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# The Coca-Cola Co. (KO)

Q3 2023 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** At this time, I'd like to welcome everyone to The Coca-Cola Company's Third Quarter 2023 Earnings Results Conference Call. Today's call is being recorded. If you've any objections, please disconnect at this time. All participants will be on a listen-only mode until the formal question-and-answer portion of the call. I'd like to remind everyone that the purpose of this conference is to talk with investors and therefore questions from the media will not be addressed. Media participants should contact Coca-Cola's Media Relations Department if they have any questions.

I would now like to introduce Ms. Robin Halpern, Vice President and Head of Investor Relations. Ms. Halpern, you may now begin.

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### Robin Halpern

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

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

We've posted schedules under Financial Information in the Investors section of our company website at [cocacolacompany.com](http://cocacolacompany.com). These schedules reconcile certain non-GAAP financial measures, which may be referred to by our senior executives during this morning's discussion, to our results as reported under Generally Accepted Accounting Principles. You can also find schedules in the same section of our website that provide an analysis of our gross and operating margins.

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

Following prepared remarks, we will turn the call over for questions. Please limit yourself to one question. If you have more than one, please ask your most pressing question first and then re-enter the queue.

Now I will turn the call over to James.

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### James Quincey

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

Thanks, Robin, and good morning, everyone. In the third quarter, we delivered strong top line growth, comparable operating margin expansion and earnings per share growth. Our strategy is working. These results continue our track record of consistent delivery and given our year-to-date performance, we are raising both our top line and bottom line guidance.

This morning, I'll provide a brief update on the global consumer landscape. Then, I'll focus much of my time on business performance across the segments and discuss how we've been investing to further strengthen our capabilities to capture longer-term growth opportunities. John will end by discussing financial details of the quarter, our revised guidance of full-year 2023 and some early considerations for 2024.

The global operating environment is always dynamic, and this quarter was no exception. Some markets improved sequentially, while others dealt with a variety of factors ranging from transitory weather conditions to ongoing inflationary pressures, geopolitical tensions and conflict.

We delivered 11% organic revenue growth this quarter, driven by positive volume, some pricing actions in the marketplace and carryover pricing coming into the base from last year. Volume grew 2% and sequentially improved each month in the quarter with September being our strongest month. Our year-to-date volume growth remains consistent with on-the-line performance compared to 2019.

And overall, our industry remains vibrant and is expanding, and we are executing to capture that growth. During the quarter, we gained volume and value share in both at-home and away-from-home channels.

Consumer sentiment continues to vary around the world. In developed markets, consumer spending in agro business held up quite well. However, some consumers feel pressured. We've seen some shifts to discount channels and switching to private label brands in a few markets and categories. The intensity of this activity was largely the same across Europe compared to the previous quarter, but was less pronounced in the US, Australia and Japan.

In the developing and emerging markets, the picture is more mixed. We're seeing broadly consumer strength across Latin America, India and in parts of Central and Southeast Asia. On the other hand, consumer confidence and spending has yet to fully recover in Africa and China.

Our revenue growth management execution capabilities give us a distinct advantage, and we are leveraging these capabilities to ensure we have the right product, in the right package, in the right channel, and at the right price points to meet consumers where they are.

Notwithstanding the dynamics in play around the world, we have many levers to pull and continue to deliver through varying market conditions. I'll share some more details from each region. Starting with Asia Pacific, we delivered organic revenue growth, but operating income declined primarily as a result of investing ahead of the curve to participate in longer-term opportunities and incurring additional costs from strategic portfolio rationalization.

In ASEAN and South Pacific, we grew top line and profit by linking our brands to drinking occasions coupled with strong execution. In Thailand, we launched Coke Kitchen, which connected consumers to influencers, who shared their favorite recipes with Coca-Cola. We also partnered with food service aggregators to drive combo meals, campaign attracted nearly 1 million consumers and we significantly increased the attachment rate of our beverages with meals ordered through food service aggregators.

In Japan, we're gaining volume and value share year-to-date. We continue to see strong momentum from our Coca-Cola, Georgia Coffee and I LOHAS campaign and have stepped up execution in vending, e-commerce and convenience channels.

However, in China, volume declined as the sparkling soft drink category is taking longer to recover. Our results were also impacted by some strategic decisions to deprioritize lower profit categories. Our focus is to restore momentum to the sparkling soft drink category and capitalize on revenue growth management and execution opportunities.

In India, we delivered double-digit volume and top line growth, which resulted in the highest value share gain over the past three years. We're winning in the marketplace by generating 2.6 billion transactions at affordable price points and driving availability across rural regions. Across Asia Pacific, as part of our World Without Waste strategy to help drive the circular economy for packaging materials, our system launched 100% of recycled PET packaging in India, Indonesia and Thailand.

Moving on to EMEA. We delivered strong organic revenue and operating income growth. In Africa, macro conditions remained challenging, and our business was further impacted by natural disasters in Morocco and Libya.

