03-Dec-2024

The Coca-Cola Co. (KO)

Morgan Stanley Global Consumer & Retail Conference

CORPORATE PARTICIPANTS

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

OTHER PARTICIPANTS

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

MANAGEMENT DISCUSSION SECTION

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Hey. Good morning, everyone. I'm Dara Mohsenian, Morgan Stanley's beverage and household products analyst. I'm very pleased to welcome Coca-Cola to our conference.

Just before we get started, I do have to note some important disclosures. Please see the Morgan Stanley research disclosures website at www.morganstanley.com/researchdisclosures. If you have any questions, you can reach out to your Morgan Stanley representative.

So, with that, joining us today from Coca-Cola, we have Chairman and CEO, James Quincey. James, it's great to have you here today. Thank you so much for joining us.

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

You're welcome.

QUESTION AND ANSWER SECTION

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

So, previously, you've discussed your all-weather strategy that served you well through the volatility of the last few years, you've talked about performing at the high end of the long-term top line algorithm of 4% to 6% organic sales growth. Given we're sort of moving to a more normalized level of category growth across CPG as pricing has decelerated, just level set us for what we should expect going forward. Is the high end still in sight as you look out over the next couple of years in this environment particularly for in a period of lower pricing in CPG in general?

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

A

Yeah. Look, I still feel very good about being at the top end of the 4% to 6%, i.e. in the 5% to 6% range. And I think, yes, it's true that pricing or consumer inflation in general and pricing is going to moderate, but it's going to moderate back down to the sorts of levels it was at before. And so, let's remember that pre this whole five-year journey on COVID and the waxing and waning of the economy, that's where we were before. I mean, in 2017, 2018, 2019, we were in that top end of the range as well and it was coming from a balance of volume and price.

So, I fully expect to see both volume and price contributing to getting us in a balanced way to the top end of the algorithm. And in a way, it's just a return to where we were before, because it's ultimately underpinned by an industry, the beverage industry, which still has huge growth potential in front of it. In the end of day, the world is characterized by more people not consuming commercial beverages than paying for commercial beverages. So, the industry has got a long way left to grow. We're the market leader and if you do histogram of growth rates of the industry going back 30 or 40 years, the median growth rate is 4%. So, if you got an industry, supported by its leader that continues to grow and we gain share, you get into the kind of the 5% to 6% ballpark. So, I think whichever way you cut it, you come back to a relatively high level of confidence that we should stay there.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

Great. Well, maybe let's break that down a little bit. I know you won't want to be too specific, but if we could break it down between volume, pricing, and mix, volume you've been pretty consistently in that plus 1% to 2% range in recent years, a little bit softer last quarter due to some dynamics. But as you look at the volume side, do you expect improvement as pricing comes off, or is it more you haven't seen a lot of elasticity and to meet those goals, you're probably in a similar type of range? And really same questions on pricing and mix. Pricing, you've shown you have a lot of pricing power in the last few years. Does that embolden you to be a little more aggressive with pricing, or do you have to be a little more constrained in this consumer environment? And I'm throwing three question at you at once, but mix, you guys have been far ahead of the curve of other CPG companies for a long period of time. Are you still finding incremental drivers as we think about mix contribution going forward?

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

A

Yeah, but you know that's my favorite, the multiple questions [indiscernible] (00:04:02).

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

Yes.

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

A

Let me try to unpack it. I think pricing will continue to be there and be a driver, because in the end, it's kind of related to the input costs and we're going to continue to pass those on and we're going to continue to earn with the consumer the right to the pricing through the marketing, innovation, the RGM, the execution, the coolers, et cetera, et cetera. So, I don't feel that, that is somehow going to end up being a big trade-off with the volume component of the piece. Obviously, you need to go country by country and work out exactly what that balance is. It all looks very kind of Solomonic at an aggregate level that you get.

