opportunity, the company's strength with its system around the world and brand strength gave us really a great opportunity to realize a whole lot of growth. But in order to do it, you need to move money from where it's not generating growth and to try to make sure that we put



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the full capability of the system and the resources against the growth opportunity. So he restructured corporate; that's been going on now, he calls that Lean Center, it's part of a vision called Lean Enterprise.

In the operating groups, and this is what we're doing in North America which is what your question is, we really got a start on this three years ago where we employed CBW to try to find \$200 million to \$300 million of productivity to fund what you see up here.

Lauren Rae Lieberman

Analyst, Barclays Capital, Inc.

Yeah.

J. Alexander M. Douglas

Executive Vice President & President-Coca-Cola North America, The Coca-Cola Co.



And we are able to do it because what we found is there's cost all over the place that exist because it was there. And this is some – we see some consumer products companies doing this to widen operating margins, we did it to drive growth because ultimately for our business model, growth is what drives economic value much more than taking it short-term into cost reduction. And we're in a business that luckily enough when you invest in it, it does grow. And so as we look at the next chapter of this and part of the reason why I'm so bullish about KO North America and about the company as a whole is that each of the things on this chart and there are similar ones around the world are works in progress that are working, but they're nowhere near their potential.

I've been asked a lot of times the last couple days or all day-to-day in meetings, this price package thing in sparkling that seems to be working so well for you, how close to the end are you? And the answer is, is we've moved the small proprietary packages from 7% to 15% of mix, and we've taken the big sort of commodity packages from 72% to 65%, so you tell me. But I think it's a big opportunity. As long as the consumer wants things that are different than what we have, we can if we're good at moving at the speed of a consumer, get there. Well likewise, brands and customer capability, manufacturing platforms that drive sales can be invested in, if you have the capability to constantly attack cost that – it's maybe not even fully waste, but just not optimally allocated. And so, in North America, we're looking at every business at every brand package, customer relationship, geography for places where we're not creating value and we'll make choices.

As we look at the future, we're looking at our brands and future opportunities and we're asking the question. If we have dollars here, is it in the right place or not and we do that on an annual basis to try to refresh our spend and we've set a big goal in terms of moving money for the next chapter of the growth story. And we have confidence because we've done it once and everybody saw it, so there's belief. And so, it's a team effort, it's not something that the big bad company is doing to all the rest of us, it's something that we're doing to create our company of the future.

Lauren Rae Lieberman

Analyst, Barclays Capital, Inc.

Okay. So, in terms of needing – need to increase investment, sort of given increased franchise leadership requirements, is it a yes, investment needs to go up or is it a no, it's more about reallocating?

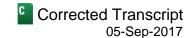
J. Alexander M. Douglas

Executive Vice President & President-Coca-Cola North America, The Coca-Cola Co.



I think it's reallocating. I think, I mean, you would invest if you saw a return incrementally, but we're a big business with a lot of infrastructure. Bottlers employ 90,000-plus people. The company has about 5,000 or 6,000 people

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dedicated to driving this. And there is a whole lot of money being spent to drive growth and to fund the operations. My experience is, as an executive, is that cost grows, it just does. And so, part of our responsibility as leaders is to constantly attack it and to reinvest it for the future and move it from the past to the future in a dynamic way. And so, my conviction and the team in Atlanta's conviction that builds and drives this is that we can continue to drive sales growth and expand operating margins and expand economic profit margins further.

Lauren Rae Lieberman

Analyst, Barclays Capital, Inc.

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So, that's I think – clearly, that's the idealistic and realistic view from the top. If I were to find a Coke employee and say, hey, like how's it feeling, do you feel resource constraint, do you feel like you've got the money you need to spend it, I've read in the paper there is restructuring, what would the answer be?

J. Alexander M. Douglas

Executive Vice President & President-Coca-Cola North America, The Coca-Cola Co.



If you were talking to somebody in one of our operating groups, I hope they would tell you that they need more money for their idea, that their idea is better than the resources that they've been given. I hope so.

The magic behind what is on this screen is that there are, call it, 150 people in this organization that manage the brands, that manage the customer relationships, that manage the geographies, that work with the bottlers. And think about it this way, there's a Sprite case in a chain customer store in a city in Florida, where there are three people trying to figure out how to make that grow. And their insight, their inspiration, their sense of the opportunity and their ability to mobilize to act is what's driving the performance we have. And I want them wanting more resources because their ideas are good. What our job is to work as a culture and as a leadership team to help make those choices and help enable the best choices to be made and then to be dynamic enough to see opportunities to continue to refresh that, but you want all of them thirsty for their opportunity.

Lauren Rae Lieberman

Analyst, Barclays Capital, Inc.

Okay. And where do you think the organization [ph] stands on its (30:25) continuum of wanting to be more open to taking risk, [ph] calculative careful (30:30) risk that James has talked about that's been written about in the Wall Street Journal, [indiscernible] (30:34) covering it?

J. Alexander M. Douglas

Executive Vice President & President-Coca-Cola North America, The Coca-Cola Co.

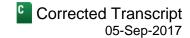


Yeah. I think – and he answers this question well and I agree with him when he does. I think on some things, we're really careful. We don't change the formula of Coca-Cola very quickly, that's an example.

In Venturing & Emerging Brands Group, they make investments in brands before I know about them. Their mission is to find the future billion dollar brands, but their work is fast, cheap failure and to make a lot of quick decisions because we've analyzed innovation, and we did a pretty exhaustive study to try to figure out how we could become more innovative.