Despite this environment, we drove transaction growth with accelerated refillable PET expansion, digitizing nearly 100,000 outlets and adding 80,000 coolers year-to-date. In Europe, consumers are still facing pressure and our business was unfavorably impacted by poor weather. Despite these dynamics, we gained value share through strong performance in sparkling soft drinks and tea. We did this by partnering with our system to drive value for key customers and our consumers. We continued to see promising early results with Jack Daniel's and Coca-Cola in Europe. We are learning and expanding in [ph] alcohol rated (00:08:08) drinks, including our recent announcement of our Absolut Vodka and Sprite.

And last, in Eurasia and Middle East, we recruited consumers through innovative, occasion-based marketing events like Fanta Fest Türkiye, which focused on snacking occasions with concerts by prominent local artists. They also launched a 100% recycled PET packaged this summer.

In North America, we generated strong organic revenue growth and delivered margin expansion by executing across our total beverage portfolio. We continued to see away-from-home channels outperform at-home channels. Within sparkling soft drinks, elasticities are holding up well, and we continue to drive quality leadership with Coca-Cola, Sprite and Fanta.

For example, our system stepped up in-store activation on Sprite, Lymonade Legacy, and with increased displays at point-of-sale, which drove higher household penetration and repeat purchases.

Fanta drove nearly 2 points of value share gain year-to-date through innovations and new graphics, including the latest Halloween-inspiration of the What The Fanta platform. Outside of sparkling, BODYARMOR and Powerade trends are stabilizing and fairlife Core Power, smartwater and Gold Peak generated value share gains. And in the US, to protect water resources, we renewed a decade-long partnership with the Department of Agriculture to explore and improve watersheds in national parks and grasslands. Water is a critical priority for our system and the communities that we serve.

In Latin America, we generated double-digit top line and profit growth by executing on all facets of our strategy, which resulted in value share gains in four of our top five markets. In the fifth market, Mexico, we're seeing improving value share trends over the last few months.

We're increasingly linking our brands to consumers' passion points to build deeper connections. In Brazil, through Coke Studio, we partnered with The Town Music Festival where we hosted 60 hours of concerts and engaged with artists and influencers, which generated 1 billion impressions and reached nearly 50 million consumers. We continued to drive affordability through refillable packaging of larger PET packages. In developing and emerging markets, refillables are an important tool both to eliminate waste and offer products at lower price points.

Last, our system stepped up availability through placing over 270,000 coolers year-to-date, which increased our share of visible inventory in key areas. Local ventures generating strong overall growth. At Costa, we strengthened our revenue growth management equation while driving transactions growth. This was supported by strong innovation and marketing campaigns such as our global Summer of Ice, expansion of the refreshment category and the introduction of our personalized [indiscernible] (00:11:12) loyalty activation in the UK. Additionally, innocent gave value share in both UK and France.

Finally, Bottling Investments Group grew organic revenue and operating income through expanding affordable immediate consumption entry packs and progressing towards strengthening route-to-market and optimizing trade conversions. At the same time, we are working towards decarbonizing our operations in India through using 200 electric vehicles. We plan to add more before the end of 2023.

Beyond the quarter, we continue to have confidence in the long term. We see momentum continuing across our industry, and our system has galvanized more than ever to capture this opportunity. Leveraging data to drive better decision-making is key to improving execution. Our system has collectively invested in digital initiatives to drive up all facets of our strategy.

Starting first is marketing and innovation. Our marketing transformation is increasingly making our brands more relevant to consumers. Today, Gen Z spent seven to nine hours a day on screens. However, very little time is spent watching traditional TV. We've been shifting our media spend towards digital. In 2019, digital was less than 30% of our whole media spend and year-to-date is over 60%.

Through digital campaigns with segmented population that's disproportionately reaching consumers where we earn higher returns on investment. We've seen tremendous engagement through digital-first campaigns for Coca Meals, Sprite Heat Happens, and FUZETEA's Made of Fusion among others. We're taking bold steps to be at the forefront of both consumer and non-consumer-facing generative AI. For example, we launched Create Real Magic, which turns consumers into digital creators. We also brought gen AI's into creative process to the award-winning Coca-Cola Masterpiece film and later gave fans a chance to take a piece of this work through the sale of NFT.

Recently, we launched Coke Y3000, which is our eighth iteration in the Coke Creation platform. Coca-Cola Y3000, the world's first futuristic flavor Coke created with AI, the launch has demonstrated strong initial results. On the non-consumer facing side, we're implementing generative AI to improve access to inside market data, research and trends.

Moving on to revenue growth management and integrated execution. As a system, we're accelerating eB2B platforms that allow for better tailoring the product, price and packaging architecture, reducing our stocks and optimizing placement of visible inventory. Year-to-date, we've connected 6.9 million customers to eB2B platforms. We continue to expand coverage and offer customers personalization at scale. Initial pilot suggests that customers who receive AI-written push notifications can be more likely to purchase recommended SKUs resulting in incremental retail sales. And we're just scratching the surface of what is possible, but we're investing in digital capabilities now to expand our potential down the road.