If you want 5% to 6%, you get half from volume, half from price, but that's not equally the same in every country and so, there is an unpacking of the portfolio, but I don't see them in a large trade-off position because as you say, we have been driving volume growth barring the third quarter over the last number of years. And if you take a five-year average, it's probably a 2% or something like that. So, there's clearly a focus through all the levers in making sure we keep – not just keep people in the franchise, but grow the size of the franchise. And so, we've been able to do that management of price, whilst delivering the volume growth, not at the cost of the volume growth.

The mix component has a couple of features to it. One, which is probably a bit more temporary, which is kind of the – all the weirdness of the last few years of the changes in channel mix and category mix and depending on whether we own the vertically integrated business or didn't own the vertically integrated business, so there's kind of a bit of weirdness in mix, which will come down because historically speaking, mix has been kind of bounced around net neutral. We've used the advantages we gained from premiumization to then lean more heavily on affordability in certain parts of the world. So, we used it as a portfolio management tool to get us the overall results.

I think at an aggregate level, it looks relatively simple. Then, of course, you need to go country by country and the US has got more price and mix than volume, whereas you go to India or whatever and you're getting more volume than you're getting price and so, you have to kind of then de-aggregate the portfolio.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

Okay, that's helpful. And you mentioned the commercial beverage opportunity. Can you just touch on in the emerging and developing markets, how that's progressed recently? It's hard for us to judge, given a lot of the volatility. But your efforts around commercial development in those markets where you have lower per capita consumption and lower disposable income, and what's sort of in your control versus the consumer developing at higher income levels as you think about it?

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

A

Yeah, I think the volatility increases as you de-aggregate like the more you go down to the country level, the more you get more volatility with some countries. But as you come up again, starting at the top level, if you take the developing and emerging economies, they account for 80% of the world's population. The 20% that live in the developed economies probably pay for 7 to 8 out of every 10 drinks they drink, they pay for in some way shape or form tea, coffee, alcohol, non-alcoholic [ph] beverages (00:07:25) they're paying for, and we have a teens market share. But the 80% of people in the developing and emerging economies, they're only paying for 2 and a bit of every 10 drinks they drink. So, the vast majority of the industry is yet to be created and of commercial beverages we're in the high-single-digit share. So, we're gaining share, but lots of share to gain and there's lots of industry to create and that continues. The developing economies continue to expand in terms of volume growth.

So, if you de-aggregate the company, the volume growth that we have been getting is more concentrated in the developing, the emerging countries than it is in the developed economies and that is going to [ph] continue (00:08:04). Now, of course, as you then go down to a country level, you get more of a roller coaster. But take in India, I mean, apart from last quarter, it's been a long-term consistent grower of volume. Even, places like Nigeria, which is super-volatile on an intra-year basis, are long-term growers of volume.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

Okay, great. And segmenting your portfolio a bit, sparkling has had really strong results in recent years since COVID despite some skepticism, if you go back historically. What are you doing to sustain that momentum? What's been the unlock there? Maybe you can touch on the Zero Sugar portfolio too. And then also just what role do stills play in the portfolio as part of your growth platform?

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

A

So, look, I mean, the unlock for Coke is really the quality of all the different levers, like it's a brand that responds to marketing that is relevant and engaging for the current consumers and the next generation of consumers, that comes with the variants and the package mix that's also relevant for the consumers of today and tomorrow and works with the retailers. And, yes, that led to more and improved formulas of Coke Zero, more and different package sizes that suit each occasion and backed up by the commercial execution of the bottling system and the coolers. So, it's not been about a radically different view of Coke from the last 138 years, but a much better and much more effective execution of those key levers, making it relevant for consumers and relevant for retailers and that's driven Coke, as you say, over the last number of years.

And then, the rest of the portfolio, the other key decision in there is not to try and be deterministic in saying, well, okay, I think the consumers need this much of stills or whatever and they can only have this much sparkling and I'm going to – they're going to have to drink whatever I want to make. So, that's not how the world should work or consumer business work. So, the focus has been saying to the organization, we need to do justice to each brand. Yes, we need to go around the world and prioritize which country-category combinations we want to focus on specifically in the next number of years as we lead towards a future destination of a total beverage company, because you're not going to get there all in one go. But as you focus on those different category-country combinations, do justice to each brand in this country, and the consumer will decide whether you're doing a good job or not and it will work or it won't work, but we cannot expect to tell them what to drink.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

Great. That's helpful. And as you think about health and wellness broadly, and this is a subject that's coming up increasingly with GLP-1, political changes in the US, how do you think about your portfolio in that context? How do you adjust your strategies perhaps? And what role does Zero Sugar play in that as you think about that piece of the portfolio?