And the net is that there are a lot of things going on in innovation, but the one thing that had the highest correlation with success was the number of add-backs. It wasn't the super-brainy process, it wasn't the eight-page request for authorization form that was better than another. It was – you have a general idea of what you're trying to do and where the consumer is going and you create the opportunity for lots of price.

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And the only way we could figure out how to do that was to get other people to try and then to give us the chance to help them make the more likely winners succeed. But even then the more likely winners don't all win.

Lauren Rae Lieberman

Analyst, Barclays Capital, Inc.

Yeah.

J. Alexander M. Douglas

Executive Vice President & President-Coca-Cola North America, The Coca-Cola Co.

And so, I think, we have a long way to go as a company to get to where James envisions us getting, but hopefully

Lauren Rae Lieberman

Analyst, Barclays Capital, Inc.

Okay. And as you have more of these add-backs, and not owning your bottlers, right, you're sort of asking a third-party to take that risk with you and to allocate shelf space and truck space. So, how's that evolving? I mean, is that – I don't know to stick or carry it, I don't know what's the...?

J. Alexander M. Douglas

Executive Vice President & President-Coca-Cola North America, The Coca-Cola Co.

it's starting to take shape, at least in places where we can afford to fail.

Well, the interesting thing about that is that the bottlers are more entrepreneurial than we are sometimes. And so we have 9, 10 big bottlers and then we have 50 small bottlers. And they are taking risk and trying things all over this country and I think it's one of the best — if you ask me, sort of what are the two or three things about our franchise system that you're most excited about, one of them is the diversity of thought. If you wait for the company, if we owned a whole bottling system, or if we owned 80% of it, then it would be our ideas and that's scary. I like the thought that whether it's small packaging or innovative systems in stores to drive sales or ways of working in communities to help. I mean, if you saw the local inspiration and the way the Coke system responded to Harvey over the past week and there are many other companies who have done great things, too. So, this isn't meant as a we're great speech.

But what I'm talking about is the innovation of the local cultures. And we had a [ph] found (33:48) customer that – in Rockport that wanted to open, and they obviously couldn't get water and they needed generators. And so the local bottler, which is now a new franchise bottler, Orca, shot 21,000 cases of 12 ounce cans that they sourced over there and lent them a generator, they opened, they fed the town of Rockport for three hours and closed down.

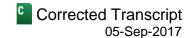
The diverse capital – I mean, there's just a whole lot of really entrepreneurial energy in our system. And what it does is it creates a lot of new ideas and it also makes the half life of stupidity shorter. And that's really important. I mean, a lot of the things we dream up are good. And so back to fast cheap failure and at best, part of that is having people have the cultural affinity to try things and then another one is to make the mistakes cheaper and I think our system helps with that.

Lauren Rae Lieberman

Analyst, Barclays Capital, Inc.

Okay. This time, we'll take like one or two questions from the audience, [ph] before we go to (34:52) breakout. I've got a long list, so if no one else wants to ask, right. Okay. Lot of people with no questions. Sugar taxes, so can

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you just kind of give us an update sort of outlook over the next few years, results so far, Chicago, Philadelphia, sort of what the state of affairs is like there.

J. Alexander M. Douglas

Executive Vice President & President-Coca-Cola North America, The Coca-Cola Co.

The honest answer is the situation in Philadelphia and early days in Chicago is a mess.

Lauren Rae Lieberman

Analyst, Barclays Capital, Inc.

Yes.

J. Alexander M. Douglas

Executive Vice President & President-Coca-Cola North America, The Coca-Cola Co.

You have a tax that's taxing everything with sweetener in it, that's in a foreign beverage, but things like power drinks with sugar or not. It has materially reduced our business, it's reduced the business of our retail customers, our restaurant customers. It's moved trips for grocery shopping, actually move trips because of the cost of beverages outside of the cities or the counties, which has caused retailers who have built their stores in the inner city to try to create solutions to food desserts, being a place where their economics are being threatened. It's cost jobs in the systems, even the jobs that are still there, the commissions [ph] that are out, drivers are way (36:11) down, so it's a complete disaster. And it's ironic because - and the goals of the tax are often about health and consumers are changing on their own. Sugar and non-alcoholic ready-to-drink beverages is down 20% since 2000. All of the growth that we've been talking about tends to be in low or no calorie or no sugar beverages. And so, we so passionately believe the consumer can make the choice and make their own lifestyle decisions as long as we give them the choice, the information and the marketing to support making good choices.

So we'll have to see. We believe that that commonsense will prevail. As we sit here today, there have been a couple of cities that we would've thought Santa Fe, New Mexico, you would have thought would've voted the tax and they voted 2 to 1 against it. But you know this debate, it's a good American debate, it's a public policy debate and hopefully commonsense will prevail. But certainly, what's going on in Philly and Chicago is what happens when you do it and I think there's got to be a lot of different ways to achieve revenue increases for government and health for people. And people would expect me to say that, but what we're seeing is the voters feel that way and if that's strong enough, over time a commonsense will prevail.

J. Alexander M. Douglas

Executive Vice President & President-Coca-Cola North America, The Coca-Cola Co.



I think we'll leave it there and we'll go to breakout, but please at least join me in thanking Sandy and Coca-Cola for being here and for the beverages, and for the beverages, for sure.

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