To sum it all up, we're encouraged by our results here today, and this is reflected in our updated 2023 guidance. We have many levers to pull and have proven we can deliver in many types of markets around the world. We continue to win on a local level, maintain flexibility on a global level, and reinvent to build our system for the long term.

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

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## John Murphy

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

Thank you, James, and good morning, everyone. Today, I'll comment on our third quarter performance and highlight our updated 2023 guidance. I'll also provide some early commentary on 2024 and the actions we are taking to continue to deliver on our objectives.

As James mentioned, we delivered strong third quarter results. Starting with the top line. We grew organic revenues 11%. Unit case growth was 2%. If you exclude the impact of suspending our business in Russia, we have delivered positive volume growth in each quarter since the start of 2021. Concentrate sales were in line with unit cases for the quarter.

Price mix growth was 9%, driven by pricing actions across operating segments, including the impact of a few hyperinflationary markets, along with carryover pricing coming into the base from last year. Comparable gross margin for the quarter was up approximately 130 basis points, driven by underlying expansion and a slight benefit from bottle refranchising, partially offset by the impact of currency headwinds.

Comparable operating margin expanded approximately 20 basis points for the quarter. This was primarily driven by strong top line growth and the impact of refranchising bottling operations, partially offset by an increase in marketing investments versus the prior year, as well as currency headwinds.

Putting it all together, third quarter comparable EPS of \$0.74 was up 7% year-over-year despite higher-than-expected 4% currency headwinds.

Free cash flow was approximately \$7.9 billion year-to-date. This was largely attributable to the strong underlying operational performance and working capital benefits, partially offset by \$720 million transition tax payment and \$230 million in M&A-related payments. Our balance sheet is strong, and our net debt leverage of 1.5 times EBITDA is below our targeted range of 2 to 2.5 times.

Recently, we entered into a letter of intent to refranchise our Philippines bottler. As we progress on our refranchising journey, we aspire to improve the return profile of our business. In 2015, when Bottling Investments Group was more than 50% of our net revenue, our return on invested capital was approximately 17%. Today, Bottling Investments Group makes up less than 20% of net revenue, and our return on invested capital is over 23%, nearly a 7-point increase.

After this transaction closes, our remaining assets in the Bottling Investments Group will include operations in India, Africa and several smaller locations, primarily in Asia Pacific. We will remain disciplined in our refranchising approach by making sure we best position our system to deliver sustainable long-term growth.

Our business performance year-to-date gives us confidence that we can deliver on our raised 2023 guidance. This is comprised of organic revenue growth of 10% to 11%, which will be led by price mix and includes positive volume growth. We do expect pricing in developed markets to moderate in the fourth quarter, as we cycle pricing initiatives from the prior year. There are also a few hyperinflationary markets that will continue to drive price mix. There will be one additional day in the fourth quarter.

We now expect comparable currency-neutral earnings per share growth of 13% to 14%. Based on current rates and our hedge positions, we now expect currency to be an approximate 4-point headwind to comparable net revenues and an approximate 6-point currency headwind to comparable earnings per share for full-year 2023.

Based on current rates and hedge positions, we continue to expect per case commodity price inflation in the range of a mid-single-digit impact on comparable cost of goods sold in 2023. We now expect our underlying effective tax rate for 2023 to be 19%. All in, we are updating comparable earnings per share growth of 7% to 8% versus \$2.48 in 2022.

We continue to expect to generate approximately \$9.5 billion of free cash flow in 2023, through approximately \$11.4 billion in cash from operations. That's approximately \$1.9 billion in capital investments. This guidance does not include any payments related to our US income tax dispute with the IRS, which are unlikely to occur in 2023.

Given the momentum of our business, the strength of our balance sheet and some proceeds that we expect to receive from bottle refranchising, we have increased flexibility to continue to both reinvest in our business and return capital to shareowners.

While it is too early to provide specific guidance on 2024, we want to share some considerations based on what we know today. We're encouraged by our top line momentum across the majority of our markets. There are a handful of hyperinflationary markets, where it is either not possible to hedge or it is costly to do so. In these markets, we've demonstrated that we can manage currency pressures by taking price with local market inflation. And we will continue to follow this approach.

While some commodities are normalizing, we also have input costs that could be impacted by tensions and conflicts. With respect to advertising spend, our bias is to continue to reinvest behind our brands while maintaining flexibility.

Regarding currency, if we assume current rates and our hedge positions, there would be an approximate low-single-digit currency headwind to comparable net revenues and an approximate mid-single-digit currency headwind to comparable earnings per share for full-year 2024.

Of course, several factors could impact both our currency outlook and broader business outlook between now and February. Over the past few years, we've delivered US dollar EPS growth, and we have many levers to continue to do so.