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

A

Well, I think it starts from the essential idea, you need to be relevant for consumers. And what's relevant for you or me or someone else out there is not always the same thing, even within "health and wellness". And so, what we have learned to do over the last number of years is in part make sure we have the options available for whatever choice you want to make, whether that's because it's got low calorie or no calories in it versus the original formula, maybe it's got more protein in it like the fairlife drinks, maybe it's got other ingredients in it, vitamins or whatever. In the end, like what the consumer wants, you need to be able to offer them the variety of choices and, by the way, the variety of packages. And I think that has allowed us over the years to adapt to different trends from consumers or from regulators and manage our way through.

So, really having the portfolio, having the choices of product and package, being adaptable and staying relevant to consumers and that is going to help us. I mean, I know all the GLP-1 data, it's quite anecdotal as to its total impact on food and beverages, but certainly the initial stuff you see is, yeah, they consume less in some categories, but they consume more of other categories. So if you have a portfolio, you can adapt for those sorts of consumers as they change their consumption mix in the same way you can adapt to other things. I think if you got the portfolio, you got the choices and you're willing to be adaptable, you can manage all these things.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

Great. That's helpful. Yesterday, you updated your sustainability goals. So, it's fortunate timing here today. Can you just talk about the role that sustainability plays in your strategy, why it's important and why the revised targets and just confidence around ability to achieve those targets?

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

A

Yeah. The two headline points before getting into some of the specifics of those goals. One is in the long run, to have a successful sustainable business, it needs to be in a sustainable ecosystem. I mean, you can't use up all the finite ingredients of eggs and then business lens. So, it needs to be seen in the context of we want a long-term business that's run for the long run with access to the things we need for the long run. Secondly, the core elements of the sustainability strategy are not some in parallel hobby or nice to have that central elements to the business. The three we updated in particular was on water, on packaging and on climate or carbon. But interpret carbon as energy, I mean, because that's what's driving it.

So, water, there's no way we can have a beverage industry without water. And when any part of the world, the aquifer gets into trouble, even though industrial users tend to be a tiny percentage for the water usage relative to other uses like agriculture, the problems concentrate on the big brands like us. I mean, you can see those happened around the world. So, it's very important for us that we have access to water, which is why we set a goal to be water neutral. Actually, now we're water positive. We return to the environment more water than we use, because we need access to that water and the reality is we have plants in countries that are very dry. Sometimes we close the factories and move them or we work with the government to do reforestation to water systems, so that we can replenish the aquifer, so we can access the water. It's done – it may be a societal good, but it's also critical to business, we have access to the water source, that's one. And we reaffirmed our commitment to being water positive.

The second one was on packaging. The packaging material we use, these materials all have economic value, if they're collected. The idea of a circular economy around packaging materials, particularly these ones, because not all packaging will have intrinsic economic value. But these ones do because you can chop up these bottles and make new bottles with them. So, we can collect them, not only we'll not have waste, but I can collect the bottle and over the long run I can just reuse them and I don't have to buy virgin resin, I can use recycled resin. So there's a whole intrinsic logic to doing it. And of course part of the packaging strategy is can I make them thinner? Like if you take a can today and compare it to a can 50 years ago, like 50 years ago, you need to go to the gym to crush those cans. Now, they're the thickness of a hair. You can crush them with your hand if you want it. That's great. Uses less material. It's sustainable. It's also much cheaper. So, again, it's a business strategy.