So in summary, we are encouraged by our business results and confident in our ability to deliver on our commitments over the long term. Thanks to the incredible commitment of our system employees around the world, we're very clear on the direction we are heading and well-equipped to execute on the strategies to get us there. And we continue to invest to drive sustainable long-term growth. We remain focused on capturing the opportunities available to us.

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



## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] In the interest of time, we ask that you please limit yourself to one question. If you have any additional questions, you may rejoin the queue. Our first question comes from Dara Mohsenian from Morgan Stanley. Please go ahead. Your line is open.

**Dara Mohsenian**

*Analyst, Morgan Stanley & Co. LLC*

Q

Good morning. So clearly, another strong set of results in Q3 and obviously, increased confidence for the year with the full-year raise. I'd love to sort of get a bit more perspective on 2024. I know you won't want to put specific numbers around the outlook, but was just hoping you can give us a sense for how you think about the pricing outlook for next year given the strength in Q3, and perhaps break that down into the price increase versus mix versus hyperinflationary market pieces of it, and what the competitive environment sort of portends for next year on the pricing front? Thanks.

**James Quincey**

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

A

Let me just offer up a few thoughts, Dara. Firstly, just breaking out Q3, because I think that's instructive as you think about the down end of the year and into next year. Firstly, there is a couple of points in Q3, that's the carryover from the more inflationary environment from 2022, and obviously, that'll drop out as we get into Q4 and, obviously, next year. Then you've got the regular pricing and then you've got a couple of points of pricing that's coming from these very high-inflation markets, Argentina, Turkey and a number of the African markets, that given the levels of inflation is making a difference at the overall company level.

And as John mentioned in the FX guidance, we're assuming some degree of negativity from those markets next year, but we're assuming some degree of positivity in that sense in price mix next year.

The one thing that's certain about high inflation markets is, it ends unpredictably. So it's very early to have a full picture on what that's going to look like in 2024. And obviously, we'll update when we get to February. So net, net you're going to have continued moderation heading towards the landing zone in the developed economies. You've got a couple of emerging markets which are sub-normal inflation, aka, China, and then you've got a mixed bag of emerging markets, and of particular importance is going to be what is the overall journey in these high-inflation marketplaces. So hopefully, that provides some parameters with which to think about how it lands in Q4 and into next year.

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

**Lauren R. Lieberman**

*Analyst, Barclays Capital, Inc.*

Q

Thanks. Good morning. So one of the things that struck me as really interesting is in the release when you specifically – first off, it's helpful that you called out the specific contribution from inflationary pricing. But one thing I thought was interesting is the regions where there was greater inflationary pricing were also the regions where there was at least versus my expectations, better than expected unit case volume.

So I think historically, right, the logic and the elasticity would say more pricing less volume, but here you're getting that unit case volume to come through. So I just wondered if you could talk a little bit, maybe, about what you're doing differently that's enabling that kind of combination. And then also, if you're able to speak to transaction growth in those markets also, how that's pacing relative to unit cases. Thanks.

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**James Quincey**

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

A

Sure. So firstly, I want to just underline that we have been pursuing for a good number of years, but very specifically this year and also will be pursuing into next year, is no matter what the degree of inflation in the environment, we want to protect the scale of our consumer franchise and see it grow. In other words, we want to see positive volume and transaction growth in the environment.

And so very much our strategy of the marketing, the innovation, the RGM, the execution has been very much around not just gaining value share in these environments, but making sure that there is volume growth embedded in it. So we very much take that approach and as it relates to the regions where there was inflation, where there is volume, I mean, the two biggest pieces of the puzzle are Latin America and EMEA and taking those in order.

Latin America, the inflationary pricing is very clearly driven by Argentina. The rest of the continent, generally speaking, is in the same sort of ballpark that inflation that has been predominant, that, therefore, about an extended period of time. And it's an environment we very much know how to operate in, and we have a great business there, and they very much are masters of executing as the marketing innovation, the execution, the RGM. And then Argentina is the rollercoaster given its inflation levels and its economic levels. I can say that from personal experience, as I was the country manager there in 2001 and 2002, when they had the big devaluation and default on their debt. And so this is something where we know how to operate and it's kind of part of what happens in certain markets in Latin America, and so we are able to execute.

As it relates to EMEA, divided into two parts, one is the European environment where inflation, much like the US, is moderating down, and the dynamic in Europe was much more around a moderating degree of inflation and the fact that they had a relatively poor summer in terms of the weather, and that consumers perhaps were under a little more pressure than the US. The other half of the EMEA group is Eurasia and Africa, and in that context, there are a number of very high inflation marketplaces like Turkey, Zimbabwe, as it happens, Nigeria to some extent, Egypt to some extent. And there when the inflation does spike, you do occasionally see impacts to volume.

But overall, we've been able to manage through it, so that on a total segment basis, we've carried it through. And we certainly look to, as I said, maintain and grow the consumer franchise, although in some of those markets in any given quarter, the volume may be negative as inflation tends to be much more spiky than consistent.

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

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**Bonnie Herzog**

*Analyst, Goldman Sachs & Co. LLC*

Q

Hi. Thank you. Good morning. I had a question on your marketing investments. They were up and I guess a drag on operating margins in the quarter. So just hoping for some more color on these reinvestments. And then, James, you mentioned your plans to continue to invest ahead of the curve. So could you provide a little bit more

color on how you're thinking about this, and then ultimately how much of the top line strength you plan to reinvest into marketing, whether it's this year? And then more importantly, how you're thinking about this next year, especially in the context of greater FX headwinds? I guess trying to understand how flexible you're going to be to balance these reinvestments with driving dollar EPS growth. Thanks.

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**James Quincey**

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

A

Okay. Hi. Just kind of let me try and unpack that a little bit. So we have come in post-COVID over the last couple of years and said we expected a rebound, and we are going to lean in and invest for growth as long as growth is there rather than trying to pull back in anticipation of something. And that modus operandi, I'm not sure I would characterize extra marketing as a drag on results, more as a motor to driving the top line and the bottom line that we're seeing. So we feel that the leaning in is working, obviously typified by the fact we've raised both the top line and the bottom line guidance. I think as a model to the extent that we can continue to push that through the end of this year and into next year, we would certainly be happy to do so.

Having said that, you know to the extent that 2024 brings some unexpected surprises, we will pivot, whether it's a country, a region, or globally, we will pivot with speed as we did in the second quarter of 2020 when COVID hit and we ramped down marketing spend in that environment. So we feel we've developed a much greater degree of flexibility to move should moving be needed, whatever part of the world. But as a starting point, we're going to lean in for growth.

And I think the last thing I would say is, if you think about the balance of all these items, if you take us – if you kind of zoom out a little bit and take a broader perspective of the operating income margin, because obviously marketing is just a component of all the different pieces. If you take a look at operating income margin over the, I don't know, last five years or so, you'll see that it's been increasing at about half a point a year, operating margin, which is broadly in line with implied leverage in the long-term growth model. And so that has been an objective of ours. It's not going to happen every quarter because quarters are very lumpy. But it is part of the way we see our strategy.

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**Operator:** Our next question comes from Robert Ottenstein from Evercore ISI. Please go ahead. Your line is open.

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**Robert Ottenstein**

*Analyst, Evercore ISI*

Q

Great. Thank you very much. James, in the past, you've talked that Coca-Cola Company has talked about moving the consumer from more commodity packs to more of the – and I think you called them incident packs and the higher value-added packs. I would love to get a sense and maybe we just focus on the US of where you are in that journey, how much room there is to improve mix, and is this something that you can do in a weaker economic environment where the consumer is also looking for more affordability and value options? Thank you.

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**James Quincey**

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

A

Sure. Sure, thanks so much. Look, I absolutely think there is a tremendous opportunity in the US marketplace to leverage greater pack diversity. We're not capturing all the opportunities that are there. And the leveraging of greater pack diversity actually helps in the environment where, as you have in the US at the moment, where certain segments of consumers feel under disposable income pressure would look for more affordable options.

And yet, there are plenty of segments, either in terms of their income or in terms of the channels, they're going and spending in, who are more disposable for premium options.

So the marketplace offers the opportunity of greater segmentation and diversity of packaging. We have more that we can do in the marketplace in the US whether it be on the nature and the range of the can sizes and shapes or the PET bottles. So I think there is plenty of runway in the US to continue to leverage packaging diversity to satisfy consumer needs and to deliver on the RGM equations that we have the opportunity for in the US.

And ultimately, you could look at other parts of the world, Latin America or Europe, which are relatively developed cold markets and see that we do successfully use more packages there to deliver the business that the consumers want to have.

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

**Andrea Teixeira**

*Analyst, JPMorgan Securities LLC*



Thank you. Good morning. So, John, I appreciate your commentary about the EPS growth in 2024. And, James, you said you would like to see volume growth, which is obviously encouraging and in line with what you said in the last earnings call. But given the many moving pieces recently and the weaker consumer in developed markets, number one, is there anything that has changed your thoughts sequentially?

And, two, related to the 80% of the volume of course being abroad, and granted that obviously is moving the impact of the GLP drugs, I think it would be dismissive not to ask given investor concerns. Can you talk about how you're proactively approaching this potential risk? Obviously, it's similar to what you have done over the many, many years in terms of the sugar content and portion control, but just curious how investors should be thinking of the tools you have at your disposal. Thank you.

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**John Murphy**

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



Thanks, Andrea. So on the first point, if you think about 2023 and where we were 12 months ago and what we're guiding to for the rest of this year, it's in an environment that has had the same kinds of forex headwinds and much of the volatility that I would expect to continue into the next 12 months or so. And we've demonstrated, as we've both highlighted both in the script and in a number of forums, the levers that we have developed over the last few years to effectually manage through the period with such volatility and uncertainty. And I expect 2024 to be a similar type of year.