And the same is true in a way with climate. Climate, the biggest factor in climate is ultimately energy. To the extent that we can buy green energy, great, if it's competitive. To the extent that we can use less energy because we have thinner packaging or more efficient plants or more efficient trucks, the better off we'd be. So, it is an intersection of what's important societally, but also what's necessary for the business.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

Great. That's helpful. I wanted to spend some time on fairlife. It's been such a big success story for you guys. A, just at an aggregate level, can you help us understand how important this could be to your growth potential as you look out over the next few years versus the level of size of the business today? B, the different products in the portfolio, maybe talk a little bit about the strategy from a product perspective as you look to grow this business over the next few years, and the big unlock is sort of capacity or your strategies for growing the business in general?

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

A

Sure. I mean, it's been an overnight success 12 years in the making and it's been compounding steadily over the last decade and it's already here. If you look at the US year-to-date, the two brands that have added most retail sales in the US are Coca-Cola and fairlife, like the number one and the number two. So, you've got the like one of the oldest brands and one of the youngest brands driving the retail sales growth. And it's because the product is fantastic, the marketing work has been done, the innovation work is done, the capacity is coming online, more capacity needs to come online somewhere north of here, they're building a huge facility to bring online more capacity. So, it has already arrived at scale. I think that's the first thing. This is not something that is yet to come. It's already here at scale, witnessed the sales growth.

It's got good profitability. It's got tremendous growth prospects in the core products, in the core fairlife milk, which is a very low-lactose milk proteins. It has the Core Power, which is dialed up protein that has the Nutrition Plan, which is kind of the same idea. These are very on-trend products. I think there's a long way to go with those. Implicit in your question of kind of is there other innovations, it's like am I going to go into more solid forms of milk. We have a long way to go in beverages before worrying about other types of milk.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

Great. And part of the strength of the brand is the unique supply chain that the cows themselves and the way they're raised. Is international something that's a priority as you look out over the next few years or is that something that takes a longer period of time to develop [indiscernible] (00:19:19)?

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

A

The number one priority is to do the right thing in the US. They've got to bring online the capacity which is then will continue to support the long-term sales growth. I'm sure that in other developed economies, this need state remains important and to a large extent underserved. But the organization of the dairy industry is very local and there is a component in this which is connecting back into the dairy landscape and the rest of the world, it's not as easy to export as a Coke or BODYARMOR or water. And so, I don't think we're going to focus on it as intensely as quickly as some might think, because we really want to continue to explore and expand in the US opportunity.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

Great. So, maybe that's a good time to talk a little bit about capital allocation. We've talked about the significant growth opportunity internally. As you think about M&A from a longer-term perspective, there are a few key product segments where Coke is underexposed as you think about the global NAB category. So, how do you sort of juxtapose the focus on M&A versus organic growth? And how do you think strategically about some of those product categories, maybe where you're underexposed, and what might be interesting for the company over time and fit into the strategy and also categories where you can extend your competitive advantage and have success?

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

A

Yeah. M&A, particularly bolt-on M&A, has had a big role in what we've done. I mean, if you just take a retrospective long-term view, we have, in the last 20-plus years, I think added something like 15 billion-dollar brands. Seven of those were ones we invented and created ourselves. Of the eight, they had some component of M&A. Five of the eight were small brands, we bought that we turned into billion-dollar brands and three were brands that were already billion-dollar brands from the start.

So, if you look at what has it taken to expand our portfolio of billion-dollar brands, the vast majority of it, well, half of it is stuff we invented ourselves. The next quarter plus is small stuff we bought that we turned into big and the smallest contributor is actually medium-sized brands that we bought. And I think that's a strategy that seems sensible for the future going forward. So, I think the likelihood is we will, to the extent that we see gaps, we're likely to pick up smaller things that we can turn into bigger things, otherwise it's very hard for us to create value, if they're too big when we buy them and we're not in a rush. I think there's a degree of uncertainty going into 2025, and I don't think there's anything wrong with the strategy of accumulating cash and then seeing if there're opportunities and if not, then return it to shareholders.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

Great. And you mentioned on the Q3 call the dynamic external landscape, it's become more dynamic since then even. So, maybe we can just talk a little bit about the consumer and some of the regions around the world, perhaps let's start on North America and Western Europe. Just what you're seeing there, there's been some channel shifts in both geographies. So, it'd be helpful to have an update on what you're seeing from a consumer standpoint in those regions.