And so I would point you to many of these levers, our improved marketing innovation, the revenue growth management abilities that I think year-on-year are getting stronger, and the overall execution of our system in the marketplace. So the industry continues to be strong, and we expect that to be a feature of our underlying equation for 2024 also.

Regarding the second point you raised, it is an area that we are very focused on. There is still a lot of views out there as to what impact, if any, it will have. I would offer, if you'd step above us and look at the thrust of our total beverage strategy over the last few years, that we are well-positioned to provide choice and to provide options for people's respective motivations and needs.

And so we'll continue to monitor this space, but we're confident that the total beverage strategy, 68% of our products have lower or no calories today, and we continue to invest in innovation and choice to deal with whatever comes out of.

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

**Chris Carey**

*Analyst, Wells Fargo Securities LLC*

Q

Hi. Good morning. I wanted to ask you a question about Coca-Cola Zero. Growth has decelerated a bit through the year against pretty exceptional unit case growth last year. So I was just wondering if you could reframe where we are with the franchise, the opportunities you see forward, and if you're perhaps reaching any threshold just with the expansion of the offering. Thank you so much.

**James Quincey**

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

A

Yeah. Sure, Chris. I don't think we're reaching a threshold in terms of the expansion of Coke Zero. Actually, I think quite the opposite. I think there is a vast potential for Coke Zero going forward. I think what you see in the very short term is the impact of some of the big Coke Zero markets, aka, Europe. They also had a very poor summer and run for a couple of months there, and that makes it look like it's dipped down in Q3. But I think Coke Zero has plenty of runway going forward, and we will continue to invest behind it, and bullish on its long-term potential.

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

**William B. Chappell**

*Analyst, Truist Securities, Inc.*

Q

Thanks. Good morning. Just a little bit on China and I guess to some extent Africa. Can you maybe – this is obviously not the first we've heard of the consumer being a little bit slow to bounce back, but is there anything Coca-Cola can do to accelerate that in terms of pricing or promotion? Or is it really just waiting on the market? And did you see any real changes in that consumer as the quarter progressed where you ended the quarter with maybe a little more green shoots that things are getting better as we go into the fourth? Thanks.

**James Quincey**

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

A

Yeah. Sure, Bill. Obviously, I hate the idea of just waiting for something to happen macroeconomically. Certainly, it helps when there is a tailwind from the general environment, but we're not going to wait for that. We are very focused on investing to try and capitalize on the opportunities and restore momentum, particularly on the sparkling business. And there is a lot of RGM and execution opportunities for us to go and tackle in China.

Also, we need to get cranked up and have a really strong Chinese New Year, which will be in the early part of 2024. And we took a set of decisions in Q3, which created a bit of an impact on the APAC segment margin to really get focused and kind of invest ahead and make some prioritization decisions so that we can really drive the Chinese business forward hoping that there will be a plus from the tailwinds of the macroeconomics, but we can't wait for that. We need to focus on controlling what we can control and investing to drive the business.

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

**Charlie Higgs**

*Analyst, Redburn (Europe) Ltd.*

Q

Hi, James and John. Hope you're both well. I've got a question on BIG and Philippines. And, James, maybe you can just talk about the Philippines high-level, how the country has performed? And I guess from a transaction, why now and why CCEP?

And then, John, can you maybe just give us some thoughts on what the transaction could mean for FY 2024 outlook if it does go ahead, maybe for sales, margin, EPS? And then maybe just comment when you said, portion of proceeds from non-operating activities may go towards buybacks, should we read that as BIG disposals? Thank you.

**James Quincey**

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

A

Sure. Let me start there, Charlie. We have a clear-stated objective that we want to be the world's smallest bottler, and so over time have been refranchising the operations. We currently hold basically four pieces: the Philippines, [ph] largest eighth (00:44:40) CCBA, a significant part of the system in India, and then a small number of other countries, about a quarter in each in rough terms. And so, we are long-term refranchisers of the bottling operations we own.

In terms of the Philippines, we've had actually a good set of recent years in the Philippines, a good bounce back, notwithstanding some ups and downs given availability or, as I said, lack of availability of some critical commodities in the marketplace. But actually, overall, we've had a very good run the last number of years. And so, we've been looking for the right time and the right partners to refranchise to.

I think, most importantly, this is a combination of a strong local long-term investing family, the Aboitiz Group, together with some system expertise coming from CCEP. So I think it's the right combination of partners that can bring bottling expertise and knowledge of the Philippines market together to continue the track record of what's been achieved.

John, do you want to do the other pieces?

**John Murphy**

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

A

Yeah. So on the transaction itself, Charlie, we'll guide in February assuming that the deal closes. We're making great progress on that at the moment. And without giving specifics, as you will know from history, and it will have a revenue headwind and a margin tailwind. And on specifics, we'll give more details in February.

And with regards to your last – the last part of the long question, I would say the following. One is we have I think developed a strong position and created flexibility given the momentum we have in the business, the stronger balance sheet we have today versus a few years back, and the fact that we do have proceeds coming in from non-operating sources, i.e., the bottler refranchising primarily.

We continue to be very focused on reinvesting in the business and returning capital, and as we look at some of these proceeds coming in, we will evaluate their best use, including share repurchases beyond the current objective we have to cover dilution. So more to come on that in February.

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

**Bryan D. Spillane**

*Analyst, BofA Securities*

Q

Thanks, operator. Good morning, everyone. I had one just clarification and then a question. The clarification is, did you give us how much hyperinflationary pricing affected just the total price mix at the total company level?

**James Quincey**

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

A

No, we didn't give a precise number, but it's about 2.5 points, depends which countries you want to add in or where you want to cut the line. But think of it as about 2.5 points in Q3.

**Bryan D. Spillane**

*Analyst, BofA Securities*

Q

All right. Thank you. And then my question is just about North America. I think in the press release unit case volumes were flat, and you called out that you had gained share. And then, James, I think in your prepared marks, you talked about away-from-home growing faster than at-home. So can you just sort of give us a little bit more perspective on kind of what's happening in North America in terms of both in the relative channel performance, anything you may be seeing in terms of value-seeking behavior with consumers? Just trying to get a better understanding of kind of how your business performed and just kind of what's happening with the category as we got through the quarter?

**James Quincey**

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

A

Sure. Firstly, let me start by saying the Nielsen universe represents just under half of our business in the US, so the measured channels are just under half of the total business. And what's happening in the consumer landscape is kind of simplifying it down, the lower income consumers are those most under pressure and the shopping occasion that's most under pressure is when they're buying for at-home. And so that is the bit that's most captured by Nielsen.

And the bit of the marketplace where there is more growth is when consumers are away-from-home. So there's still very – still a rebound and strong growth in away-from-home channels, not just some of the restaurants, but the amusements, travel, leisure, hospitality, those things. So you're seeing more growth in that part of the marketplace, which is unmeasured.

And so that's what's really driving the strength of the US business overall and the revenue side, and so you see a kind of divergence of the consumer behavior between at-home and away-from-home. Obviously, who is under pressure from a disposable income is clear. And then that feeds through into kind of the observed measures channels versus the total overall marketplace.

**Operator:** Our next question comes from Peter Grom from UBS. Please go ahead. Your line is open.

**Peter Grom**

*Analyst, UBS Securities LLC*



Thanks, operator, and good morning, everyone. Hope you're doing well. So I kind of wanted to follow up on Bryan's question there. I mean, James, you mentioned trade-down to private label and discount channels in your prepared remarks. But I think you also mentioned that relative to 2Q, the impact was similar in Europe, but actually less pronounced in the marketplace in US, Australia and Japan. So I would love to get your perspective on why you think it was less pronounced than those markets. And then, as you look out to 4Q and 2024, how do you kind of see this trade-down dynamic evolving? Thanks.

**James Quincey**

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



Okay. So I think, look, the European consumer is on the slightly more pressure than the US consumer from a disposable income community. That's the starting point. So I think that's why you see a little more trading down or tightness on basket size in Europe versus the US. And I think that's generally overall true. And then the question of which categories are most pressured by that is really about brand strength and prioritization of occasions by the consumer. So if you've got to save money, you don't trade down averagely across everything. You make a choice in certain categories and you preserve your choices on other categories.

So very much our objective is to make sure they value our brands so that as they make the choices in the shopping occasion, if there is going to be a reduction in total spend, that obviously happens in some other categories when they trade down to the private level in those ones. And we preserve our brand's strengths because we deliver value for them in the product, in the marketing and innovation. And so that's the overall dynamic as we see it, and that's the difference between the US and Europe.

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

**Filippo Falorni**

*Analyst, Citigroup Global Markets, Inc.*



Hey. Good morning, guys. The question on the Asia Pacific business. James, you mentioned that the India business was very solid, but China was weak. First, maybe you can give a comment on how big of a drag China was in the quarter? And what are your expectations going forward into next year? And then from a price mix standpoint, price mix of one into segment was one of the lowest across your other segments. I know there's probably some geographic mix impact, but can you talk about the pricing environment as well in Asia Pacific? Thank you.

**James Quincey**

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



Sure. Yeah. I mean, China was clearly a drag in volumetric terms on the segment. Most importantly, from a margin point of view, it's really important to not over-rotate to the numbers in any given quarter, given the lumpiness of this is concentrated sales several steps back in the supply chain from the consumer. So I think it's important to always take an average of four quarters. In the third quarter, I commented a little earlier, we made a number of decisions on portfolio prioritization as it related to China and to investing for a fast start in 2024 in a number of markets in Asia Pacific, whether that be Japan or China. And so, there are some investments going there.