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

A

Yeah. Look, I think in aggregate, the US consumer remains very resilient. And as we've talked about on previous calls, yes, the lower income portion of the population has been under more purchasing power pressure, exhausting the savings, you can see that in some of the footfall, traffic to certain channels or basket incidents in other channels and looking for a more affordable price points, which of course we've been responding to as we go forward. But also there's plenty of money in the economy that's driving the more premium segments witnessed the continued growth of fairlife. So, I think you've got both things happening at once in the US. I see that as an ongoing feature of the US economic environment, consumer environment, but in aggregate, that makes it pretty resilient and you can still see lots of growth in the US.

I would mention Western Europe, Western Europe is a slightly more subdued version of the same dynamic. You have people on the purchasing power pressure for sure and responses to do with affordability. Yes, there are premiumization opportunities, but the aggregate is a lower level of growth than what we've been seeing in the US through this year.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

Okay, great. And then in developing markets, maybe you could touch on Latin America, obviously tough comps. Last quarter, Mexico was a bit softer, is that more just temporary comparison dynamic, you've had very strong growth in recent years? How do you think about that region going forward and also maybe focus a bit on volume versus pricing, given pricing has been so strong and confidence around driving volume growth, given some of the volatility we've seen in Argentina, Mexico recently, et cetera?

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

A

Yeah, I mean, look, Latin America has been a long-term success story for the Coke company over a long period of time including recently and I think that's going to continue to be true. In the more immediate short-term, that was a little softer in Q3, partly due to the comps. I think also worth remembering, an election cycle in Mexico is likely to see more money go into the economy pre the election than the few months right after it, which is not too surprising, very common pattern in a lot of countries around the world. So, I think you're seeing some of that work through. None of that makes me think that there's a sort of structural issue and I'm confident in the growth patterns in Mexico and Brazil has also been contributing.

I think we're going to continue to see volume growth in Latin America. Pricing is going to moderate, a lot of the Latin American pricing is coming out of the hyperinflation in Argentina, which thankfully seems to be moderating or at least moderating in Argentinean terms. I don't think anyone knows what that number is going to be in 2025, except for less than 2024. So, yeah, you'll see that come down. But that's a very specific situation around mix around Argentina rather than generalized high inflation in all the other countries. So, I think, Latin America has proven to be a strong resilient business over a long period of time and I feel good about the business, even if [ph] that's got some due to (00:26:35) comparisons and election cycle and all that sort of stuff.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

Okay, great. Maybe two other markets, China and the Middle East. Obviously, China has come under macro pressure in recent quarters and we've seen broadly across CPG some pressure. Maybe just talk about how you're responding to that as an organization and any strategy changes as you think about the long-term given the operating environment has changed there. And in the Middle East, maybe just give us a bit of an update there or sort of cycling through some easier comps and some of the turbulence that emerged last year. What's sort of the impact from that or a level of contagion as you see it or do you feel like you have a pretty good handle around that right now in terms of what's already happened there?

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

A

Yeah. China, I mean, clearly there's been slightly more subdued macros. I see it as kind of part of a multi-year property correction that then obviously bleeds into the broader economy, not unlike other parts of the world have gone through, which kind of gives you a slightly more subdued consumer outlook. It certainly seems to be the case that if it starts inclining to slightly more negative, the government put some more stimulus in to kind of bring it back to the okay level. And so, I think that's the kind of environment we've been working through.

Within that context, we've also refocused our business more on the soft drinks, more on the juice drinks, and less on what in the US we'd call [ph] case pack (00:28:06) water and that has made the overall numbers much more negative than the soft drink numbers, which are more kind of the flat to slightly positive, but that's been a choice that we've been focused on, on using kind of less of that as part of the portfolio. The long-term opportunity remains to have a bigger and better business in China. So, we're not super concerned about the short-term corrections because we see that actually within the overall result, the restaging and the regrowth of the sparkling is going to be good. And of course, we're gearing up for Chinese New Year at the beginning of the year, so that should be good.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

Right.

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

A

Oh, Middle East.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

Yeah, the Middle East situation, how you sort of manage through that volatility? Have you seen some of that spread to other regions or give us a bit of an update there?

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

A

Yeah, I mean, look, obviously the impact from the war has been devastating. People from the system have been killed on both sides in collateral damage, so it's been a very difficult time for the system in the Middle East. And the impact, clearly, there's been kind of a combination of spillover of consumer reaction to some of the events, plus economic impacts in some of the countries. So, you've got both things going on at the same time. Clearly, there's some consumer pull-back from international brands in a set of countries, affecting the Coke or some of the other brands that are more obviously associated with the US. And that's not just a Middle Eastern thing, it's affected Turkey. It's slowed over to some of the Muslim countries in Southeast Asia. But as you say, some of that is now in the base, so to speak.

We obviously are very focused on doing the right thing for the people in our system, very focused on staying in those countries. Look, actually the Cokes in country X are largely all made in country X by local employees and so, it is a profoundly local business that we're focused on. And that then kind of take some of the edge of what's going on. It's not an import business, so to speak. And we manage through it as best we can, it's not in aggregate going to kind of topple the tower.

Dara Mohsenian Q
Analyst, Morgan Stanley & Co. LLC

Great. During the Q3 call, you gave us a bit of perspective on 2025 and you talked about leveraging productivity levers to drive efficiency in the organization. Can you give us a bit more detail on what levers you anticipate that'll be most important in 2025? Obviously, top line growth is moderating sequentially as some of that hyperinflation and some of the excess pricing comes off even in non-hyperinflation markets. So, is margin improvement an outsized focus in 2025? Is productivity a focus, particularly given you've done so much good work on there already over the last few years? How should we think about that?

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

I think there's no silver bullet out there. There's no one big on pull the lever that's going to kind of make a huge difference in 2025. It's going to be more a question of we're going to start the year leaning into growth. Just because pricing is moderating, does not mean there'll not be growth. We're going to lean into growth. We're going to go for volume growth and we're up for the price/mix growth and be top line-led. I mean, that is the starting point and that will always be the number one objective going into any year. Yes, we will look for efficiencies through the chain, making sure the input costs, looking to have the gross margin do well, being judicious on the use of marketing. But, again, we're leaning into the growth. Obviously, we want that marketing to be effective and efficient. I think we've done a good job over the years of kind of keeping operating expenses contained, but there's no big step change sitting out there. It's going to be a question of judicious management of each key line item to make sure we get the result we want.

Dara Mohsenian Q
Analyst, Morgan Stanley & Co. LLC

Great. And as I think back over the past few years, you've had a really impressive track record of growing earnings and overcoming external headwinds. You delivered pretty steady earnings growth versus if you go back years ago when FX and some of the bottling divestitures were pretty big headwind. We are seeing some of those headwinds come up for 2025, right? Currency where we are today is certainly a substantial headwind, interest expense in theory is a headwind also. So, just putting all that together, how confident are you that 2025 is an earnings growth year? And how do you think about potentially offsetting some of those headwinds strategically versus reinvesting in the business? You've talked about how historically you have to overcome FX to some extent, if it's continuous from a multi-year standpoint. So, I'm just trying to understand how that all comes together in 2025.

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

Yeah. And we're yet to finalize everything for 2025. And probably even if we do, it'll change somewhere in 2025 because there's so many uncertainties and variables out there that I think it's going to be a fluid year, let's say. Look, but the point you set up the question in is perhaps [indiscernible] (00:33:37). If you went to the period like late since the financial crisis to about 2017, that kind of 10-year period when the EPS was stuck at $2, every time FX was high-single-digits negative, US dollar EPS declined. I mean, once it got over 6%, EPS was negative. Since the 2017 period, even in years of high-single-digit FX headwinds, we've grown US dollar EPS.