The overall pricing environment is relatively clear at China. Inflation is relatively minimal. In Japan, we've been taking pricing recently, given the inflation in Japan, which is kind of very different to the last 30 years. And then the rest of the inflation is kind of the relatively obvious CPI around the rest of ASEAN and Australia. And so that's really what's driving it. I think, see, the third quarter in Asia Pacific more as an anomaly in terms of price mix rather than a trend.

**Operator:** Our next question comes from Carlos Laboy from HSBC. Please go ahead. Your line is open.

**Carlos Laboy**

*Analyst, HSBC Securities (USA), Inc.*

Q

Yes. Good morning, everyone. Can you speak to the sort of digital investments that the US bottlers are doing and that you're helping them with? Is it more revenue-driven or perhaps more efficiency cost supply chain-centric? I guess in somewhat I'm trying to understand is how are digital investments changing these US bottlers and their capabilities.

**James Quincey**

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

A

What was the last bit of the question, Carlos?

**Carlos Laboy**

*Analyst, HSBC Securities (USA), Inc.*

Q

How are these digital investments changing these bottlers and their capabilities?

**James Quincey**

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

A

Sure. I mean, the US bottlers, much like the rest of the international bottlers, are undergoing a set of digital investments. And actually, it's both. The answer is not either; it's both. We have been making investments in technology for a long period of time to drive efficiencies through the supply chain, through the manufacturing, through logistics, whether it be old school technology investments, AI, and now like generative AI is kind of a different feature. So there is a lot going on, and there is a lot of connectivity among the bottlers on the enterprise software side because they're all connected through. They basically all use, or most of them, use a shared platform to get things done that's referred to internally as CONA. So there is a lot of investment on making sure the supply chain is as efficient as can be and a lot of support from ecosystem partners to get it done.

And then in terms of the rest of the – I mean, they're investing in the marketplace to digitize the relationship with largely the non-modern trade. Obviously, when you're talking to the big, modern retail customers, that interaction is already largely digitized. And the focus there is on trying to intensify the connection, really from a supply chain inventory visibility and forecasting effectiveness point of view. But the connectivity already exists.

And then from the non-chain customers, it's really about can you get them on to, in simple terms, a B2B platform, so that it's 24/7 opportunities to order, knowing that if you can digitize the relationship, then it tends to be deeper and more productive. And then on one side exists, layering on an AI component, which a number of the bottlers internationally have been working on in coordination, an AI supported kind of B2B relationship over a platform, that can then provide them suggested purchase orders and that is also helping to drive the business. So the US bottlers, in that sense, are very much on a similar journey as the international bottlers.

**Operator:** Our last question will come from Brett Cooper from Consumer Edge. Please go ahead. Your line is open.

**Brett Cooper**

*Analyst, Consumer Edge Research LLC*

Q

Thank you. Not necessarily looking at the third quarter or year-to-date results, but looking over many years, Coke's growth in sparkling and non-sparkling hasn't been meaningfully different, whereas there seem to be a higher growth opportunity in non-sparkling given just the differential in market share that you hold and the implementation of category plus store management. So can you speak to any impediment to higher growth in non-sparkling or what I might be missing?

And then as, I guess, a part B is just within that umbrella, can you talk about your ability to develop newer categories to the company like hot coffee or alcohol? Thanks.

**James Quincey**

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

A

Sure. Our objective is to do just this to the brands in the portfolio. And, certainly, you can make an argument that those categories where we have lower shares have a natural opportunity to gain share. But, of course, that is something you need to take from someone else.

The other way of seeing the world is to say the beverage industry seen from a global perspective, and I reference back to the page in CAGNY with all the little people on it, the vast majority of the page is actually white space. In other words, the beverage industry is not yet created. And so, actually, the idea that sparkling continues to grow is a representation of us operating from a position of strength to create the industry in the white spaces with our most successful and strongest brands. And so continued growth of sparkling should be a feature of our path going forward.

And then in the non-sparkling categories, of course we are looking to gain share. We've talked historically about trying to get from experimenter to challenger to leader to quality leadership. And I think that is a long-term build that has been playing out. If you take the long-term perspective and look at the percent of the total business that is made up of non-sparkling brands, it has increased slowly, but it has increased consistently over the last couple of decades.

So we start from a point of view of being consumer centric from resource and capital allocation and from earning the right to move up the experimenters into the challenger, into the leadership position. Nothing radical is going to happen overnight, but it is a dynamic that has built steadily over the last number of years and decades. And we're confident in the opportunity to rebuild the industry or to build the industry further in the future.

**James Quincey**

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

Okay. That was the last question, operator? Okay. So to conclude, thanks very much, everyone. We've proven, I hope you can see in Q3, that we can continue to deliver volume and top line growth and incremental US dollar earnings per share by executing against our all-weather strategy. And we're confident that we can create value over the long term. So thank you for your interest and your investment in the company and for joining us this morning.

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

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