So, the first thing is like in part is a question of aiming to achieve it. Now, having said that, nothing we're going to do in 2025 is going to be at the cost of sacrificing the long run. If we need to invest for the long run, we're going to do it, even if that has short term costs I'm not trying to say like we need to do something crazy, that's not the point I'm making, but we're not going to be short-term is to achieve some sort of artificial objective.

Well, over the last number of years, every time there's been an FX headwind of this kind of magnitude, we've grown US dollar EPS, maybe not as much as we would have loved, but we've grown it. And so, we don't apply ourselves to all levers and do justice to the investment in the – every single local business and every single category and pull the corporate levers, such that we can achieve our overall objective because you can't have the dividend growing every year in dollars without the EPS growing in dollars, otherwise the wheels will start coming off. So, it needs to all hang together and that's the challenge that we set ourselves that we have to achieve.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC

Q

Great. That's helpful. And under your tenure, you focused on digitizing Coke and the system in general. Maybe give us a bit of an update here today with AI, with greater technology coming into play, what areas are you most excited about in terms of a tangible payoff? Is it marketing? Is it innovation? Is it productivity? How do you think through that conceptually for the broader organization?

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

A

Look, I think historically there's been a use of analytical AI models by the supply chains and R&D, which I think have been in the field for some period of time and delivering results. I think more recently you've got two things that are layering in which are encouraging for long-term value. One that's coming in through the selling system, as the selling system has moved from sort of analog, the person has to turn up at the store, so that you can make an order all the way through platform so that the retailer can order for themselves because it's an ADI or they can order on our website and app, so they can order 24/7 to suggested selling. So the system now has all the data, it can now complement the salesperson and the retailer because those are the two people deciding what goes in the store and complement and they're saying stores like you should have this or do that or do the other and that is generating uplifts in sales through the bottling system. So, AI systems that can complement and accelerate the effectiveness of what the salesperson and the retailer decide to do in the store is proving that it can drive results.

The second area that's starting to now come online is all the kind of output of the generative AI. I mean, I say that by entering and saying like what we don't know about where this stuff is going is more than what we do know. But having said that, like just some of the early uses by the system are starting to demonstrate value. So, we spend hundreds of millions every year on point-of-sale material in the store that says I have some sort of marketing picture or some straight offer. You think of how many photos are taken of people or meals or bottles, the people who design it don't follow the design rules, we send them. It's a cottage industry of hundreds of millions. We have an AI [ph] app (00:37:40) now. You just type in what you want the point-of-sale material to be and it spits it out. If it's James and Dara having a pizza and you get it and you don't like the fact the machine put olives on, you go take the olives off, and it takes the olives off, and then it just prints it and so it's much more effective and it's cheaper. So, there's already generative AI that's improving efficiency and delivering on effectiveness.

And then you go to the kind of the really central bit of marketing, which making the ads. This year's Christmas ad is being used in most places is all done through generative AI prompts. So, it's not a CGI after effect on a human ad, it's a fully generative AI ad which has been, one, been much more effective with consumers. Two, it was much quicker to make. And three, it was cheaper to make. So, clearly, you got some use cases that are starting to look pretty attractive.

Now, why am I not sounding more encouraged and euphoric than I am sounding, apart from being British and not being general nature? It's because actually there's uncertainty like what are the long-term economics of these things going to be? I mean, there's a lot of money being spent on servers, it's not clear to me what the price of using these services is going to be in five years' time. Plus, it has to be clear to me what is the competitive advantage for me versus what's the price of entry? If generative AI is just the new operating system on your computer, everyone has it, everyone uses it. Fine, we just adapt and move on, just like we adapted to smartphones or does it somehow confer a competitive advantage on me because of the way I use it or my access to it or whatever? So that is all yet to play out.

Dara Mohsenian

Analyst, Morgan Stanley & Co. LLC

Great. Well, that was a great discussion. Thank you so much for being here. We're ending things here.

James Quincey

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

Thank you.

Dara Mohsenian

Analyst, Morgan Stanley & Co. LLC

Thank you.